



CAREY & CO. INC.
ARCHITECTURE

December 9, 2005

Ms. Marilyn Thompson
Bond Program Manager
Branch Library Improvement Program
190 Ninth Street, 3rd Floor
San Francisco, CA

RE: Noe Valley Library
Bid vs. Estimate

Dear Marilyn,

We have been asked to address the possible reasons why the bids for our Noe Valley Library project came in \$950,000 over the \$2,800,000 bid budget. As you know, there is no simple answer. This letter includes a project history, explaining our cost-control measures to date, and possible reasons why we saw the bid amounts so far in excess of the budget.

Project background

The original bid budget was set in 2001 at \$2,400,000. Carey & Co. was awarded the contract in September, 2003. We were given an incredible building, an ambitious program, a two-year-old budget, and a very enthusiastic community. Helping us on the project was a full retinue of consultants, including a cost consultant, Saylor Consulting Group. We begin the project with a series of community meetings, where we showed the community a number of schemes and had them “vote” on their favorite. This resulted in a scheme that met all programmatic requirements. However, once our structural engineer and cost consultant looked at this, we realized that we needed to scale back. This was our first value engineering phase, which resulted in shifting as much excavation as possible from the west side of the building to the east, to avoid underpinning.

We continued with this plan through design development, with all of the cost estimates showing our project to be under budget. However, 2003 and 2004 were very unusual years in the construction industry, with inflation running at 10-15% higher than the historical average of 3 or 3 1/2%. Our 50% construction documents cost estimate showed a project cost of \$2,900,000. After discussion with the City, we found a second cost estimator to estimate our 95% construction documents set, simultaneously with Saylor. To our surprise, both estimates were within \$20,000 of each other. Unfortunately, they were predicting a project cost of \$3,200,000. Once again, we conducted value engineering. We found ways to streamline the project by rearranging some of the back-of-house spaces, by keeping the mechanical room in its present location, and by reusing parts of the existing mechanical system. Our additional value engineering cost estimate showed a savings of \$200,000. We examined the project again, shifting some elements into FFE and flagging others as add-alternates. We hoped to save another \$200,000 by so doing. We received authorization to proceed with the revised scheme in May of 2005, along with an increase in the bid budget to \$2,800,000.

The summer was spent finishing the documents and getting approvals. Bid documents were submitted to the City in August, and the project was put out to bid in September. Unfortunately, when the bids were opened, the numbers were much higher than any of us expected.

Reasons

I have spoken to both our cost estimators, Saylor Consulting Group and Dabri, Inc. I have also compared the last cost estimate with the sub-contractor breakdown of LC Construction, the low bidder, to see if there were any areas in particular that were responsible for the cost overrun.

Looking at the sub-contractor breakdown, most of the bid prices were within 10% of the estimate. The electrical and mechanical were somewhat higher, but this amounted to less than \$150,000 of the total overage. Since the subcontractor line-items were only responsible for approximately \$2,000,000 of the total budget, the remaining costs were the General Contractor's, such as the "General Conditions." If a more detailed breakdown of the bids is available, it may shed further light upon where and why the overruns occurred.

The "General Conditions" might be a major factor in the project's costs. This would cover not only difficulties associated with the site, such as staging and parking, but also difficulties – real or perceived – in working for the City. While the cost estimates included these items, they may have underestimated their importance in the overall bids.

While the rampant inflation in construction of the past couple of years has slowed down in 2005 – coming down to 6.5% - the unprecedented hurricane season was responsible for driving up fuel costs, albeit temporarily, during the period when the project was bidding. This unforeseen "act of God" may also have played a part in driving up the bid prices.

Lack of multiple bidders may also be a factor. While the estimators were told to assume only three bids (since we anticipated a lack of qualified, interested bidders), and that is the number that was received, we do not know whether multiple sub-consultant bids were available. According to Saylor Consulting, bid costs could be higher than estimates if fewer than 4-5 subcontractor bids are received for each discipline.

Also, the many factors that each make this a difficult project – historic preservation, city work, difficult site, major structural, excavation and underpinning – when taken together, may have a snowball effect, resulting in a total greater than the sum of the parts.

Finally, estimates are estimates and not bids. While they are useful documents, and a valuable tool for checking project costs on a complex project at various phases, they are not bids. The only accurate way to predict costs is to work with a contractor beginning in the early phases of the project, in a negotiated bid scenario. This process, unfortunately, is not allowed on projects subject to Public Procurement laws.

We would be happy to discuss this with you further.

Sincerely,



Nancy Goldenberg
Sr. Vice President
Carey & Co., Inc.