



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: DECEMBER 9, 2024

SUBJECT: WORKSHOP – RECEIVE AN UPDATE REGARDING THE USAGE OF INTERNAL FORCES FOR THE CONSTRUCTION OF WATER AND ELECTRIC UTILITY PROJECTS – PROVIDE FURTHER DIRECTION RELATED TO REAFFIRMING THE POLICY EXCEPTING CERTAIN TYPES OF PROJECTS FROM SECTION 1109 OF THE RIVERSIDE CITY CHARTER AND REPEALING RESOLUTION NO. 15507

ISSUES:

Receive and file an update regarding the usage of internal forces for the construction of water and electric utility projects and conduct a workshop on the proposed City Council Resolution and consider providing further direction and/or recommendations relating to reaffirming the policy excepting certain types of projects from Section 1109 of the Riverside City Charter and repealing Resolution No. 15507.

RECOMMENDATIONS:

That the Riverside Board of Public Utilities:

- 1) Receive and file an update regarding the usage of internal forces for the construction of water and electric utility projects;
- 2) Conduct a workshop on the proposed City Council Resolution and provide further direction and/or recommendations relating to reaffirming the policy excepting certain types of projects from Section 1109 of the Riverside City Charter and repealing Resolution No. 15507; and
- 3) Recommend that the City Council, with at least five affirmative votes, adopt the suggested draft resolution reaffirming the policy excepting certain types of projects from Section 1109 of the Riverside City Charter and repealing Resolution No. 15507.

BACKGROUND:

The evolution of the City's utility workforce can be traced to utility service level needs and economic changes. The City's workforce transitioned from a contractor-dominated workforce (pre-1969) to a utility-dominated workforce (post-1969) and finally to a hybrid contractor/utility workforce (post-1984). These changes were driven by the need to ensure continuous and efficient operation of electric and water utility services while also responding to the changing economic and operational landscape. Significantly, these changes were driven by necessity and a

commitment to cost-effectiveness, ensuring that the City's resources are used most efficiently.

The City Charter is pivotal in guiding all utility construction work, mandating competitive bidding for all Public Works construction projects over certain dollar thresholds, with exceptions in certain circumstances, such as emergencies. The City Council, when justified and described hereafter, can adopt resolutions exempting specific utility construction, repair, and maintenance projects from the City Charter requirements, ensuring the smooth operation of utility services. These exemptions are typically made after a thorough review process, including assessing the need for capital improvement work, evaluating the budget implications, and considering the potential impact on utility services.

This first known City resolution involving utility construction projects was adopted on November 25, 1969, when the City Council, after careful consideration, adopted Resolution 11396 Construction, Maintenance, and Repair of Water and Electric Facilities, which allowed the utility to perform work that was historically relied on by outside contractors. The Council believed it was more economical to construct, maintain, and repair electric and water utility facilities with a City-employed full-time workforce, moving away from an intermittent contractor workforce approach.

The second resolution, adopted on October 2, 1984, repealed Resolution 11396 and replaced it with Resolution 15507. This change introduced a hybrid approach, which allows City utility personnel to handle specific work as detailed in the resolution while also leveraging the use of outside contractors. The changing economic conditions facilitated this change, which showed a return to competitive pricing from outside contractors. This allowed a more flexible and cost-effective approach to utility project management. The hybrid approach combines the strengths of a utility workforce, which ensures continuous and efficient operation of utility services, and a contractor workforce, which extends our workforce capabilities by utilizing contractors to perform larger-scope projects. The hybrid approach allows for a more efficient allocation of resources, a quicker response to utility service needs, and the ability to undertake more extensive projects, all while taking advantage of competitive pricing from outside contractors.

The City also has a purchasing resolution guiding all city departments in purchasing products, services, and Public Works construction contracts, subject to the City Charter. The City Council's adoption of the field forces and purchasing resolutions exempt specific utility construction and repair projects and procurement of materials and goods from the City Charter requirements as necessary to ensure reliable and cost-effective utility services.

City Charter Section 1109 requires competitive bidding to be used for all Public Works construction projects over \$50,000. Section 1109 also provides exceptions to this competitive bidding requirement in certain circumstances. Section 1109 states in relevant part:

The City Council, without advertising for bids, or after rejecting bids, or if no bids are received, may declare and determine that, in its opinion, based on estimates approved by the City Manager, the work in question may be performed better or more economically by the City with its own employees or the supplies or materials may be purchased more economically on the open market, and after the adoption of a resolution to that effect by at least five affirmative votes of the City Council may proceed to have said work done or said supplies or materials purchased in the manner stated, without further observance of the provisions of this section.

Resolution No. 15507 has not been amended or repealed since its adoption. Purchasing Resolution No. 24101 defers the issue of competitive bidding and exceptions to competitive bidding to City Charter Section 1109 where applicable. Purchasing Resolution Section 800 states:

“Acquisition of Construction services shall be completed in conformance with Section 1109 of the City Charter.” As to exceptions to competitive bidding, the Purchasing Resolution provides the following in Section 802: “For procurements subject to Section 1109 of the City Charter, only the exceptions listed in Section 1109 shall apply.” This text separates the Purchasing Resolution from the application of Section 1109 and its exceptions, leaving in place previous City Council determinations regarding Section 1109.

DISCUSSION:

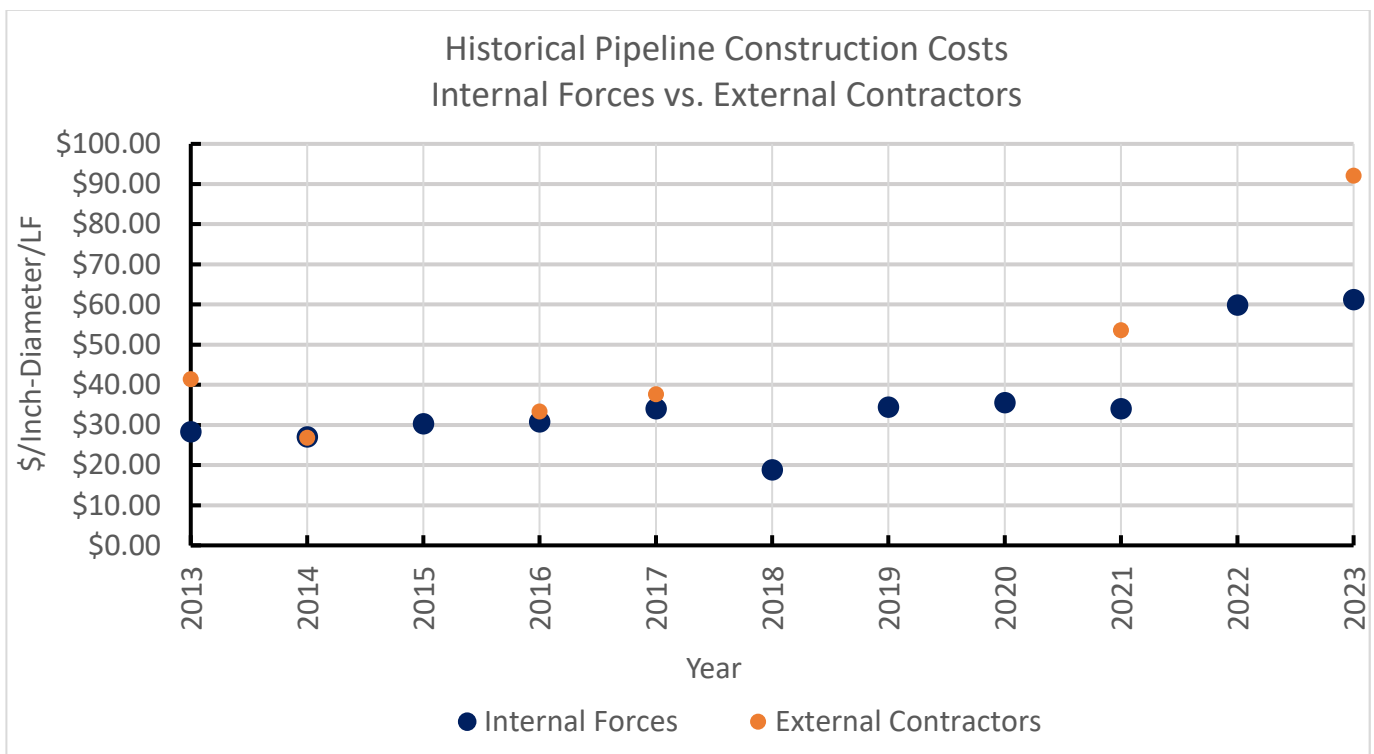
At the RPU Board (Board) meeting on August 12, 2024, the Board requested an analysis comparing the costs of projects completed by internal crews versus those carried out by external contractors.

Water Pipeline Construction Cost Analysis

RPU staff compiled data on all water pipeline projects approved by the Board between 2013 and 2023, including both internally constructed projects and those completed by external contractors. The financial data for each project is recorded in the City of Riverside's accounting system under the corresponding Work Order.

While each project is unique, a normalized pipeline cost comparison can be made by dividing the total capitalized project cost by the equivalent inch-diameter per foot of pipeline installed. This methodology allows for a more consistent comparison across different projects consisting of varying pipeline diameters.

The following chart illustrates the average normalized costs of pipeline projects carried out by internal crews versus those by external contractors between 2013 and 2023. In some years, no external contractors were hired, so comparative data is not available for those periods.



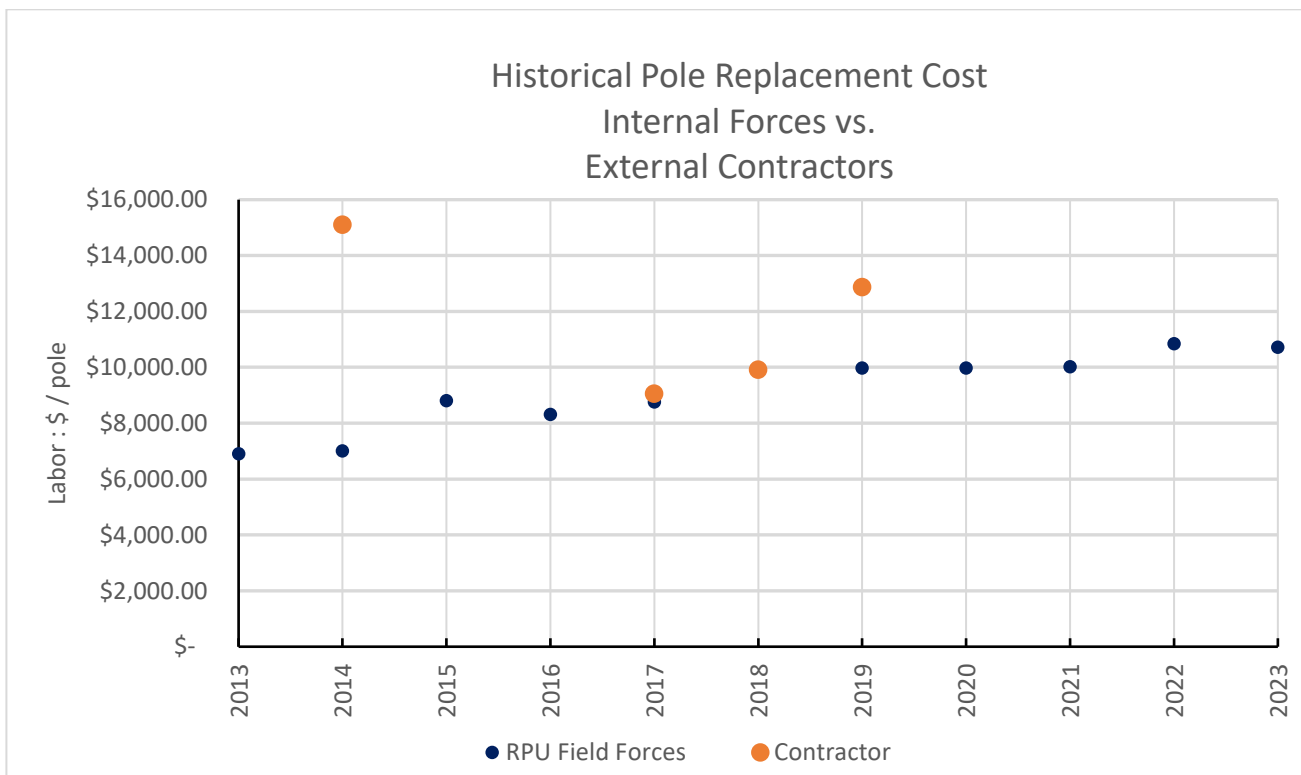
Based on the data analyzed, utilizing internal forces for water pipeline construction projects proved to be very cost effective compared to hiring external contractors. On average, over the period reviewed and for the years where comparative data is available, projects completed by external contractors were approximately 29% more expensive than those completed by internal crews.

Electric Construction Cost Analysis

RPU staff compiled data on all electric wooden pole replacement projects approved by the Board between 2013 and 2023, including both internally constructed projects and those completed by external contractors. The financial data for each project is recorded in the City of Riverside's accounting system under the corresponding Work Order.

While each project is unique, a normalized pole replacement cost comparison can be made by dividing the total capitalized project cost by the total number of poles replaced. This methodology allows for a more consistent comparison across different projects consisting of varying wooden pole heights. Since RPU supplies all materials for the pole replacements, this analysis only consists of the labor cost comparison.

The following chart illustrates the average normalized costs of pole replacement projects carried out by internal crews versus those by external contractors between 2013 and 2023. In some years, no external contractors were hired, so comparative data is not available for those periods.



Based on the data analyzed, utilizing internal forces for pole replacement projects proved to be a more cost-effective option for the years 2014, 2017 and 2019 compared to hiring external contractors. On average, over the period reviewed, projects completed by external contractors were approximately 37% more expensive than those completed by internal crews.

In addition to the cost benefits, there are several intangible advantages to using internal crews, including:

1. In-house expertise facilitates better emergency preparedness when external contractors may be in high demand.
2. Faster response times.
3. Reduced need for extensive project coordination.
4. Deep familiarity with RPU's water and electric infrastructure and systems.
5. Comprehensive training in customer service.
6. Ability to quickly address customer or City Council concerns.
7. Best quality assurance and quality control of new facilities to ensure longer project lifespans.
8. Pride and ownership in the quality of work performed.

City Charter Section 1202(b) provides that the Board of Public Utilities shall have the power and duty to authorize, and let public works contracts in compliance with Section 1109, within the limits of the budget of the Department of Public Utilities, any purchase of equipment, materials, supplies, goods or services, or any acquisition, construction, improvement, extension, enlargement, diminution, or curtailment of all or any part of any public utility system when the amount exceeds \$50,000...”.

Thus, all construction projects carried out by internal forces with costs exceeding \$50,000 require authorization from the Board of Public Utilities, which has routinely taken place through the review and approval of work orders by this Board.

Resolution No. 15507 continues to be in effect as it has not been amended or repealed since its adoption. However, to clarify and reinforce the use of internal forces for the construction of water and electric utility projects, staff recommend reaffirming this policy through a revised resolution through recommendation from the Board.

The attached suggested draft City Council resolution, if adopted, would clarify, reaffirm, and update the policy on the use of internal forces for the construction of water and electric utility facilities. Its adoption will require five affirmative votes of the City Council.

STRATEGIC PLAN ALIGNMENT:

This item contributes to Strategic Priority No. 6 Infrastructure, Mobility and Connectivity and Goal No. 6.2 – Maintain, protect, and improve assets and infrastructure within the City's built environment to ensure and enhance reliability, resiliency, sustainability, and facilitate connectivity.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – Internal staff are well-trained in customer service, fostering trust and positive relationships within the community.
2. **Equity** – RPU strives to deliver safe, reliable water and electricity to all customers. Since its water and electrical systems are each interconnected networks, investments in any part of each system enhance the reliability of the whole, ensuring equitable benefits for all customers.

3. **Fiscal Responsibility** – RPU carefully manages public funds, using efficient practices to complete projects while maintaining high-quality public services.
4. **Innovation** – Utilizing internal crews fosters innovative approaches that improve system reliability, ensuring dependable water and electric services into the future.
5. **Sustainability & Resiliency** – Developing in-house expertise ensures a sustainable workforce and strengthens emergency preparedness, providing greater resilience when external contractors are in short supply.

FISCAL IMPACT:

There is no fiscal impact associated with this item.

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Certified as to
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Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Jack Liu, Interim City Attorney

Attachments:

1. Draft City Council Resolution
2. City Charter Section 1109 (Public Works Contracts)
3. Resolution No. 11396
4. Resolution No. 15507
5. Presentation