

ITEM 26

MANAGER'S REPORT NO. 30

COUNCIL MEETING May 1/72

26. Re: Contract #15 - Tenders - 1972 Street Improvements  
Local Improvement - Stage 1  
(Item 18, Report No. 28, April 24, 1972)

The attached is the report of the Engineer dated April 26, 1972, regarding the above.

The Municipal Manager has met with the contractor who raised the questions with Alderman Drummond. Present at the meeting were: the Municipal Engineer, Treasurer and Purchasing Agent, as well as three representatives of the contracting company making the enquiry.

The Municipal Manager has concluded, after a very exhaustive study in the limited time available, that basically we have two questions to consider: (1) the present tender call; and (2) the future tender calls format.

Our study seems to show that if we were to break out the concrete work into a separate tender and then split it into two \$400,000 jobs, that we would have received one more tender for certain and that there would be another one or two potential bidders, depending on their work load. If the concrete contract was sized in \$100,000 to \$150,000 lots, we could possibly draw on as many as nine bidders. Realistically, with what we know about the work loads of contractors, we feel that we could have expected at least six tenders in this latter case. We wouldn't want contracts this small in any event. The question seems somewhat academic because everyone agrees, including the contractor, that the prices we did receive are excellent. No one can say for certain that the prices would have been lower in total for the whole tender if it had been split between pure concrete and asphalt but, by the same token, no one can say for certain that they would have been greater. We cannot recommend re-tender at this time because we know what we are faced with in the market now and the lowest tender just opened for asphalt, which is also before Council tonight, is for 29¢ per ton more from the same low tender, Jack Cawc Ltd. Further, the second low tender on this last call is for \$8.25 per ton, or 74¢ per ton above last week's lowest tender. In summary, virtually everything points to a higher total cost if we re-tender.

Now as to whether or not we erred in using the approach we did in combining concrete and asphalt, the Manager has concluded that

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26. Re: Contract #15 - Tenders - 1972 Street Improvements (Cont'd)

at this particular time we did not. The contractor pointed out that the Engineer's estimates of quantities had not been too accurate in the past and that this presents problems in a unit price tender. This question is one of great concern to us all. In this particular instance the tender call was expedited and brought out prior to the designs being finalized solely because of the attractive market that we judged to be available. Without the design, and we have had to do this in the past to gain an attractive set of prices, the Engineer can only estimate what the quantities will be. Because of this type of problem, if you get two tenders that are very close and the units of work are out, then you could have a situation where the second low bidder might be the low bidder when you tally the final quantities. The only way to get around this problem is to ensure that the design is complete but we felt that we could not wait in this instance. It is the Manager's desire that we can get the local improvement program to Council in the Fall of the year and have it approved such that we will have sufficient time to design and call tenders at a time when the market looks best. The latest programs have been brought to Council in the Spring of the year and there just isn't the time available for design. It should be noted that unexpected government financing programs upset the entire planning process for scheduling works and can cause the problems we are examining in this report.

The other questions raised by the contractor are more of an administrative nature and these are under advisement.

RECOMMENDATION:

THAT the lowest tender being that of Jack Ceve Limited for the sum of \$1,373,063.60 be approved, with final payment to be based on the actual quantities and the unit prices tendered per item; and

THAT the Engineer make provision in future tender calls to allow the option of splitting concrete works from asphalt works on some projects as one alternative.

Engineering Department  
26 April, 1972.

Mr. M.J. Shelley  
MUNICIPAL MANAGER

Dear Sir:

- Re: (1) Contract #15, 1972 - Street Improvements - L.I.P. Program  
Stage I - J. Ceve Ltd.  
(2) More generally - Optimum Sizing of Contracts and "Splitting"  
Concrete and Paving Works.

The questions raised in Council on Monday, 24 April, 1972, concerning Contract #15, 1972, were primarily those concerning sizing and "splitting" of road works contracts and were expressed in almost precisely the same wording and terms as those questions concerning the same subjects as have already been put to the Engineering Department.

It was also stated in Council that: (1) Large sewer contracts have been given up in favour of smaller ones in the interests of better reception on the market and more favourable unit pricing. This has not been the case except in one instance several years ago when one proposed sanitary sewer area was split up to suit a given market condition at the time; the initial larger contract size was put out on recommendation of our then consulting engineers. I would suggest that not enough attention was paid in that instance to prevailing market conditions but this is no longer the case as very close attention is now paid to the market and in the present market the optimum sizing of sewer contracts appears to be in the \$½ million range plus or minus about 15%.

and that: (2) The Engineering Department has been following the same practice concerning nature and size of contracts for many years. This also has not been the case as, in 1971, under suggestive direction, we were advised

to call our road works program in smaller volumes and to split them between concrete and paving. The Corporation and the Engineering Department in particular has had to suffer through this decision and I would suggest that it was an expensive lesson to learn, especially in terms of deteriorated public relations.

The 1971 L.I.P. Program, which we are even now attempting to complete finally, was split into five parts and further split between concrete and paving within those five parts. Concrete contracts totalling \$824,443.50 were awarded to Castle Concrete Ltd. and Capital City Construction Co. Ltd. and a paving contract covering all five parts was awarded to J. Cewe Ltd. in the amount of \$583,611.31, all being low tenderers on the respective parts and elements of work. These contracts totalled \$1,408,054.81.

Stage I of our 1972 Program totalled very close to the same amount and therefore provides a very meaningful comparison. The decision to keep our 1972 Program in one piece was not only an economic one based upon assessing the market conditions prevailing at this time but is also based upon the difficulties so recently experienced with "split-up" contracts for the 1971 work. The entire comparative subject then, will be discussed under the headings of:

- I. Economics (Market Conditions)
- II. Administration
- III. Inspection and Testing
- IV. Public Relations.

#### I. ECONOMICS (MARKET CONDITIONS)

It was our assessment that the market in 1972 would provide at least two very favourable responses on a total basis and at least four or possibly five on a two-part but element-integrated basis. This proved to be the case; the responses from Columbia Bitulithic Ltd. and Standard General Construction Co. Ltd. on Parts "A" and "B" were considered to be good market pricing conditions but the two from Winvan Paving and J. Cewe Ltd. were considered to be excellent on Part "C".

One would generally consider that, in our still-inflationary economy, the pricing for 1972 work would be increased over 1971 by some percentage factor, such as 5% or more. It is common knowledge (not to mention material and equipment) that labour negotiations in the construction industry appear to be heading irrevocably toward a result of increasing costs to the consumer. In spite of this expected trend, we have priced out our 1972 work on the basis of 1971 prices using averages for the five parts of the concrete last year and have found that the work would have cost \$1,510,614.20 under 1971 "split" prices compared to the 1972 tender from J. Cewe Ltd. of \$1,373,063.60 for a totally integrated tender call. This is a saving of \$137,550.60, or more than 10% in an inflationary economy.

Out of 22 individual elements of work in the contract, only 5 of the 1971 prices were lower than the corresponding 1972 prices and these five were for relatively insignificant items with little appreciable effect on the contract as a whole.

It is interesting to note that one of the contractors who worked in 1971 for the Corporation as a concrete contractor (Capital City) saw fit when bidding in 1972 to penalize Parts "A" and "B" of the contract call as compared to Part "C". This is but one more indication that this Company, which did "elemental" work in 1971 on a split contract basis, feels that volume work represented by Part "C" is worth offering a bonus to get.

It is my belief that the foregoing facts illustrate irrefutably that:

- (1) It is important to assess the market and to take whatever advantage is possible to take of market conditions to benefit the Corporation; and,
- (2) That a "split" of our road works into smaller dollar sizes and/or into respective elements of concrete and paving results in higher costs, not to even mention the other problems inherent with "split" contracts.

II. ADMINISTRATION

It stands to reason that the greater the number of contracts, the greater the costs and difficulties of administration become. There are a greater number of progress payments to be made, more separate records to keep, more different personalities to deal with, more bonding and insurance requirements to gather in and record, more correspondence on like subjects, to mention but some.

It is difficult to put a dollar figure on this problem but is nevertheless a factor which cannot be denied.

III. INSPECTION AND TESTING

It was our experience in 1971 to find that more Inspectors and Checkers were required to keep tabs on the several contractors, strictly in addition to the decision to upgrade inspections in general. Our Inspectors were frequently engaged in attempts to co-ordinate the relevant work aspects of the several contractors and in attempting to settle claims and disputes fairly, with attendant suffering of pure inspection functions.

There is no question that testing services cost us more than they should have in 1971 because of the several contractors being spread out doing the same work. We have received proposals for our 1972 testing program from consulting testing firms which clearly illustrates this point.

Almost all of our Inspectors have made themselves clearly heard directly to the Municipal Engineer concerning the foregoing remarks:

IV. PUBLIC RELATIONS AND CLAIMS

The area of deterioration of public relations and assessment of difficult to allocate claims is the one which is most difficult to estimate in dollars but in our opinion is one of the most important.

There is no doubt that our relations with our property owners have suffered as a result of splitting contracts. In fact, it has been surprising that so many of our property owners have been as long-suffering as they have been. The areas of prime concern to the property owner have been:

- (1) Why are there so many different contractors working on the same project? The Municipal Engineer himself has taken personally a considerable number of such calls and has found generally that the explanation has not received favourable acceptance.
- (2) Restoration of access. Final restoration of access must in most cases await the presence of the paving contractor on the job but he can not be permitted, generally, to get on with his work until the concrete contractor has, at least substantially, completed his work.
- (3) Length of time taken to complete and interval of time between appearances on the job of the several contractors. This has been a most difficult one to explain to people who in general do not appreciate the difficulties of achieving reasonable co-ordination of the several contractors' activities.
- (4) Fair and prompt settlement of claims. Many cases of bona fide claims have been received where it has been next to impossible to assess the claim fairly to one or the other of the different contractors. There is, of course, a natural tendency for one to point to the other and vice versa and in these cases, lacking clear responsibility on cut-off and commencement of various operations, the Corporation has ended up honouring the claim itself.

IV. PUBLIC RELATIONS AND CLAIMS (cont'd)

In the general disruption of streets inherent in a large L.I.P. Program, public relations become strained enough as it is without imposing additional constraints. It is our belief that the Departmental and Corporate "public image" has really suffered and deteriorated in this regard in 1971.

SUMMARY

1. The foregoing report indicates pretty clearly what, in general, should be our course of action for future road works contracts.
2. Market conditions at any given time have a real bearing on our timing of contract calls and on our ability to receive advantageous prices. It is considered to be one of the prime responsibilities of the Department Head (in this case the Municipal Engineer) to assess and keep abreast of market conditions and to enter the market at the time when the Corporation can take the best advantage of prevailing conditions. This was clearly the achieved case for 1972 which resulted in a saving to the Corporation of at least \$138,000. As far as can be seen at this time, such good prices will not be achieved again in 1972.
3. It is not necessarily at all to the advantage of the Corporation to "elementize" its contracts to permit one or more additional firms to tender on the work. The very decision to split up the work can and generally does result in higher pricing on each of the elements, but again this can be dependent on actual market conditions.
4. Each area of contract endeavour is different. What is the case for sewers work, for example, is quite different from the case for road works. The characteristics peculiar to any given area of work become an important factor in assessing the market at any given time.

CONCLUSIONS

1. There is no question in our minds but that we were fortunate in choosing the timing and format of contract call relating to Contract #15, 1972, and accordingly it is recommended that our recommendation put before Council on 24 April, 1972, be adopted.
2. We have kept abreast to date of market conditions and it is our intention to intensify our knowledge of prevailing conditions in the industry and it may well prove necessary in the future when, possibly, more meaningful and pertinent knowledge is available to provide the Council with a report at that time concerning the general subjects discussed in this report.



E.E. Olson  
MUNICIPAL ENGINEER

EEO:op

c.c. ( ) Municipal Treasurer  
( ) Purchasing Agent  
( ) Municipal Solicitor