
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: October 5, 2004

SUBJECT: **Proposed Administrative Procedure
for Handling CIP Cost Overruns**

AFFECTED COUNCIL DISTRICTS: Citywide

STAFF REPORT BY: Gary Mumford

**ADMINISTRATIVE DEPT.
AND CONTACT PERSON:** Department of Community Development
David Dobbins, LuAnn Clark

NOTICE REQUIREMENTS: Not required

KEY ELEMENTS:

In the past, the Administration has followed a traditional procedure of funding project cost overruns in the Capital Improvement Program (CIP) with CIP contingency funds without Council approval as long as an overrun didn't exceed 20% of the budgeted project cost. Last June, the City was informed that contingency accounts are actually not in keeping with State law. Remaining amounts in CIP contingency accounts were transferred to the CIP Fund balance. With this budget change, the Council would need to approve, through a budget opening, any changes to the original project amount. This works in many cases, but there are circumstances where the delay could be very costly to the City, or prevent the City Administration from resolving a dangerous situation. The Administration is requesting that the Council establish a CIP cost overrun account and adopt a resolution authorizing a procedure for covering time-sensitive cost overruns that meet certain criteria.

MATTERS AT ISSUE /POTENTIAL QUESTIONS FOR ADMINISTRATION:

The Administration plans to include CIP cost overruns in the regularly scheduled budget amendments for the Council's consideration. If due to timing constraints, the cost overrun cannot be reasonably considered as part of a regularly scheduled budget opening, the Administration proposes that it will request a special budget amendment to handle an urgent situation.

There may be times when unforeseen circumstances may come to light after project construction begins that may require expedited funding of a cost overrun. For example, if during street construction utilities are not located where originally indicated or it is unexpectedly determined that the subsoil is not suitable, immediate action may be needed for additional funding (e.g., traffic will be acutely impacted by the unfinished construction and additional costs will be incurred by pulling the contractor off the job to wait for funding).

The proposed resolution would allow the Administration to allocate funds from a cost overrun budget under certain criteria:

- The project is under construction and all other funding options have been considered.
- The cost overrun is 20% or below the adopted project budget.
- The funds are not used to pay additional City Engineering fees.

The Administration is suggesting that a quarterly report be sent to the City Council detailing any additional funding awarded to projects.

The Council may wish to ask the Administration regarding some of the following:

1. What is the average annual amount of CIP contingency funds that were used to cover cost overruns?
2. What is the estimate of the annual number of potential projects that will receive additional funding under the proposed criteria based on historic overruns?
3. How much does the Administration propose to be placed in the “cost overrun accounts” (CIP general fund, CIP Class C, CIP CDBG)?

OPTIONS:

The Council could consider other options to the criteria. For example, the Council may wish to consider a smaller percentage, a dollar amount instead of a percentage, or a combination of a smaller percentage and a dollar amount whichever is greater. If the Council approves the resolution, the Administration will propose establishing the cost overrun accounts in the next regularly scheduled budget amendment.

The Council may wish to consider the following options:

1. Forward the resolution to a Council Meeting for consideration.
2. Consider a criterion percentage less than 20% or a dollar amount instead of a percentage or a combination of a smaller percentage and a dollar amount whichever is greater.
3. Request additional information and schedule an additional work session.
4. Take no action requiring that all CIP cost overruns be brought to the Council for consideration.
5. Establish the Administration’s proposed procedure on a 6 month trial basis, with a sunset date so that the Council can evaluate the program.
6. Establish more detailed criteria, or require notification of the Council prior to any expenditure from the cost overrun account.

cc: Rocky Fluhart, Sam Guevara, Lee Martinez, David Dobbins, Luann Clark, Gordon Hoskins, Steve Fawcett, DJ Baxter