



Colusa Unified School District Delivery Methods Presentation

March 17, 2015

Types of Contracts a California School District May Enter Into for Capital Outlay Projects:

Type of Contract	Applies to	Legal Authorization	Selection Process	Fee Determination	Project Type	Comments
Professional Services	Architects, Engineers, Construction Project Managers, Land Surveyors, Attorneys, Accountants	Government code 4525 & others	Qualification-based; request for qualifications & interviews	Negotiated with best qualified	All	The general public may not be aware that these contracts are never "bid"
Competitively Bid Lump Sum	Contractors & suppliers	Public Contract Code 2000, 3300, 4100 et seq	Publicly opened sealed bids; award to "lowest responsible and responsive bidder"	Included in bid	All	This is the "traditional" method for public works since the 1930's and was devised to address corruption
Design-Build	Design-build "entities", usually comprising a contractor and a design team	Education code 17250.10 et seq	"Best value" as described in Education Code 17250.15a et seq	Negotiated or included as part of best value	Over \$2.5 million	This became available to school districts in 2002, but has not been widely used.
Lease-Leaseback	Developers (a.k.a. Lease-leaseback entities)	Education Code 17406	At District's discretion	At District's discretion	All	Available to school districts since the early 90's but only recently is becoming widely used.

Project Delivery Methods: Pros and Cons

Delivery Method	Often Used By	Contract Types	Pros	Cons	Variations	Comments
Design-Bid-Build	Public sector projects	Professional services for A&E, lump-sum bid for contractor	Traditionally used & therefore non-controversial to boards and public	No input from construction team during design often leads to many costly changes; relationships often adversarial	CM-at-Risk; multiple-prime	Seldom used in private sector (unless bid list is restricted and award to low bidder not required)
Negotiated GMP (guaranteed maximum price)	Private sector institutions (not available to public agencies in California except to school districts through Lease-leaseback)	Professional services for A-E; cost-plus with GMP for contractor	Allows contractor involvement very early in project; owner can shed most risk of design errors and omissions; incentive for positive team relationships	Possibility that contractor could "cook books" to take advantage of cost-plus aspect (but not very likely)	Incentive savings, Fee at risk, no GMP.	Generally preferred method in private sector
Design-Build	Public sector projects by state, cities, counties, and school districts; some private sector clients, especially for certain project types (e.g.: parking garages, wastewater treatment facilities)	Single contract with Design-build entity; may be lump-sum or a form of GMP	Allows owner to deal with only one entity; encourages cost-saving innovations if handled properly	Owner may lose ability to influence design too early in project; cost saving innovations may compromise quality of project	Bridging	Has been used on a few select state, city and county projects, but few schools
Integrated Project Delivery	Healthcare projects (hospitals, clinics, and MOB's); higher education, some public schools	Integrated project delivery agreement or some variation	Encourages collaboration and early, committed involvement of all parties; incentives cost saving innovations and controls risk	Requires sophisticated owner representation; designers and contractors have to adopt a new way of doing business, and some may resist	Lean Construction	Use is growing rapidly in healthcare construction throughout the country; some public school and other project types are starting to use this as contractors become familiar with it.

Lease-Leaseback: The Legal Basis

Education Code section 17406 provides:

(a) Notwithstanding Section 17417, the governing board of a school district, **without advertising for bids**, may let, for a minimum rental of one dollar (1\$) a year, to any person, firm, or corporation any real property that belongs to the district if the instrument by which such property is let requires the lessee therein to construct on the demised premises, or provide for the construction thereon of, a building or buildings for the use of the school district during the term thereof, and provides that title to the building shall vest in the school district at the expiration of that term.....

Lease-Leaseback: The Process

- Consideration of alternative delivery methods – District’s “Best Interests”
- Leaseback entity selection process – RFQ/RFP
- Preconstruction Services Contract(s)
- Plans & Specifications – Developed and Processed thru DSA Final Approval
- District enters into Two Leases
 - Site Lease
 - Facilities Lease w/ Construction Provisions

Lease-Leaseback: Features

- Bidding process – optional at District Discretion
- Negotiated Contracts
- Use of District Selection Criteria
- Guaranteed Maximum Price
- Flexibility – Design then Construction; Design-Build
- Collaboration vs. “old-school”

Lease-Leaseback: Potential Concerns

- Architect (Design Team) errors
- Owner Additions to Project
- Differing Site Conditions
- Owner use of incomplete Construction Documents
- More expensive????

Lease Leaseback vs Design-Bid-Build:

- **Design/Bid/Build**

- Architect prepares the project documents and submits them to the Division of State Architect (DSA) for review and approval.
- After DSA approval is received, these documents are then put out to bid.
- The contractor is not included in any construction dialogue until after the Board ratifies the contract. At this point vital elements of design, construction and collaboration have been lost to the “Process”.
- District must take the lowest bid on the project and the price is set in stone.
- All changes after bid day are subject to the change order process and are typically marked up anywhere from 50% to 250% or more. All contractors know that on medium to large projects, there are going to be changes, drawing coordination errors, unknowns, etc. This is a typical part of the construction process, especially with modernizations.

- **Lease Leaseback**

- Contractor is selected base on qualifications and the pre-construction process can establish a Guaranteed Maximum Price (GMP) early on during the design phase.
- The contractors knowledge and constructability is engaged for the betterment of the District and the Project.
- The District, Program Manager, Architect and contractor make up the Project Team. This Team is established at the very beginning of the project so that all key players in the project are involved early on to identify potential changes in design and construction, conflicts, potential savings, etc., before the project starts.
- This is also important so that the traditional “adversarial” relationship between contractor and District can be avoided by the contractor’s early involvement in the project.

Lease Leaseback vs Design-Bid-Build:

- **Lease Leaseback (cont.)**
 - While there can still be change orders on the LLB project, the allowable reasons are limited to Unforeseen Conditions, a change requested by the District, an insufficient allowance amount, a regulatory required change, or act of God. The District and the Project Team are anticipating and preparing for these ahead of time.
 - The Guaranteed Maximum Price (TBR or GMP) is continuously developed and refined up until final DSA approval of the project. At that time the GMP is finalized and placed before the Board for final approval. This allows the District and the Project Team to develop the most accurate cost, fee and schedule applicable to the project and most advantageous to the District.
 - The GMP will designate the “Contingencies” that have been reviewed by the Project Team ahead of time. There are three types of contingencies, the Project Contingency, the District’s Contingency and the Permitting Contingency.
 - The Project Contingency is intended for E & O related issues, misc. buyout expenses that weren’t anticipated when the TBR was finalized and small changes in the field.
 - The District’s Contingency is established to cover an unanticipated necessity that the School District must incorporate into the work.
 - The Permitting Contingency is specifically intended to cover the cost of and changes that are required by DSA during their review and approval process.
 - Both the Contingencies and Allowances are reviewed and approved by the Project Team on a regular basis during construction. This approval is required before the contractor is authorized to use that money

Lease-Leaseback vs. Design-Bid-Build

Project A – LLB

Original GMP Cost: \$1,819,933

Allowances

Utility Relocation Allowance: \$26,860
 Acoustical Ceiling Allowance: \$9,836
 IPD Contingency: \$31,541
 DSA Contingency: \$7,919
 Owner Contingency: \$20,215

Final cost: \$1,907,405

Non-Common Scope

Earthwork -\$89,214
 I.H. Infrastructure -\$23,126

 Mechanical System: New Furnace & Boiler -\$200,000
 Exterior Painting -\$125,000
 Carpet at Portables -\$50,000
 Water to Portables -\$44,650
 Faucets & Sinks at Portables -\$15,300
 New Doors/Hardware at Portables -\$20,412
 Miscellaneous Work at Portables -\$99,563

Cost Adjusted for Scope: \$1,152,668

Project B – DBB

Original Bid: \$1,506,561

Change Order #1 \$60,852
 Change Order #2 \$9,057
 Change Order #3 \$25,031
 Change Order #4 \$20,912
 Change Order #5 \$7,593

Final cost: \$1,630,006

Non-Common Scope

Earthwork \$0
 I.H. Infrastructure \$0

 Mechanical System: New Split System and Condensing Units -\$425,000
 Exterior Painting -\$15,000
 Carpet at Portables \$0
 Water to Portables -\$19,000
 Faucets & Sinks at Portables -\$6,800
 New Doors/Hardware at Portables \$0
 Miscellaneous Work at Portables \$0

Cost Adjusted for Scope: \$1,040,761



Lease-Leaseback vs. Design-Bid-Build

Project B (DBB) was constructed in 2005 and Project A (LLB) was constructed in 2007. Construction cost **escalation** was running **15% - 20%** during these years. For this comparison, we adjusted 15% per year.

Project A – LLB		Project B – DBB	
Cost Adjusted for Scope:	\$1,152,668	Cost Adjusted for Scope:	\$1,040,761
Cost Adjusted for Escalation:	\$886,668	Cost Adjusted for Escalation:	\$1,040,761
I.H. , Moving & Storage	<u>\$108,991</u>	I.H. , Moving & Storage	<u>\$202,783</u>
Total Hard Cost:	\$995,659	Total Hard Cost:	\$1,243,544
<u>Soft Costs:</u>		<u>Soft Costs:</u>	
Architect	\$214,302	Architect	\$229,278
Program Manager	\$164,905	Program Manager	\$101,074
Construction Manager	\$59,156	Construction Manager	\$207,242
LV Design	\$189,564	LV Design	\$174,934
Hazmat	\$22,761	Hazmat	\$25,294
Inspection	\$45,468	Inspection	\$60,154
Printing & Distribution	\$8,277	Printing & Distribution	\$22,409
Agency Costs	<u>\$17,376</u>	Agency Costs	<u>\$16,391</u>
Total Soft Costs:	\$721,809	Total Soft Costs:	\$836,776
Total Adjusted Cost:	\$1,717,468	Total Adjusted Cost:	\$2,080,320

Lease-Leaseback vs. Design-Bid-Build

Project A – LLB

Total Adjusted Project Cost: \$1,717,468

Total Change Orders: \$87,472

CO % of Original Cost: 4.8%

Total Cost per SF: \$88.99

(Project A = 19,300 SF)

Project was completed in 7 months

Project B – DBB

Total Adjusted Project Cost: \$2,080,320

Total Change Orders: \$123,445

CO % of Original Cost: 8.2%

Total Cost per SF: \$101.92

(Project B = 20,412 SF)

Project was completed in 12 months

Questions & Answers
