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2016 OPERATING BUDGET BRIEFING NOTE

The Cost of Contracted Project Management Services

Issue:

- At its meeting of January 11, 2016 (BU16.1), Budget Committee requested that the Executive Director, Engineering & Construction Services provide a Budget briefing note on:
 - a. the cost of contracted project management services vs. in-house project management
 - b. inflation costs for project management contracts.
- This briefing note responds to both (a) and (b) above.

Background:

- Starting in 2013, Engineering & Construction Services (ECS) began to implement a restructuring strategy to maximize the division's ability to effectively deliver engineering services. The new organizational structure was announced in mid-2014, and includes 3 design and construction sections responsible for the delivery of the capital program assigned to ECS.
- The capital program (being delivered on behalf of Transportation Services, Toronto Water, Solid Waste Management Services, City Planning, TTC and BIAs) and major third party work continues to escalate, and is characterized by frequent workload peaks.
- These demands are difficult to accommodate even at a full staff complement and ECS continues to experience difficulties in hiring skilled professional and technical staff due to the competitive market conditions in the Greater Toronto Area.

Key Points:

- In order to meet capital delivery requirements, ECS has used and continues to use externally contracted professional services to supplement the capacity of internal engineering resources.
- ECS contracts project management services using a competitive procurement process: call documents are advertised on the City's internet website, proposals are evaluated against predetermined qualifications and technical requirements, awards are made to the lowest bidder meeting the specifications or to the highest scoring proponent based on the evaluation criteria included in the call and meeting the requirements of the call, the procurement is supported by Purchasing and Materials Management Division, and purchase orders are issued only after

approval has been received from the appropriate Committee (Bid Committee or Public Works and Infrastructure Committee).

A. The Cost of Contracted Project Management Services vs. In-House Project Management

- Through its Project Tracking Portal, ECS maintains a database of the costs associated with the capital program it is delivering.
- A preliminary assessment of municipal infrastructure projects delivered by in-house staff in support of Transportation Services' major roads program and in support of TTC track replacement, including data collection, preliminary design, detailed design, on-site inspection and contract administration, shows that the cost of in-house project management is 22% on combined capital program expenditures of \$87 million as of January 15, 2016. The assessment is preliminary pending reconciliation of all 2015 expenditures. The in-house costs include actual direct costs incurred by ECS, but do not include the costs of corporate overhead such as for utilities and rents for City-owned space, payroll administration, Corporate financial planning, accounting and revenue services, and the like.
- In 2015, ECS relied on four contracts for program management services to supplement in-house resources for the design and construction of roads, sewers and watermains, in support of the capital programs of Toronto Water and Transportation Services:
 - Three of the contracts were for the provision of professional engineering services for the coordinated Toronto Water and Transportation Services capital program for the period 2014 to 2018. Projects included within the coordinated capital program are required to keep municipal infrastructure in a state of good repair and include but are not limited to the following types of work: new/replacement of sewers, watermains, roadways, laneways, sidewalk, streetscaping, traffic signals, slope stabilization, storm water management, street lighting, and emergency related work. The contracted services include: program management, data collection, preliminary design, detailed design, contract administration and on-site construction supervision and site inspection services, as well as post-construction services. The cost of the contracted services varies depending on the type of work and ranges from 12% to 20%, on a combined capital program valued at up to \$250 million over the 2014 to 2018 period.
 - The fourth contract is for the provision of professional engineering services for delivery of the Basement Flooding Protection Program for the period 2015 to 2024. Meeting the requirements of the Council-approved expansion of the Basement Flooding Protection Program across the entire City, and achieving the significantly higher budgeted capital delivery rates, necessitated a significant increase in the annual capital throughput. Thus, the scope of work for this assignment involves: program management, Class EA support, preliminary design oversight, quality assurance/quality control, and administration of detailed design and construction administration. The cost of the contracted services is \$100.2 million on a combined capital program of almost \$1.5 billion¹, representing just under 7% of the program value. Additional costs will be incurred for future detailed

¹ Based on the 2015 Council Approved 10 Year Capital Plan for the Basement Flooding Protection Program; does not include Basement Flooding Protection Subsidy Program costs.

designs and construction administration of infrastructure enhancements identified through the Class EA process.

B. Inflation Costs for Project Management Contracts

- Terms and conditions of ECS contracts are included as part of the Request for Proposal (RFP) document for all project management services contracts.
- The treatment of inflation in multi-year contracts is dependent upon the structure of the contract.
- For example, the project management services that are being provided by one of the contractors that is supporting the coordinated Toronto Water and Transportation Services capital program are based upon a set percentage of actual construction values. Thus, the inflation factor that is applied to the project management services is based on construction cost inflation.
- As another example, the most recent RFP (No. 9117-14-7110, awarded in June 2015) contained the following specification with respect to inflation:

The City may consider requests for rate adjustment based on the consumer price index (Toronto-All items). Rate adjustments will be considered on an annual basis, after January 1, 2017 and will be adjusted relative to January 1, 2016. A provisional allowance has been included to account for such inflation adjustments. Rate adjustment will not be considered for delays caused by the PgMC or its sub-consultant(s). Rate adjustments will not be considered for items that are paid on a percentage of capital basis.

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