



## AGENDA MEMORANDUM

Action Item for the City Council Meeting of April 15, 2025

**DATE:** April 11, 2025

**TO:** Peter Zanoni, City Manager

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### **FY 2025 Operational Budget Adjustment** **Engineering Services Department**

#### **CAPTION:**

Ordinance approving the addition of 20 full-time positions and equipment to the Engineering Services Department budget; amending the FY 2025 Operating Budget as required for the last five months of the year with funding coming from the FY 2025 Capital Improvement Budget as required. The FY 2025 impact is \$1,705,243.00 including vehicle purchases with an FY 2026 recurring amount of \$1,969,676.00.

#### **SUMMARY:**

This Ordinance increases the Engineering Services funded positions from 103 to 123 and makes the budget adjustments necessary to support that change. This increase is needed to respond to the demands of the near-term CIP that have increased from \$703 million in FY24 to \$1 billion in FY25. Subsequent to the CIP adoption, all four propositions of the \$175 million Bond 2024 program were approved by the voters.

#### **BACKGROUND AND FINDINGS:**

Engineering Services is an internal services department that is tasked with cost-effectively managing the execution of the City's capital construction project portfolio. The numbers of projects and scale of the projects managed have grown dramatically in recent years. The FY 25 CIP is over 300% of the CY 2020 CIP. Engineering Services' workloads have increased proportionally to the CIP growth. Staffing levels have not kept pace with the CIP growth and increased demands.

During the August 29, 2024 City Council workshop on the CIP it was mentioned that upon passage of the FY2025 CIP and approval of the Bond 2024 referendum, Engineering Services would be

requesting a mid-year budget adjustment. The passage of both the FY 25 CIP and Bond 2024 referendum is resulting in increased tasking for Engineering Services. Additional staffing is requested to keep pace with the growing work demands. The FY 2025 impact is \$1,705,243 (including vehicle purchases) with an FY2026 recurring amount of \$1,969,676.

The City awarded \$524 million in new architect-engineer (AE) and construction contracts in FY24. The performance expectation for the department is to exceed that amount in FY25. Financial throughput for the department is currently around \$350 million. The projected three-year CIP from FY25 through FY27 averages about \$650M. Based on that, the throughput and tasking for Engineering Services should continue to increase for the next few years.

In addition to the increase in contracting volume, there has been an evolution in the type of construction contracts that the City is awarding. There are many more IDIQ contracts than the department had five years ago. These contracts help operating departments be more responsive to immediate needs and expedite getting construction work done. They do, however, carry more of an administrative burden since the level of engineering is typically less than a Design-Bid-Build project. There can be one or two dozen task orders or delivery orders on each contract that need to be individually invoiced and tracked. IDIQ or MSA contracts therefore require much more administrative work than a similarly sized individual contract.

Engineering Services is funded by charges against the projects we are managing that are referred to as reimbursements. Engineering Services reimbursements are budgeted at around 6% of total project cost in the CIP (8% for most projects and 3% for very large projects). Engineering Services endeavors to maintain actual cost reimbursements at less than the 6% of total project cost. Staff uses 6% as a metric because that compares favorably with peer organizations performing similar scopes of work such as the US Army Corps of Engineers (USACE), the Naval Facilities Command (NAVFAC) and other municipal program management offices. For example, USACE charges 5.7% for projects over \$6 million and 6.5% for projects under \$6 million. NAVFAC charges similar amounts. The City of San Antonio provides budget guidance of allowing 7-9% to manage capital projects in the size range of Corpus Christi's average project size which is about \$10 million.

As a performance metric, Engineering Services compares our monthly financial throughput against our monthly departmental costs. For the 3-month period of December 2024 – February 2025, Engineering throughput averaged almost \$30 million per month. That rate of throughput would support an annual budget of nearly \$22 million for Engineering Services' costs at the 6% level. With this requested action, Engineering Services would have an amended FY25 budget of roughly \$15 million. The impact for FY26 would be slightly less due to one-time vehicle costs in FY25.

With the requested staffing increase, if throughput maintains current rates, Engineering Services' costs will end the year under 4.5% of financial throughput, which is well below the CIP budgeted amounts and the 6% performance target. We are achieving these efficiencies through leveraging technology and streamlining processes.

### **ALTERNATIVES:**

The alternative is to not approve these adjustments. Not adjusting the Engineering Services staffing will inevitably slow down the execution of the CIP and will result in greater financial risks for the City. Some important business transactions such as change orders, monthly pay application processing and project closeouts may be delayed. All those items can result in delayed payments to contractors and consultants. There is also an increased risk of undetected construction quality issues. There could also be greater risk of construction cost escalation if the City causes delays to project execution.

### **FISCAL IMPACT:**

The proposed budget increase is fully funded within the current CIP and is still well within the CIP budgeted amounts for Engineering Services reimbursements. Therefore, no CIP amendment is required by this action.

Engineering Services is funded by cost recovery from project budgets in the approved CIP. The City's External Auditors require that Engineering reimbursements to be based on actual staff time spent on projects. Our costs are recovered quarterly from projects based on employee timesheets.

Engineering Services Reimbursements are typically budgeted at 8% of CIP project cost and 3% for some very large projects. Engineering uses 6% of financial throughput as a performance target because that compares favorably to peer organizations.

Since actual Engineering Reimbursement costs are running well below the budgeted amounts, the fiscal impact from approving this action is completely funded within the adopted CIP.

Denying this request could possibly result in increased project delays, undetected quality issues, coordination problems, delayed payments and could potentially increase construction costs due to delay impacts.

**RECOMMENDATION:**

Staff recommend the approval of an Ordinance to add twenty positions with required salaries, benefits, and equipment to the Engineering Services Department.

**LIST OF SUPPORTING DOCUMENTS:**

Ordinance  
Proposed Budget Adjustment