



Agenda Item #: _____

Staff Report

City of Manhattan Beach

TO: Honorable Mayor Fahey and Members of the City Council

THROUGH: Geoff Dolan, City Manager

FROM: Neil Miller, Director of Public Works
Dana Greenwood, City Engineer
Stephanie Katsouleas, Senior Civil Engineer

DATE: September 20, 2005

SUBJECT:

- A. Receive and File This Status Report Regarding Utility Assessment Districts 2, 4 And 6
- B. Direct Staff to Continue Discussions With the Utilities That Would Result in:
 - 1. Lower Construction/Cabling Quotes Received From Verizon and Edison
 - 2. Requesting Open-Market Bids Prior to Bond Sales
 - 3. Releasing Verizon and Adelphia of Responsibility for Their Construction/Cabling Quotes Should the Actual Bid Prices Be Higher Than Anticipated
 - 4. Adopting a Policy Procedure That Allows the City to Cancel the Undergrounding Project if Bid Prices are Higher Than the Assessments Collected.

RECOMMENDATION:

It is recommended that City Council:

- A. Receive and file this status report regarding Utility Assessment Districts 2, 4 and 6
- B. Direct staff to continue discussions with the utilities that would result in the following:
 - 1. Lower construction/cabling quotes received from Verizon and Edison
 - 2. Requesting open-market bids prior to bond sales
 - 3. Releasing Verizon and Adelphia of responsibility for their construction/cabling quotes should the actual bid prices be higher than anticipated
 - 4. Adopting a policy procedure that allows the City to cancel the undergrounding project if bid prices are higher than the assessments collected for Districts 2, 4 and 6

FISCAL IMPLICATION:

There are no associated fiscal implications associated with the recommendations above.

BACKGROUND

In August 2005, the utilities completed, and staff presented to residents the final design plans for undergrounding overhead utility connections. Since that time, staff has been working with the utilities to prepare and accurately price construction and cabling activities associated with undergrounding utilities in Districts 2, 4 and 6. Final construction pricing is needed prior to starting the ballot proceedings, as it is the basis for determining the individual assessment amounts that property owners will vote either in favor of or against. At the September 20, 2005 City Council meeting, staff had prepared and intended to present to City Council the Engineer’s Report, which includes final assessments for each parcel, and other related documents. However, due to the much higher than anticipated costs associated with undergrounding, staff suspended its progress and began discussion with the utilities about the basis used for the quotes provided. It is important to note that each utility has its own pricing structure as well as its own policy for how to proceed should actual cost be higher or lower. For example:

- **Edison:** Provides a quote to the City that is “fixed.” This means that if actual bids are higher than projected, Edison will not collect addition funds from the City. Conversely, if actual bids are lower than anticipated, it does not refund the overage previously collected.
- **Verizon and Adelphia:** Provides a quote that is “fixed” as well. While similar to Edison in that they do not collect additional funds from the City should actual cost be higher than anticipated, unlike Edison they do provide a refund if actual costs are lower than those collected.

DISCUSSION

Edison and Verizon grossly underestimated the cost of construction for Districts 1, 3 and 5, and as a result had to fund a portion of the construction projects using their own resources. While the utilities try to make every attempt to price accurately, they must also ensure that their costs “cover” the entire project so that these projects are not paid by general customers through higher rates. While Edison has potential reserves to cover its cost if estimates are wrong, Verizon does not. Because Verizon cannot ask for additional funds if its estimate is wrong, it has provided quotes that cover worst case scenarios, with a caveat that property owners can always receive a refund at the end of the project if all funds have not been spent. The ultimate result is that the final quotes received are much higher than the expected real cost of construction, which in turn also affects the assessment by way of increased bond reserves.

The prices submitted last week to the City resulted in the following per-parcel assessment costs:

District	Number of Homes	Low	Average	High
District 2	194	\$39,547	\$54,004	\$68,461
District 4	167	\$43,896	\$61,668	\$79,439
District 6	304	\$19,855	\$26,805	\$33,756

* District 6 prices are significantly lower due to the increased density of homes

For these reasons, staff recommends that the voting process be suspended until discussions and full

consideration can be given to the prices provided by the utilities.

In discussions with Verizon about why its costs are so high, staff came to the conclusion that if the City could absolve Verizon from the liability of potential cost overruns, then Verizon could price the construction and cabling project more accurately (i.e., submit costs based on anticipated problems but not based on worst case scenarios). This would result in significantly lower assessment amounts (predicted to be as much as 25% lower), thereby increasing the likelihood of the districts forming. To eliminate the financial risk to the City in proceeding with this option, this approach would require a change in the guarantee of District formation should voters be in favor of the District. More specifically, once open market bids were received, the City would proceed with the project and sell bonds only if the construction contingency was enough cover the actual construction costs for Verizon and Adelphia's portion should they be higher than anticipated. If the actual bid prices for Verizon and Adelphia's share were higher than the total amount collected, then the project would not proceed, i.e., there would be no undergrounding of utilities.

Verizon representatives are currently reviewing the proposed action, and plan to present a new quote based on these discussions as soon as feasible. Edison has also confirmed that it will review its pricing and see if there are any areas where it can reduce its estimate. Adelphia's prices are within what the City expected, and no action is anticipated. City staff anticipates proceeding with the proposed District Formation within the next two to four weeks. New construction/ cabling prices will be presented to City Council at the September 20th meeting if staff can secure them prior to 5:00 pm that day, otherwise staff anticipates bringing this item back for the following City Council Meeting of October 4, 2005. Likewise, the entire schedule for voting and district formation will be adjusted accordingly.