



McDONOUGH BOLYARD PECK

Achieving Quality Through Teamwork

Public & Private Partnerships for Public Facilities

BRIEF HISTORY

Other countries commonly use public-private partnerships to finance and develop major public projects. In the United States, it was only fairly recently that state and local governments began to adopt similar means for providing faster, less costly, public facility projects. However, these new public-private partnerships are taking time to become a popular alternative to the traditional project funding and delivery methods.

In Virginia, for example, the legislature approved the Public-Private Education Facilities and Infrastructure Act (PPEA) in 2002. The PPEA is modeled after Virginia's Public-Private Transportation Act (PPTA) of 1995 that has been used to develop and construct transportation projects that would not have been achieved using traditional public funding methods. When originally proposed, this act was dubbed the "Public-Private Everything Act" because it can be used by any public entity for most government projects. It can be used to build schools, stadiums, libraries, jails, police stations, technology and communications infrastructure, and most facilities to be principally used by a public entity.

The intent of this type of partnership is to be more than just another project delivery method because it could also involve the ownership, operation, maintenance, and funding for the project. In some instances, a public-private partnered project may eliminate the need for bond referendums to fund projects since payments can be structured like lease or rent payments.



ADVANTAGES / DISADVANTAGES

A few **advantages** of using a public-private partnership may be:

- Faster completion of projects.
- More project delivery method alternatives such as Design-Build or CM-at-risk.
- Reduced claims and change orders.
- Allocate certain risks away from the Owner.

Some **disadvantages** may be:

- Proposals are typically very long and complex.
- Considerable control is surrendered to the private entity whose continued existence cannot be guaranteed and whose motive is profit.
- Non-performance or financial failure of the private partner may leave the public agency with many problems.
- It may be the same companies (designers and contractors) as in the traditional approach, but in the form of a new entity that has limited liability.
- There may be hidden costs and/or

- excessive profits for the private entity.
- For agencies that are unfamiliar and inexperienced with the Design-Build and other alternative project delivery methods, the details and methods can be an expensive learning experience.
- Preliminary or conceptual specifications may result in increased costs or buildings that do not fit specific or changing needs.
- Use of standardized equipment/materials, or specifying and building proprietary systems are more difficult.
- "Self-performing" work may not be permitted, even after occupancy.
- If cost escalation clauses are included, they can lead to unanticipated cost growth.

SLOW START

Since public-private partnerships in the United States are relatively new and have not been used frequently, both the public and private sectors are struggling with the procedures and commitment to begin the process. In addition, a public-private partnership can present significant risks that may not be identified or well defined.

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Public & Private Partnerships for Public Facilities

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Depending on the amount of risk assumed by the private entities, the price paid by the public agency may be more than traditional procurement methods.

PROCUREMENT

Depending on the local procurement law, a public-private partnership proposal can either be solicited by a public agency or developed and submitted by a private entity. Normally, the public agency must follow the statute and procedures that are consistent with competitive bidding or the public entity must make a written determination that competitive negotiations are more advantageous.

The actual proposal procedure used varies between states, but often a two-step process is employed. Step one is usually a conceptual proposal that includes various options, a conceptual design, order-of-magnitude costs, cost modeling, and financial projections. The second step is a much more detailed technical proposal. It includes a list of all firms participating in the project, a life-cycle cost, assumptions, fees, rates, financing

mechanisms and options, detailed floor plans, specifications, cost estimates, budgets, and other information that may reasonably be requested.

REVIEW PROCESS

Customarily, a public agency is required to perform a "due diligence" analysis of any public-private partnership proposal submittal at each step. The review needs to address cost, financing, schedule, scope and qualifications. Based upon our experience with both developing and reviewing public-private proposals, it is clear that these proposals are very costly to prepare and to evaluate.

For example, in Virginia the PPEA reviews include, at a minimum: an evaluation and a study of the short, intermediate and long term needs, a very detailed investigation of the materials and specifications, life-cycle costs, legal reviews, financing reviews, design and specification reviews, cost estimates, insurance and surety reviews. Then each proposal received must be compared accurately and fairly to determine which, if any, should proceed to the next step.

CONCLUSION

In conclusion, a public-private partnership provides an alternate means that can accomplish the objective of many public agencies, but is not suited for all situations. It may be the most viable project delivery method for public agencies with limited money where a proposer would provide the up-front financing and would recoup any additional costs through fees and other assessments charged to the user. A public-private partnership can also help speed the delivery of facilities by expediting the design and construction process.

Depending on initial experiences by the individual agency, public-private partnerships may become a practical option for public agencies in the future. With fewer dollars to spend, the increasing age of facilities, maintenance costs, overcrowding issues, and growing needs, we believe that K-12 school programs may be among the owners that receive the largest benefit from this approach.

Prepared by Ed Kopp, AIA, CCC, CCM & Blake Peck, PE, CCM

MBP Projects

MBP's Roanoke Branch has been selected to provide Construction Management services for Longwood University's new Science Building. MBP will oversee the completion of the project. The \$15.1 million, 70,822 square foot structure is a four story building that will provide classrooms and laboratories, faculty offices, and additional faculty research facilities. The project is scheduled for completion in the summer of 2005.

MBP's Raleigh Branch participated in a Value Engineering workshop, providing cost estimating for various Value Engineering proposals. This workshop was presented to the design architect, the Northampton County Administration and Northampton Sheriff's Department and the Virginia Department of Corrections. The proposed new jail facility consists of 144 beds, 48 dormitory beds and 96 cells. The estimated cost is \$13.9 million.

MBP's Williamsburg Branch was recently selected by the Virginia Department of General Services (DGS) to provide state-wide Commissioning, Testing and



Longwood University Science Building

Balancing, and Facility Assessment services in support of any Commonwealth public body or agency. Combined with our existing term contract with DGS for Project Management, Inspection, Cost Estimating, and Scheduling services, MBP now offers an expanded range of services to any public agency in the Commonwealth. A fee schedule has been established which allows any public body or agency in the Commonwealth of Virginia to procure these services from MBP using this open-ended contract. (A bid process is not needed to procure these services.)

The Williamsburg Branch continues to provide the Virginia Beach City Public Schools and the City of Virginia Beach with construction management and analytical support services on many of their capital facility projects. The projects range from new schools, modernization of existing schools, the 911 Center, the correction center expansion, parking garage, and the new convention center.

MBP was also selected to assist Old Dominion University with the completion of their new Engineering and Computational Sciences facility at their main campus in Norfolk, Virginia. The facility is a four story building consisting of 82,715 square feet, includes a single story 2,700 square foot auditorium, and is LEED certified. The building will be used by the Engineering and Computational Science departments and will contain ODU's new main computer and back-up systems. ■

Recent Material Price Increases - Just Part of the Story

Almost every owner with a capital construction project has recently experienced unprecedented increases in construction bid prices within the last six to twelve months. Escalation of material prices has been blamed for most, if not all, of the price increases. However, there are other contributing elements - higher insurance costs, increased volume of construction, and an increased demand for services and materials.

Bids are not necessarily following a trend line and many owners and designers have been surprised by the unpredictability of the market. Most owners and designers have experienced bids that have consistently exceeded the designer's estimates, and therefore the project budgets. It is true that this is due, in part, to the dynamic and significant escalating nature of materials such as: steel, concrete, plywood, lumber, gypsum wallboard, and other materials.

However, at about the same time, we have also observed a significant reduction in the number of competitive bidders. For example, a recent bid opening with 7 prequalified bidders resulted in only 2 bids, and the low bid was almost 50% over budget. MBP analyzed the contractor's bid price and the A/E's estimate. We determined that approximately 7% could be attributed to

increases in material prices. The balance was likely due to scope creep, an understated estimate, and lack of competition among bidders and trade subcontractors.

Many owners have placed their projects temporarily on the shelf, hoping that prices will stabilize within the near future and return at least to their near former levels. This thinking may be overly optimistic because factors other than material prices are also driving the market.

Beyond the increase in material prices some reasons for the increased prices are: a) heavy workload driven by a high volume of public and private construction programs [it is certainly an interesting time to see both sectors going so strong and simultaneously competing for resources], b) bonding capacity and recent increases in claims, c) lack of qualified subcontractors, d) tight labor market for skilled construction workers, e) unattractiveness and increased risk associated with renovation work, and f) the bidders uncertainty of being awarded the project after expending effort to prepare bids - due to budgets that were established prior to the recent price increases and not updated appropriately.

Here are a few things that owners should be doing:

- Stay apprised of recent trends in

the industry.

- Require independent cost estimates, at a minimum, at the 60% and 95% design stages.
- Do not bid projects that are under funded, given the current market.
- Adjust current budgets for recent increases wherever possible.
- Allow adequate time for the bidders to prepare the bids.
- Minimize the overlap of your bid period with other competing projects.
- Be more proactive and work with bidders to increase their interest and reduce their risks.
- Require A/E's to include additional add alternates with higher dollar values.
- Use some of the contingencies to cover the increases.
- Allow for specified materials to adjust in price, if pegged to an industry price index.

Until the industry stabilizes, estimating projects will continue to be challenging and should be left to professional estimators that are apprised of recent market pricing and trends.

Mr. Kopp is a Certified Cost Consultant and a Certified Construction Manager for McDonough Bolyard Peck in its Williamsburg, Virginia office. ■

What's Happening

MBP is pleased to announce the following promotions and achievements:

John L. MacKay, Jr, PE to Vice President.

John is Branch Manager of MBP's Raleigh, NC office and has been an MBP Team Member since 1990. Before moving to North Carolina John was the Branch Manager of the Roanoke Office. In addition to his many accomplishments in Branch development, John has been a participant in the development and growth of the MBP Team through his participation in corporate initiatives and strategic planning and development.

Patricia O'Mahony to Senior Consultant.

Since joining MBP, Patricia was assigned to the Washington, DC Public Schools program as part of our Corps of Engineers contract. She has looked for and continues to promote MBP for future business opportunities and was instrumental in MBP being awarded two of the current positions we have at Ft. Belvoir, VA.

Claudia Espinoza to Engineer. Claudia's supervisor at VDOT has complimented her knowledge, organization, and numerous suggestions for streamlining the process. Claudia has become an outstanding member of our Team.

Mauricio Canales to Inspector. Since joining the Permits Team slightly less than two years ago, Mauricio was overseeing the VDOT telecommunication permits to assure that new utilities were installed according to the plans and our provisions. At the suggestion of the client, Mauricio was placed in charge of his own area of the County overseeing all permit activity, not just telecommunications.

Edward Kopp AIA, CCC, CCM and Jim Yatzeck, PE are scheduled guest speakers at the annual CEFPI conference, October 22, 2004, in Atlanta, Georgia. Their presentation



will address "Project Quality Management".

Pedro Capestany, PE was elected to the 2004 - 2005 office of Secretary/Treasurer for the Construction Management Association of America (CMAA) National Capital Chapter. Pedro is the Branch Manager of MBP's Columbia office. ■

Heather McLaughlin



Heather McLaughlin is an Executive Assistant in MBP's Williamsburg office. She joined the team shortly after MBP expanded their Hampton Roads operations in 1999. Prior to MBP, Heather worked as an Assistant to the President of a corporate merger / acquisition firm in downtown Richmond, Virginia. Aside from managing the daily operation and administration of MBP's Williamsburg office, Heather's responsibilities include: responses to Requests for Proposals, local market research / needs assessments, and event / meeting planning.

Heather is a Member-At-Large with the International Association of Administrative Professionals (IAAP) and has served as Treasurer and Recording Secretary on the Virginia Peninsula Chapter's Board of Directors. Additionally, she is an active member in the Virginia Chapter of the

Society of Marketing Professional Services (SMPS).

Recently married, Heather & her husband, Shawn, enjoy cooking, traveling, and spending time with family. Heather is particularly proud of the Book-of-the-Month Club she recently organized. The club provides members with an opportunity to expand their literary horizons, while also sharing fellowship and hospitality between a group of friends - old and new.

In April, the McLaughlin's adopted a particularly loving adult cat from the Williamsburg Humane Society. They named her Easter. The adoption was a positive experience for two reasons: (1) Easter deserved a new beginning and (2) Heather needed someone else around the house to listen when she reads RFP's from the Sunday newspaper.



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