



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** December 5, 2014

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# As-Needed Service Agreement for Open Space Brush Management

## OVERVIEW

Municipal Code Section 142.0412 requires brush management on publicly or privately owned premises that are within 100 feet of a structure and contain native or naturalized vegetation. Of the over 26,000 acres of open spaced managed by the Park and Recreation Department, approximately 900 acres are located within 100 feet of structures. The Park and Recreation Department has established a brush management plan to thin the entire brush management area (900 acres) every two years. This would require an average of 450 acres to be thinned annually. The City uses a combination of non-profit contractors, City forces, and for-profit companies to achieve the goal of thinning 450 acres annually. Non-profit and City forces have a goal of thinning 150 acres annually and the City contracts with a for-profit company for the remaining 300 acres to be thinned annually.

On December 8, 2014, the City Council will consider a one year agreement (with four one-year options) with Aztec Landscaping, Inc. In July 2014, the for-profit company which provided brush thinning services to the City in FY 2014 declined the service option of FY 2015. The declined FY 2015 service option required the City to open a competitive bid process for the brush management contract. The re-bidding of this contract has delayed the initiation of the vendor-provided services by approximately five months. Aztec Landscaping, Inc. has been selected as the top responder to this bid process.

This report will provide a brief review of the funding allocations for the for-profit contract, highlight several terms within the proposed agreement with Aztec Landscaping, Inc. (Aztec), and provide information related to the non-profit organizations considered for brush thinning services.

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## FISCAL/POLICY DISCUSSION

### FUNDING ALLOCATIONS

During the budget development process for the FY 2014 Budget, an estimated cost of \$2,051 per acre was used for the for-profit portion of the brush management program. A competitive bid process for the for-profit contract was in process during the budget deliberations and the process was not completed prior to the approval of the FY 2014 Budget. The cost estimate of \$2,051 per acre was based upon a prior contract bid cost estimate and grossly underestimated current pricing. Based upon the goal of thinning 300 acres per year and the estimated cost per acre, the FY 2014 Budget included approximately \$675,000 for the for-profit services.

In August 2013, a one year contract with four one-year options for brush thinning services was established with Nature's Image (for-profit vendor). The four one-year options were to be exercised at the mutual agreement of the vendor and the City; and each option included a potential three percent annual increase to the cost per acre of brush thinned. The brush thinning cost for the first year of the contract (FY 2014) was \$5,115 per acre, an increase of approximately 150% from the cost estimates used in the budget development process. The increased cost per acre from the budgeted cost of \$2,051 per acre was consistent in the responses from the bid process. The total cost of full execution, thinning 300 acres per year, would have been approximately \$1.5 million. However, due to the delayed implementation of the agreement and an initially slower than anticipated clearing rate, the vendor only cleared 140 acres in FY 2014. For FY 2014, the higher cost per acre (\$5,115 per acre) and the lower amount of acreage thinned (140 acres) resulted in the total cost for the for-profit services to be approximately \$720,000. This amount slightly exceeded the budgeted funding amount of \$675,000. The cost of the services, above the funding amount allocated in the budget, was addressed through savings and reallocation of funding within the overall FY 2014 Park and Recreation Department budget.

Upon completion of the first year of service, Nature's Image re-evaluated the cost of providing this service and declined the first option year of the agreement citing a significant needed increase in the cost to provide this service. Nature's Image proposed an increase to a cost of approximately \$7,150 per acre. The City opted to competitive re-bid the contract and the agreement with Nature's Image concluded in August 2014.

During the development of the FY 2015 budget, the City projected the cost per acre for the brush thinning service to be \$5,268 per acre. This estimate was based upon the cost per acre of the first year of the agreement with Nature's Image (\$5,115) with a three percent increase (annual cost escalator) for the first option year. In support of the targeted amount of acres to be cleared, the City Council approved a \$1.0 million increase from the FY 2014 budgeted amount. The increase raised the total amount allocated to the for-profit contract to approximately \$1.7 million for FY 2015 (includes funding for biologist services to support program). However, as previously mentioned, Nature's Image declined the first year service option and the City re-bid the contract.

The Park and Recreation Department collaborated with the Purchasing and Contract Department to re-bid the for-profit brush thinning contract. There were two bidders as a result of this process; Aztec has been selected as the top responder.

#### PROPOSED CONTRACT

The proposed contract with Aztec is an as-needed one year contract with four one-year options. The agreement is anticipated to be executed in December 2014 and work is to begin in January 2015. Total compensation for Year 1 of the agreement is budgeted to be \$2,501,129. This compensation amount is based upon thinning 416 acres within the first year of operation. This is a higher than the normal thinning expectation of 312 acres per year due to a proposed accelerated thinning rate for the first six months of the agreement. Total compensation for the term of the agreement is projected to be approximately \$11.0 million, based upon execution of all the option years and dependent upon the determined annual increase in the cost of service.

Our office would like to highlight several terms of the proposed agreement.

- Options for additional years of service – This agreement provides for four one-year options to be exercised at the discretion of the City. This is a change from previous agreements which required mutual agreement of the City and the vendor in order to exercise future service options. The change in this provision is to establish stable working relationships and reduce uncertainty related to having service providers in place.
- Cost per acre – While Aztec was the lowest bidder for this contract, the cost per acre of brush thinned in the first year of the contract is \$6,012 per acre. This is a considerable increase from the prior cost estimate of \$5,268 per acre used in development of the FY 2015 budget. Should the City opt to exercise future service options, the provider is eligible for an increase in the cost per acre based upon the previous twelve month Consumer Price Index. The information provided in the staff report incorporated an annual five percent inflation factor as an example. Incorporating this assumed inflation factor over the course of the entire term of the agreement would result in a cost per acre of \$7,308 in the final year (FY 2020) of the agreement.
- Acreage to be thinned - The agreement establishes a minimum of 6 acres per week and a maximum of 12 acres per week to be thinned. If the minimum thinning rate is maintained throughout the year (52 weeks), Aztec will thin 312 acres per year, slightly exceeding the City goal for the for-profit vendor. Future Department budgeting is anticipated to be based upon thinning 312 acres per year. The agreement allows for a range of thinning rates, depending upon the availability of funding.

For FY 2015, the agreement will allocate approximately \$1.6 million for vendor services. This would allow Aztec to target 10 acres a week to be thinned for a total of approximately 260 acres for FY 2015. This accelerated thinning rate

would be an attempt to mitigate the impact of the delay in implementing this service agreement.

- Reporting requirements – Per the proposed agreement, upon initiation of work, a weekly field report will be submitted by Aztec to City staff. The field report will include: the areas where work was performed; number of staff assigned to the project; updated schedule of work completed during the week; and updated schedule of work to be completed the following week. Additionally, if weekly per acre requirements are not being met, Aztec will provide, in writing, a plan that explains how they intend to meet the acreage targets.

For FY 2016 and the outer option years of the proposed contract, the City will need to consider the budgetary impact of this agreement during the annual budget development process. The City will need to evaluate the priority of the brush thinning services, the appropriateness of the current service levels and goals of acres thinned on an annual basis, and the identification of a funding source for the projected costs of the agreement. The cost estimates should be more accurate going forward as a known cost schedule will be established.

#### NON-PROFIT CONTRACTORS

The Department's Brush Management Program uses a combination of non-profit contractors and City forces in targeting thinning 150 acres of brush annually. The City's non-profit contractors used for brush thinning include the California Conservation Corps (CC Corps), the Urban Corps, the County of San Diego Probation Department, and the Alpha Project. The CC Corps and the Urban Corps are the only two non-profit groups capable of undertaking all the labor associated with the brush thinning services. The County of San Diego Probation Department and Alpha Project groups are qualified to conduct only portions of the required work. The CC Corps cost for thinning brush is approximately \$4,800 per acre. However, due to the CC Corps responsiveness to emergencies throughout the State, this provider is not available as much as the City would prefer. The City does attempt to maximize the usage of this provider. The Urban Corps cost for thinning brush (approximately \$5,970 per acre) is similar to the cost charged by Aztec.

As of November 2014, the non-profit contractors have thinned approximately 38 acres in FY 2015. This represents approximately 60% of the targeted number of acres (63 acres) to be thinned five months into the fiscal year.

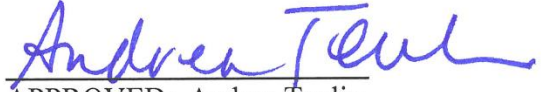
#### CONCLUSION

On December 9, 2014, the City Council will consider an agreement with Aztec Landscaping, Inc. for brush thinning services. Based on our review of the proposed agreement, we have highlighted several terms of the agreement which the City Council may wish to discuss with staff, specifically the potential impact of the significant

increases in the cost per acre. Certain terms within the agreement have been incorporated to retain a service provider for multiple years to allow for consistency and accountability.



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