

**CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST**

1390 Market Street, Suite 1150, San Francisco, CA 94102
(415) 552-9292 FAX (415) 252-0461

LEGISLATIVE ANALYST REPORT

To: President Chiu
From: Budget and Legislative Analyst
Date: October 17, 2011
Re: Evaluation of Contract Change Orders for Large Construction and Professional Services Contracts (Project 110153.1)



SUMMARY OF REQUESTED ACTION

Pursuant to your request, the Budget and Legislative Analyst has evaluated the frequency and cost to the City of contract change orders for large construction and professional services contracts. In particular, we surveyed ten City departments using the following parameters: (a) contracts with a value of \$5 million or more and (b) contracts entered into between FY 2006-07 through September, 2011. The City departments selected for this review and analysis included the following: Airport, Department of the Environment, Department of Public Health, Department of Public Works (DPW), the data for which includes Recreation and Park Department contracts, Department of Technology, Human Services Agency, Municipal Transportation Agency, Port, Public Utilities Commission, including the Wastewater Enterprise and the Hetch Hetchy Water and Power System, and the Employees' Retirement System.

EXECUTIVE SUMMARY

Based on a review of the data submitted by the eight selected City departments that responded to our request for information on their construction and professional service contacts with a value of \$5 million or more executed between FY 2006-07 and September 2011, the Budget and Legislative Analyst found that:

- 218 construction and professional services contracts were executed with a value of \$5 million or more by the eight City departments that provided their contract data for between FY 2006-07 and September, 2011. The total original value of these contracts was approximately \$6.4 billion.
- Amendments and modifications, which are hereinafter referred to in this report as change orders, were made on 107 of the 218, or 49.1 percent of the reviewed construction and professional service contracts executed between FY 2006-07 and September, 2011.
- Such change orders added \$295.2 million in aggregate to the value of the 107 contracts that were modified, or an average increase of \$2.8 million in change orders per contract.
- The change in the average value of the 218 contracts reviewed was 9.5 percent, ranging from no change in contract value for the Department of the Environment to a 96 percent increase in the average value of Department of Technology contracts.

- The value of the 218 contracts reviewed were almost equally split between those over \$10 million and those with a value between \$5 million and \$10 million. The change orders to contracts between \$5 million and \$10 million increased the aggregate value of the contracts by \$146.1 million, or 18.5 percent. The changes orders to contracts over \$10 million increased in aggregate by \$149.1 million, resulting in an increase of only 2.7 percent due to the higher original value of these contracts.
- Construction contracts are not subject to Board of Supervisors approval. Only other contracts with a value of \$10 million or more require Board of Supervisors approval. By comparison, the threshold amount for governing body approval required in three other large jurisdictions in California ranges from \$25,000 to \$250,000, with some variances for construction and certain other contracts. Therefore, there is significantly less scrutiny of contracts required by the San Francisco Board of Supervisors for contracts with a value of less than \$10 million.
- Approval of non-construction contract modifications by the Board of Supervisors is only required if the change orders are in excess of \$500,000. The Budget and Legislative Analyst found instances of multiple change orders of \$500,000 or less each on certain contracts that cumulatively amounted to more than \$500,000 but were not subject to Board of Supervisors approval.
- There is no centralized database in the City that provides for monitoring contract change orders. Instead, the information must be obtained from individual departments, each of which records and reports the information differently.

The Department of Public Health, for example, reports that it does not maintain electronic records of originally approved contract amounts at all, thus preventing comparison with amended or modified amounts, unless a manual review of individual contract document files is made. The Airport, on the other hand, maintains a database that records and presents originally approved contract amounts as well as on all subsequent change orders.

A standardized approach and regular reporting of Citywide contract data would enable the Board of Supervisors to make periodic reviews of contract change orders.

POLICY RECOMMENDATIONS

Based on the results of the analysis presented below, the following policy recommendations are presented.

1. To enhance its oversight function, the Board of Supervisors should consider lowering its current contract approval threshold for non-construction contracts from the current threshold of greater than \$10 million to a lower amount more similar to approval thresholds in at least three other large California local government jurisdictions, and consider requiring contract approval by the Board of Supervisors for construction contracts above a certain dollar amount.
2. The Board of Supervisors should consider revising the threshold for Board of Supervisors approval of contract change orders from individual modifications with values in excess of

\$500,000 to require Board of Supervisors approval in instances when the cumulative value of change orders on an individual contract exceeds \$500,000.

3. The Board of Supervisors should consider utilization of a master contract list approval process for certain contracts, similar to the process employed by the Board of Supervisors in Santa Clara County, to provide for increased oversight by the Board of Supervisors over a greater number of contracts and change orders without consuming significant amounts of Board hearing time with the additional approvals.
4. The Board of Supervisors should request that all City departments maintain contract information in a uniform manner, recording original contract amounts, each change order and change in contract value, and final contract amounts, to be summarized and regularly reported to the Board of Supervisors.
5. Using the Airport's contract database as a best practice, the Board of Supervisors should request that City departments modify their contract databases and implement the Airport's designation of Type 1 and Type 2 modifications in contracts to distinguish which changes are within approved contingencies and which are other types of change orders.
6. Using the Department of Technology's and the Department of Public Works' contract databases as best practices, the Board of Supervisors should request City departments record and report all contract change orders individually rather than cumulatively in their contract databases.

METHODS AND DATA USED

The Budget and Legislative Analyst's Office analyzed the requested contract information submitted by eight of the ten selected City department. For each of their contracts of \$5 million or more, the responding departments reported contractor names, original contract amounts, the value of all change orders, and the final value of the contracts.

Regarding the two remaining City departments surveyed that did not provide contractor data for this analysis, the Employees' Retirement System reported having no contracts valued at \$5 million or more between FY 2006-07 and September, 2011. The Department of Public Health did not provide any of the requested contract information. Department of Public Health representatives reported that their department's contract database records the current value for each contract only and does not maintain a history of the original contract amounts or change orders.

In addition to quantitative contract information, the Budget and Legislative Analyst requested qualitative information from each department on their procedures governing contract approval as well as approval for change orders. Details on a sample of contracts that had change orders were also requested from each of the selected departments (including the Department of Public Health). Information was requested regarding the circumstances of the contract change orders including, but not limited to, the approval process for the change orders, the number of change orders per contract, a description of the changes in contract scope, and if the change order was

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part of a previously approved contingency amount within the contract. Clarifications were requested from each department on their contingency policies and whether or not the department records contingency awards as a change order.

The Budget and Legislative Analyst also reviewed the Controller's contract payment data. However, such review of that database was limited for this analysis in that the Controller's database is used to track payment amounts, by contractor, but does not compare individual contracts with subsequent change orders.

It should be noted that the data submitted to the Budget and Legislative Analyst's Office was self-reported by the selected departments and should be not be considered a comprehensive audit of the City's contracting practices.

BACKGROUND

As stated in the City's Charter, Section 9.118, with the exception of construction contracts entered into by the City and County, contracts or agreements entered into by a department, board or commission that is ten years or more in term and/or has a value of \$10 million or more is subject to approval by the Board of Supervisors. Additionally, any modification or amendment to such contract or agreement having an impact of more than \$500,000 is subject to approval of the Board of Supervisors as well. Otherwise, contract approval authority is delegated to the City Purchaser and/or department heads in some circumstances, according to Section 21 of the Administrative Code.

Administrative Code, Section 6 pertains to public work or improvement contracting policies and procedures and includes the procurement of professional design, consulting and construction management services for public work projects. Section 6.2 of the Administrative Code, empowers the Department of Public Works, the Municipal Transportation Agency, and the Airport, the Port, the Public Utilities Commission, and the Recreation and Park Department, on behalf of the City and County, to contract for public works or improvements or professional services related to a public work or improvement.¹ Administrative Code Section 6.3 states that the department head may award any construction contract or public work-related professional services contract with a value less than or equal to \$400,000², for which approval by the Mayor, commission or board concerned is not required. However, for contracts in excess of \$400,000, a contract is awarded by the City and County, depending on the department, when (a) either the Mayor or the Mayor's designee has approved the contract for award and the department head has then issued an order of award; or (b) the department head has recommended to the board or commission concerned a contract for award and the board or commission has then adopted a resolution awarding the contract.

Additionally, the Office of Contract Administration reviews and monitors change orders to determine if the cumulative change orders exceed ten percent of the original contract award amount for public work or improvement and related professional services contracts. If the cumulative amount of change orders exceeds ten percent of the original contract award amount, the awarding authority (i.e. Board, Commission or Mayor or Mayor's designee) must approve the change order as required by Administrative Code Section 6.22 (H)(1).

Pursuant to the City's Charter, Section 3.105, all contract awards are subject to certification by the Controller as to the availability of funds.

¹ All other departments or commissions must procure construction or related professional services through the Department of Public Works.

² Administrative Code, Section 6.2(M) Threshold Amount. The Threshold Amount, for the purposes of this Chapter, is \$400,000. On January 1, 2015, and every five years thereafter, the Controller shall recalculate the Threshold Amount to reflect any proportional increase in the Urban Regional Consumer Price Index from January 1, 2010, rounded to the nearest \$1,000.

ANALYSIS OF REPORTED TOTAL CHANGES IN CONTRACTS

As shown in Table 1 below, the information reported by the surveyed departments (not including the Department of Public Health) reflects a total original contract award amount of approximately \$6.4 billion and a total final contract amount of approximately \$6.7 billion, representing change orders of \$295.2 million, or 4.6 percent. Of the 218 contracts reported, 107, or 49.1 percent, had change orders, with the number of contracts with changes ranging from none at the Department of the Environment to 75 percent of all department contracts reported at the Department of Technology (3 out of 4 contracts). The change order amounts include contingencies as well as contract amendments due to changes in scope. The Department of Technology and the Department of Public Works reported the highest percentage of contracts with changes, although the Public Utilities Commission has the highest monetary total amount of change at an increase of \$166.6 million.

Table 1

**Summary of Changes in All Contracts
 with Values of \$5 Million or More in Selected Departments
 FY 2006-07 through September, 2011**

Department	Number of Contracts	Number of Contracts with Changes	Percent of Contracts with Changes	Contract Amount (Original/Award)	Change Order	Final Contract Amount
Airport	48	19	39.6%	\$ 907,629,009	\$ 17,122,074	\$ 924,751,083
Public Works (includes Recreation and Park)	17	12	70.6%	995,978,882	21,263,285	1,017,242,167
Technology	4	3	75.0%	44,193,905	31,759,286	75,953,191
Environment	3		0.0%	31,490,000	-	31,490,000
Human Services	27	12	44.4%	944,564,106	53,994,400	998,558,506
MTA	30	4	13.3%	855,315,318	2,268,451	857,583,769
Port	3	1	33.3%	36,476,545	2,198,361	38,674,906
Public Utilities	86	56	65.1%	2,540,177,433	166,610,235	2,706,787,668
Total	218	107	49.1%	\$ 6,355,825,198	\$ 295,216,093	\$ 6,651,041,291
Percent Increase					4.6%	

Sources: Individual department contract databases.

Note: Department of Public Health was unable to provide originally awarded contract amounts or a summary of current contracts and values.

Table 2 below shows that average original contract awards for all contracts was \$29.2 million and ranged between \$10.5 million to \$58.6 million at the Department of the Environment and the Department of Public Works, respectively. Of contracts with change orders, the average cumulative change orders per contract was approximately \$2.8 million, or a 9.5 percent increase, ranging from an average increase of \$567,113 per contract at the Municipal Transportation Authority to \$11 million at the Department of Technology, or a percentage range of 0 to 95.8 percent.

Table 2

**Average Values of Original Contracts, Changes and Final Award Amounts
 Contracts with Values of \$5 Million or More in Selected Departments
 FY 2006-07 through September, 2011**

Department	Number of Contracts	Number of Contracts with Changes	Average Original Contract Award	Average of Cumulative Modification by Contract	Average Final Contract Award	Average Percentage Cost Increase
Airport	48	19	18,908,938	901,162	19,265,648	4.8%
Public Works (includes Recreation and Park)	17	12	58,586,993	1,771,940	59,837,775	3.0%
Technology	4	3	11,048,476	10,586,429	18,988,298	95.8%
Environment	3		10,496,667	-	10,496,667	0.0%
Human Services	27	12	34,983,856	4,499,533	36,983,648	12.9%
MTA	30	4	28,510,511	567,113	28,586,126	2.0%
Port	3	1	12,158,848	2,198,361	12,891,635	18.1%
Public Utilities	86	56	29,536,947	2,975,183	31,474,275	10.1%
Total	218	107	29,155,161	2,759,029	30,509,364	9.5%

Sources: Individual department contract databases.

Note: Department of Public Health was unable to provide originally awarded contract amounts or a summary of current contracts and values.

As can be seen in Table 2, the average cumulative contract change order exceeds the threshold triggering Board of Supervisors approval of changes in excess of \$500,000. However, in many instances, Board of Supervisors approvals do not occur because the changes take place over a series of individual modifications or amendments with values of less than \$500,000.

COMPARISON OF CONTRACTS WITH VALUES BETWEEN \$5 MILLION AND \$10 MILLION

Contracts with values between \$5 million and \$10 million and those over \$10 million were reviewed separately as part of this analysis. As shown in Table 3 below, 118 of the 218 contracts reported, had an original value of between \$5 million and \$10 million. Of the 118 contracts, 58, or 49.2 percent, had change orders. The surveyed departments (not including the Department of Public Health) reported total contract original awards of \$791.2 million and total final contract awards of \$937.3 million, representing change orders of \$146.1 million, or an 18.6 percent increase over original contract award amounts. The Public Utilities Commission reported the highest monetary total amount of change at an increase of \$78.3 million, which is a 36.2 percent increase over the total contract award amounts.

Table 3
Summary of Changes in Contracts
with Values between \$5 Million and \$10 Million in Selected Departments
FY 2006-07 through September, 2011

Department	Number of Contracts	Number of Contracts with Changes	Contract Amount (Original/Award)	Change Order	Final Contract Amount
Airport	33	12	\$ 225,409,402	\$ 5,209,258	\$ 230,618,660
Public Works (includes Recreation and Park)	9	7	65,565,193	12,284,774	77,849,967
Technology	1	1	9,759,905	(2,248,311)	7,511,594
Environment	2	-	12,490,000	-	12,490,000
Human Services	15	10	113,571,449	50,238,834	163,810,283
MTA	17	4	117,757,649	2,268,451	120,026,100
Port	1	-	6,383,000	-	6,383,000
Public Utilities	40	24	240,270,041	78,315,739	318,585,780
Total	118	58	\$ 791,206,639	\$ 146,068,745	\$ 937,275,384
Contracts with Modifications or Amendments		49.2%			
Percentage Cost Increase of Contracts with Modifications or Amendments				18.5%	

Sources: Individual department contract databases.

Note: Department of Public Health was unable to provide originally awarded contract amounts or a summary of current contracts and values.

Table 4 below shows that the average contract original contract award for contracts with values between \$5 million and \$10 million was \$6.7 million and ranged between \$6.0 million at the Public Utilities Commission to \$9.8 million at the Department of Technology. Of contracts with change orders, the average cumulative change order value per contract was \$2.5 million, and ranged between a decrease of \$2.3 million to an increase of \$5 million at the Department of Technology and the Human Services Agency, respectively. The total average percent increase in contract value for contracts with values between \$5 million and \$10 million was 37.6 percent.

Table 4

**Average Values of Original Contracts, Changes and Final Award Amounts
 Contracts with Values between \$5 Million and \$10 Million in Selected Departments
 FY 2006-07 through September, 2011**

Department	Number of Contracts	Number of Contracts with Changes	Average Original Contract Award	Average of Cumulative Modification by Contract	Average Final Contract Award	Average Percentage Cost Increase
Airport	33	12	6,830,588	434,105	6,988,444	6.4%
Public Works (includes Recreation and Park)	9	7	7,285,021	1,754,968	8,649,996	24.1%
Technology	1	1	9,759,905	(2,248,311)	7,511,594	-23.0%
Environment	2	-	6,245,000	-	6,245,000	0.0%
Human Services	15	10	7,571,430	5,023,883	10,920,686	66.4%
MTA	17	4	6,926,921	567,113	7,060,359	8.2%
Port	1	-	6,383,000	-	6,383,000	0.0%
Public Utilities	40	24	6,006,751	3,263,156	7,964,644	54.3%
Total	118	58	6,705,141	2,518,426	7,943,012	37.6%

Sources: Individual department contract databases.

Note: Department of Public Health was unable to provide originally awarded contract amounts or a summary of current contracts and values.

As shown in Table 5 below, 100 of the 218 total contracts reported for this analysis had an original value greater than \$10 million. The total contract original award amount for such contracts was \$5.6 billion and the total final contract value was \$5.7 billion, reflecting change orders with a value of \$149.1 million for 49 of the 100 contracts. This change represents a 2.7 percent increase in cost over the original contract award amounts. The Public Utilities Commission reported the highest monetary total amount of change at an increase of \$88.3 million, and two departments, MTA and Department of the Environment, reported no change orders to their originally awarded contract amounts.

Table 5
Summary of Changes in Contracts
with Values Greater than \$10 Million in Selected Departments
FY 2006-07 through September, 2011

Department	Number of Contracts	Number of Contracts with Changes	Contract Amount (Original/Award)	Change Order	Final Contract Amount
Airport	15	7	\$ 682,219,608	\$ 11,912,816	\$ 694,132,424
Public Works (includes Recreation and Park)	8	5	930,413,689	8,978,511	939,392,199
Technology	3	2	34,434,000	34,007,597	68,441,597
Environment	1		19,000,000	-	19,000,000
Human Services	12	2	830,992,657	3,755,566	834,748,223
MTA	13	-	737,557,669	-	737,557,669
Port	2	1	30,093,545	2,198,361	32,291,906
Public Utilities	46	32	2,299,907,392	88,294,497	2,388,201,888
Total	100	49	\$ 5,564,618,559	\$ 149,147,348	\$ 5,713,765,907
Percentage of Contracts with Modifications or		49.0%			
Percentage Cost Increase of Contracts with Modifications or Amendments				2.7%	

Sources: Individual department contract databases.

Note: Department of Public Health was unable to provide originally awarded contract amounts or a summary of current contracts and values.

Table 6 below shows that the average original contract award for contracts greater than \$10 million was \$57.2 million and ranged between \$11.5 million to \$116.3 million at the Department of Technology and the Department of Public Works, respectively. Of contracts with change orders, the average cumulative change orders per contract was \$3.0 million, and ranged between \$1.7 million at the Airport to \$17.0 million at the Department of Technology. The total average cumulative percent increase in contract value was 5.3 percent, ranging from no change at MTA and the Department of Environment to a 148 percent increase at the Department of Technology.

Table 6
Average Values of Original Contracts, Changes and Final Award Amounts
Contracts with Values Greater than \$10 Million in Selected Departments
FY 2006-07 through September, 2011

Department	Number of Contracts	Number of Contracts with Changes	Average Original Contract Award	Average of Cumulative Modification by Contract	Average Final Contract Award	Average Percentage Cost Increase
Airport	15	7	45,481,307	1,701,831	46,275,495	3.7%
Public Works (includes Recreation and Park)	8	5	116,301,711	1,795,702	117,424,025	1.5%
Technology	3	2	11,478,000	17,003,799	22,813,866	148.1%
Environment	1	-	19,000,000	-	19,000,000	0.0%
Human Services	12	2	69,249,388	1,877,783	69,562,352	2.7%
MTA	13	-	56,735,205	-	56,735,205	0.0%
Port	2	1	15,046,773	2,198,361	16,145,953	14.6%
Public Utilities	46	32	49,997,987	2,759,203	51,917,432	5.5%
Total	100	49	55,646,186	3,043,823	57,137,659	5.5%

Sources: Individual department contract databases.

Note: Department of Public Health was unable to provide originally awarded contract amounts or a summary of current contracts and values.

As shown in Tables 3 & 5 above, the magnitude of cost increases due to change orders to contracts is more significant in contracts with values of up to \$10 million as compared to the cost increase in contracts with values greater than \$10 million. Although the reported cost of the modifications or amendments in the contracts with values of less than \$10 million totaled \$146 million which is comparable to the reported increase in value of \$149 million for contracts valued at more than \$10 million, when compared as percentage increases over the original award amount, the changes represents an 18.5 percent increase in cost in contracts less than \$10 million compared to 2.7 percent in contracts greater than \$10 million.

DEPARTMENTS' USE OF CONTINGENCIES

As mentioned above, the City's Administrative Code Section 6.2 delegates authority to the Department of Public Works, the Municipal Transportation Agency, the Airport, the Port, the Public Utilities Commission, and the Recreation and Park Department to enter in to public works or improvement contracts, which, in general, consist of construction contracts and construction-related professional service agreements. Most of these departments reported that typically contingencies in construction contracts are budgeted for, but not included in the original contract award. The usual construction contingency allocated to project budgets is ten percent of the contract award amount; although the Airport reported a standard contingency of 7.5 percent in their contracts and the Municipal Transportation Authority reports that the percentage is dependent on the scope of the project taking into account difficulty and unforeseen conditions.³

Departments reported that when cumulative construction contract modifications or amendments are projected to exceed the ten percent threshold, additional approval is required per Administrative Code Section 6.22 (H)(1).

The Airport reported that it distinguishes between minor and significant modifications as outlined in the Airport Commission's *Policies and Procedures for Construction Contract Approvals*. The Airport identifies a Type 1 contract modification as one that does not change the design or the scope of a project but allocates a contingency amount which may be spent to implement the project as envisioned and approved. Type 2 contract modifications are recognized as ones that change the design and scope of the project from what was originally envisioned and approved by the Airport Commission, and therefore must be submitted to the Airport Commission for approval. All Type 2 contract modifications require Airport Commission approval even if they do not meet the ten percent threshold.⁴

Every surveyed department reported that contingency percentages are not used in professional consultant services contracts. As departments without the authority to enter into construction contracts, the Department of Technology, Human Services Agency, and Department of the Environment report that contingencies are not budgeted for or included in their professional services contracts and if the base contract exceeds the \$10 million dollar threshold or the modification is at least \$500,000 then a contract modification would require a Board of Supervisors resolution or amended resolution that goes first to the appropriate commission or board.⁵ Both the Department of Technology and the Department of the Environment report that any modifications or changes to a contract below the Board of Supervisors threshold would require an amendment, as well as City Attorney and Office of Contract Administration approval. The Human Services Agency reports that it follows the current Human Services Commission

³ The Municipal Transportation Authority reports that all projects include provisions for a contingency in their budget; however, contracts do not include a contingency but have built in allowances to be used under certain conditions.

⁴ It should be noted that Airport staff is currently reviewing the Airport Commission's *Policies and Procedures for Construction Contract Approvals*, which was last amended in 2003.

⁵ The Human Services Agency reports that a ten percent contingency is budgeted, when necessary, for construction type contracts that are procured through the Department of Public Works.

guidelines, as follows: for any modification over the amount of \$29,000, the item must be heard in a public meeting and approved or disapproved by the Human Services Commission.

EXISTING DEPARTMENTAL DATABASES

As mentioned above, for the purposes of this analysis, we surveyed ten agencies using the following parameters: (a) contracts greater than \$5 million and (b) contracts entered into between FY 2006-07 to the present. The City departments selected for this review and analysis included the following: Airport, Department of the Environment, Department of Public Health, Department of Public Works (DPW), the data for which includes Recreation and Park Department contracts, Department of Technology, Human Services Agency, Municipal Transportation Agency, Port, Public Utilities Commission, including the Wastewater Enterprise and the Hetch Hetchy Water and Power System, and the Employees' Retirement System.

We received complete information from the all of the above agencies except for the Department of Public Health. Representatives of the Department of Public Health reported that their current contract database is limited and, as a result, the Department was unable to provide the information requested for this analysis. The Employees' Retirement System reported no contracts within the determined parameters of this evaluation.

A major limitation with many of the departments' reported data is that they include cumulative change order amounts by contract but not each change order individually. Another limitation is that some departments only maintain a record of final contract amounts for contracts that have closed instead of providing an expected final contract amount based on the original contract award amount and any change orders.

A few of the highlights that could be recommended for best practices from the data received include examples from the Airport's use of Type 1 or Type 2 to categorize and report on modifications and amendments. The Department of Public Works, Public Utilities, and the Department of Technology report all modifications and amendments per contract and identify if the changes had monetary impact or not.

In addition to the department data presented above, the Budget and Legislative Analyst also requested and reviewed contractor payment data regularly prepared by the Controller's Office, but since the purpose of that dataset is different than the purpose of this analysis, it could not be used for this analysis. The Controller's data provides a snapshot of amounts paid to contractors, by contract, but it does not report when the contract was established, the original award amount, or the any modification or amendment amounts.

CONTRACT APPROVAL THRESHOLDS IN OTHER JURISDICTIONS

Review of contract approval procedures in three other large local government jurisdictions in California revealed that the City and County of San Francisco is unusual in that its threshold for governing board approval of contracts is comparatively high. The City of San Jose threshold, for example, is \$250,000 except for construction contracts, for which the threshold is \$1 million. The City of Los Angeles threshold for City Council approval is \$25,000, excluding construction

contracts. In Santa Clara County, the threshold for Board of Supervisors' contract approval is \$100,000, excluding public works contracts and information technology contracts, for which the threshold is \$500,000. To expedite the approval process, the Santa Clara County Board of Supervisors allows contracts for existing contract services to be approved en masse on a master contract list. Authority is delegated to departments to allow for change orders in such contracts of up to 10 percent within a department's total approved budget amount for contractual services. Contracts for new services, contracts that do not conform to standard contract language or contracts about which the Board of Supervisors has raised questions or issues must be brought to the Board of Supervisors for individual approval.

POLICY RECOMMENDATIONS

1. To enhance its oversight function, the Board of Supervisors should consider lowering its current contract approval threshold for non-construction contracts from the current threshold of greater than \$10 million to a lower amount more similar to approval thresholds in at least three other large California local government jurisdictions, and consider requiring contract approval by the Board of Supervisors for construction contracts above a certain dollar amount.
2. The Board of Supervisors should consider revising the threshold for Board of Supervisors approval of contract change orders from individual modifications with values in excess of \$500,000 to require Board of Supervisors approval in instances when the cumulative value of change orders on an individual contract exceeds \$500,000.
3. The Board of Supervisors should consider utilization of a master contract list approval process for certain contracts, similar to the process employed by the Board of Supervisors in Santa Clara County, to provide for increased oversight by the Board of Supervisors over a greater number of contracts and change orders without consuming significant amounts of Board hearing time with the additional approvals.
4. The Board of Supervisors should request that all City departments maintain contract information in a uniform manner, recording original contract amounts, each change order and change in contract value, and final contract amounts, to be summarized and regularly reported to the Board of Supervisors.
5. Using the Airport's contract database as a best practice, the Board of Supervisors should request that City departments modify their contract databases and implement the Airport's designation of Type 1 and Type 2 modifications in contracts to distinguish which changes are within approved contingencies and which are other types of change orders.
6. Using the Department of Technology's and the Department of Public Works' contract databases as best practices, the Board of Supervisors should request City departments record and report all contract change orders individually rather than cumulatively in their contract databases.