



City Council Report

Date: June 20, 2022
To: City Council
Through: Marc Heirshberg, Deputy City Manager
From: Beth Huning, City Engineer
Marc Ahlstrom, Assistant City Engineer
Subject: Job Work Order Limits
Citywide

Purpose and Recommendation

The purpose of this report is to provide information to the Council related to the City's Job Order Contract (JOC) program and the authorized maximum dollar amount of individual job work orders.

Staff recommends that Council approve the attached resolution, which: i) authorizes the City Manager to enter into individual job order contracts up to the maximum amount authorized under a Council-approved Job Order Master Contract; ii) raises the current job order limit from \$1,500,000 per job order to \$4,000,000 per job order for Water and Wastewater, Transportation, General, Utility, and Landscaping construction services; and iii) raises the limit for the small tenant improvements from \$250,000 per job order to \$500,000 per job order. The purpose for the increased limits is to compensate for significant increases in construction costs since 2019.

Background

The JOC method of procuring construction services is authorized by Title 34 of the Arizona Revised Statutes as an alternative to the traditional design-bid-build procurement method. Job order contracting allows the City to select a contractor on an "on-call" basis for construction projects utilizing a "best value" approach based on the company's demonstrated qualifications to perform the type of work required. The City of Mesa started utilizing JOC procurement in September 2012 and consistently uses Job Order Contracting to deliver a wide variety of construction projects. Under state law, individual job work orders are limited to \$1,000,000 unless a higher maximum amount is approved by City Council. This limit was established nearly 20 years ago. On April 15, 2019, Council approved raising the job order limit to \$1,500,000. Later, on January 25, 2021, Council adopted a procedure that, with prior Council approval, would allow for individual job order contracts valued between \$1,500,000 and \$2,000,000.

Discussion

Over the last two years, the construction industry has seen an unprecedented rise in construction costs. Major factors influencing above average increases include high construction demand, a rise in labor costs, and significant increases in the price of materials. Costs for building materials continue to escalate due to manufacturing issues, supply chain delays, and rising fuel costs. Also, shortages of construction materials have delayed projects and resulted in higher costs.

The Arizona Department of Transportation data shows a 31% increase in their published construction cost index from fiscal year 2021 to 2022. Other published indexes such as the Mortensen Cost Index shows an 18.3% increase nationally and a 15% increase in the local Phoenix market over the past year.

The rise of construction costs has posed issues for delivering projects within the established limits. Recently, several projects have exceeded the current \$1,500,000 job order limit established in 2019. Additionally, staff have had to reduce project scopes to meet the \$1,500,000 threshold, resulting in related work being delayed to future projects. This also means increased staff time and costs due to increasing numbers of projects.

The request to raise the job order limit in 2019 was in large part due to lack of market interest in the small dollar limit work orders. This continues to be an issue as contractors and sub-contractors can be more selective in pursuing work, specifically focusing on larger, higher valued contracts. Over the last year, we have experienced significantly declining interest in bidding design-bid-build projects. We have had some come in with no bids and others bid extremely high, significantly over the estimates. It appears that when contractors do elect to bid, they are escalating their bids to protect them from the risk of financial losses due to potential materials and labor escalations. JOC contractors offer a distinct advantage in today's economy because we have established contractual relationships that make them available to us. These provide assurances that we have contractors available to complete our work.

While city staff continues to work with contractors to mitigate these issues, construction costs continue to rise which affect the city's purchasing power and ability to deliver projects in a cost-effective manner.

The new proposed limits are based on current and anticipated price increases as well as those being used by other governmental agencies in the area. For example, the City of Phoenix increased their Job Order Limits from \$2,000,000 to \$4,000,000 in 2019.

Alternatives

An alternative to increasing the job order limit is to maintain the existing limit of \$1,500,000. Projects can continue to be built, but the value of future projects will be reduced and budgeted to fit within the confines of the current limit. This is not

recommended due to the ongoing escalation of construction costs and lack of interest from available contractors plus increased staff time. This will also result in fewer projects benefiting from the use of the JOC project procurement.

Fiscal Impact

The increased job order limits will allow the City to complete projects using the JOC procurement method up to \$4,000,000 per project for categories listed above instead of the current maximum of \$1,500,000; and to \$500,000 for small tenant improvements instead of the current maximum of \$250,000 per job order.

Coordinated With

Recommendations to increase the job-order limits were presented to the Directors (and their associated staff) of the following departments: Transportation; Energy Resources; Water Resources; and Parks, Recreation & Community Facilities. All of these departments support this request to increase the job-order limits and support this action.