



# CITY OF SAN MATEO

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## Agenda Report

Agenda Number: 10

Section Name: {{section.name}}

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**TO:** City Council

**FROM:** Drew Corbett, City Manager

**PREPARED BY:** Public Works Department

**MEETING DATE:** April 06, 2020

**SUBJECT:**  
Underground Flow Equalization System Project – Bid Rejection

**RECOMMENDATION:**

Adopt a Resolution to reject all bids for the Underground Flow Equalization System Project and authorize the Public Works Director to negotiate a contract directly with Anderson Pacific Engineering Construction.

**BACKGROUND:**

The Underground Flow Equalization System Project (UFES) consists of a 5.3-million-gallon underground wastewater holding structure designed to increase the sewer system’s capacity and improve the management of wet weather flows to prevent sanitary sewer overflows and unauthorized discharges. Due to the complexity of the UFES Project, staff prequalified contractors and selected five firms to bid. These contractors included: 1) Anderson Pacific Engineering Construction Inc., 2) Flatiron West Inc., 3) Kiewit Infrastructure West Co., 4) Ranger Pipelines Inc. and 5) Shimmick Construction Company Inc.

Per Municipal Code section 3.60.030, a competitive public process was used to obtain bids from the five prequalified contractors. On March 19, 2020, four bids were received and opened with Anderson Pacific Engineering Construction, Inc. (Anderson Pacific) providing the lowest bid of \$56,657,330, which exceeded the engineer’s estimate by approximately \$6.57 million. The bid results are presented in additional detail in the table below.

<u>UFES Project</u>	<u>Bid Amount</u>
Anderson Pacific Engineering Construction Inc.	\$56,567,330
Shimmick Construction Company Inc.	\$63,260,001
Kiewit Infrastructure West Co.	\$74,766,000
Flatiron West Inc.	\$76,087,300

Since bids were received, there has been significant economic disruption associated with the COVID-19 emergency. On March 16, 2020, San Mateo County’s Health Officer issued a Shelter-in-Place Order followed by Executive Order N-33-20 from Governor Newsom on March 19, 2020. Both require individuals to stay home and for non-essential operations to cease. However, public works construction can continue. The UFES Project is critical public works infrastructure.

Since the project is expected to take approximately two years to complete, certain project costs such as labor rates are fixed with pre-established cost escalation and are unlikely to be affected by future economic conditions. However, the impact of current conditions on the future cost of materials (e.g., concrete, rebar) and equipment is uncertain. Staff has considered several alternatives to reduce project costs and address future, unforeseeable changes in the construction market that may result from the COVID-19 emergency. These options include:

- (1) Appropriating necessary funds, proceeding with award of the contract to the lowest responsible bidder, and identifying potential cost saving measures once construction commences;
- (2) Rejecting all bids and rebidding the projects once current economic conditions stabilize to hopefully obtain more favorable bid prices;
- (3) Rejecting all bids and negotiating a modified, flexible contract with the lowest responsible bidder that includes cost saving measures and accounts for potential future changes in construction costs.

Under Option 1, any cost savings materialized after the award of the contract from value engineering efforts would be shared with the contractor. For this reason and because the project was bid during a period of very high construction costs, this option is not preferred. Option 2 would require re-bidding the contract under more favorable market conditions. With certain project costs such as labor rates fixed, potential cost reductions would focus on the market variability associated with material costs. This option would result in a potentially substantial delay, which introduces a significant amount of uncertainty. Under Option 3, bids would be rejected, and the City would negotiate directly with the lowest bidder to focus on achieving a fair cost and the opportunity for savings from value engineering changes. Bids on the UFES Project had a large spread, indicating potential higher premiums from other contractors. Because of the long duration of construction, Anderson Pacific has expressed a willingness to negotiate a contract with the City that also accommodates future cost reductions.

This approach is authorized under Section 3.60.040 of the Municipal Code allows the City Council to, at its discretion, reject all bids received, negotiate a contract for the work or supplies if the project is not within budget, do the work through City employees, or terminate the project or purchase. Given that bids are greater than the established budget for the project, staff is requesting that Council reject all bids and authorize the Director of Public Works to negotiate a modified contract with Anderson Pacific. If these negotiations are successful, staff will return to Council for approval of a contract at a future date.

**BUDGET IMPACT:**

The lowest bid of \$56,657,330 exceeds the engineer's estimate by approximately \$6.57 million (13%). By rejecting all bids, staff can negotiate a more favorable contract with the lowest bidder.

**ENVIRONMENTAL DETERMINATION:**

Under section 15378(c) of the CEQA Guidelines, Council action on this item is not subject to CEQA because rejecting the bids received is not a "project" as defined by CEQA.

**NOTICE PROVIDED**

All meeting noticing requirements were met.

**ATTACHMENTS**

Att 1 – Proposed Resolution

**STAFF CONTACT**

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