BreakingGround

THE MAGAZINE OF THE MASTER BUILDERS ASSOCIATION OF WESTERN PENNSYLVANIA

SEPTEMBER / OCTOBER 2006

PITTSBURGH TRANSFORMING ITS IMAGE

South Side Works Town Square

Contents

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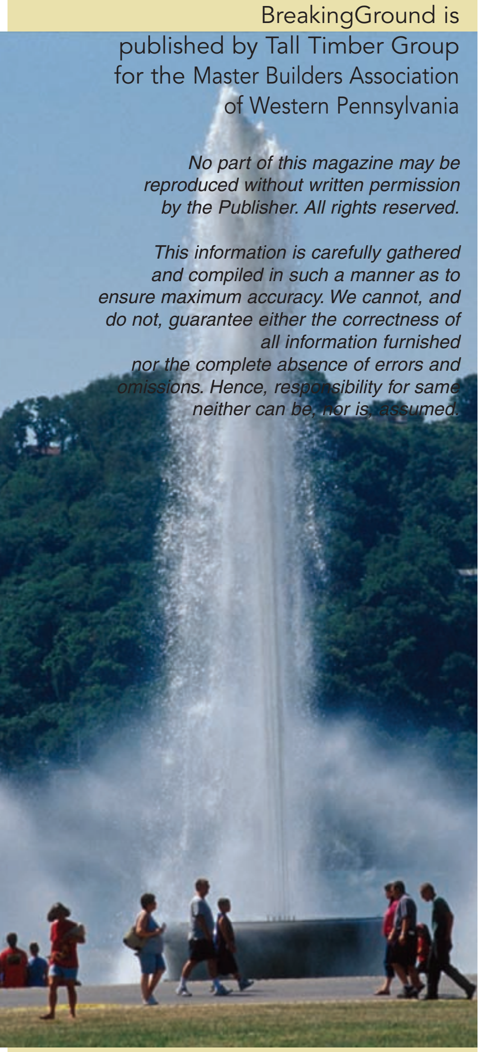
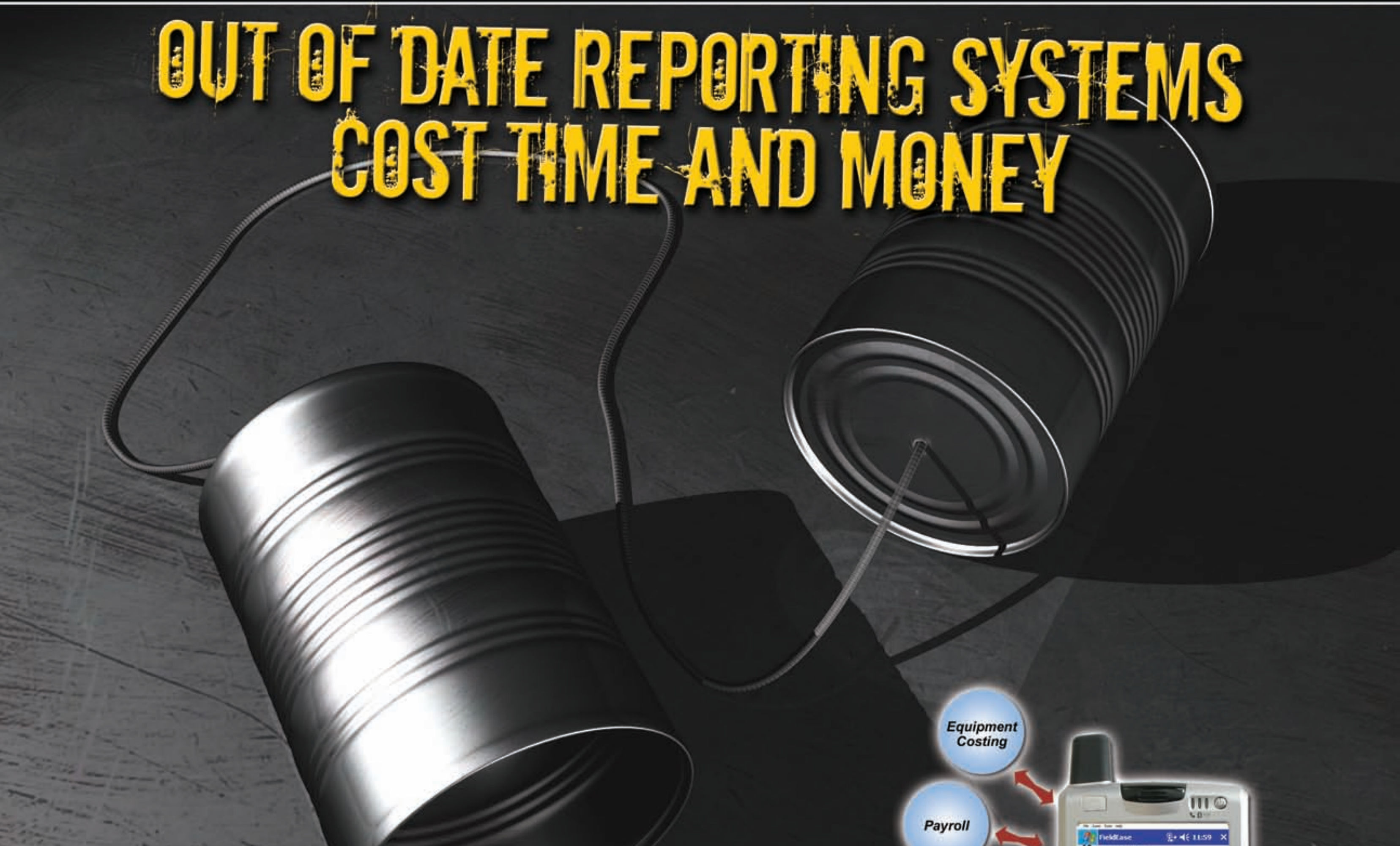


Cover Story

South Side Works brings new retailers and national tenants focus on Pittsburgh.

Features & Departments



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Executive Director's Message

BreakingGround's Promise to You

Earlier this year, I ran into Jeff Burd at a local construction industry event. We both noted how commercial construction industry publications notoriously portray optimistic, *glass half-full* stories which put the entity publishing the journal and that industry in the best light possible. The publications are usually well-written and appealing to the eye, but the self-promotional items are not always useful and in some cases the literature is downright propaganda. Don't get me wrong, it's important to report good news, but I think it's important to give readers information that can be applied to their businesses.

Since that encounter, the MBA and Jeff began developing the idea for *BreakingGround*. We set out to create a truly useful magazine devoted entirely to all aspects of the commercial building construction market in Western Pennsylvania. Sure Engineering News Record exists, and every few issues a Pittsburgh reference sneaks into the feature story, but our area deserves more. The Western Pennsylvania region has a rich tradition of architectural design and building history to be proud of, and our region has a vibrant future of development to look forward to. The timing to launch this publication is perfect.

BreakingGround aims to be an innovative publication, a publication that will be of interest to every architect, engineer, developer, owner, and contractor actively doing business in Western Pennsylvania.

BreakingGround will seek to become the first comprehensive source of local market information for all professionals of the commercial building construction and real estate development industries. Each issue will be packed with practical information about market trends, best practices, and timely economic data. *BreakingGround* will cover the construction and real estate development industry in its entirety, from funding projects, to design changes during a project, to acceptance of standard product warranties, to coping with enacted legislation like the recently amended Mechanic's Lien Law. The important issues will be covered, and covered explicitly in ways that affect the daily lives of individuals in the design, construction and real estate development professions – readers will anxiously await the next issue.

The creation of *BreakingGround* enables the readers to hear the voices of the established companies and the up and coming firms that have shaped this region to date. Past and present players will express their opinions on the issues that matter to the industry. That is important because it's this dialogue that will become tomorrow's building community. If *BreakingGround* can do just one thing, I hope it's to give insight about today's marketplace in Western Pennsylvania. And I hope the insight is just as valuable to the recent architect graduate as it is to the person in my shoes, a second-generation construction practitioner.

So that's *BreakingGround*. I hope you will enjoy reading it as much as the Editorial Committee enjoyed creating it. It's a first of its kind. We've set out to make a magazine that will inform, provoke, and lead to discussion in the construction and real estate industry of Western Pennsylvania.

Enjoy the first issue.

Jack Ramage,
Executive Director

Publisher's Note

Maybe it's the Super Bowl.

Since the early 1980's this incredible region we live in has been constantly, haltingly, advancing from an economy based on the strengths of manufacturing steel and aluminum and glass and coal to one based on the strengths of what we know. By 1985 Pittsburgh was named the "Most Livable City" in America by Rand McNally and we were feeling good about our region again.

...but because of what the lenders were reading and hearing about Pittsburgh, from ourselves!

By the time my family moved back here in 1991, though, it seemed that living here was a no-win proposition, at least if you listened to the news and the powers that be. I had spent most of the '80's living and doing business in some of the towns that everyone here seemed to envy-Charlotte, Atlanta and Dallas. Don't get me wrong; these are great towns to live in, but each had its weaknesses to accompany its strengths. Oh, and you can grow tired of 300 or so days of mostly uninterrupted sunshine, too.

It has been my blessing to have owned a business serving the construction industry here since 1994. I think an entrepreneur, a business person, has to have a positive outlook on life in order to thrive. During the early years of publishing the Pittsburgh Construction News I was constantly inspired by the creativity, perseverance, and courage of the professionals doing design and construction and development in Pittsburgh. The competitive environment here demands such performance, but rarely was the spirit of these professionals celebrated publicly. In fact, at the end of the "Plan B" boom that ushered in the millennium here, the sentiment in the construction and real estate business was that the last hurrah had ended.

During the years that followed it was difficult to maintain positive commentary in the face of unending negative press and politics, but I got my inspiration from an evening sharing the podium with Bill Krahe, Managing Partner of Echo Realty Services. Bill was finishing an upbeat presentation on Echo's and Giant Eagle's plans for ambitious investment in Western PA (much of which has transpired by now), when he admonished those of us in the room not to let the nay-sayers we met get away with burying our region.

Bill wasn't being a cheerleader. He related a sobering tale of meeting resistance from the lenders and investors Echo dealt with, not because of inadequacies in their plans, but because of what the lenders were reading and hearing about Pittsburgh, from ourselves!

It's been pleasing, then, to note how the tone of our media and our local political leaders has picked up within the past year. From a few quiet voices in the wind, growing to a chorus of media cheer, Pittsburgh's image is suddenly hipper, cooler and progressive. National voices like Kiplinger's Letter, Reuters and CNN.com are ranking Pittsburgh in the Top Ten of something or another every time you turn around. Like I said, maybe it's the Super Bowl, but what's important to remember is that it's the image that's improving; the Region was already there.

BreakingGround will be an objective voice covering what's going on in our marketplace here. In coming years there will be downturns and declines to report, but *BreakingGround* will focus on what's happening in Western PA, not what's missing. In the Master Builder's Association I am privileged to partner with an organization that was itself already a voice for the industry. Together, we expect to be breaking ground.

Sincerely,

Jeff Burd

News From The Street

Cultural Trust Announces Development Team

The Pittsburgh Cultural Trust announced on July 10 its selection of the successful team to develop two square blocks bounded by Penn and Fort Duquesne Boulevard, Seventh and Ninth Streets Downtown. RiverParc, is comprised of developer Concord Eastridge of Washington DC, general contractor Turner Construction, and a design team led by Benhisch Architekten of California and Stuttgart, with local architect WTW Architects, Gehl Architects of Copenhagen and architects Alliance of Toronto.

Image created by Behnisch Architekten

The $460 million plan put forward by RiverParc includes residential development of 700 dwelling units in seven buildings and a street of townhouses, a four-star hotel, 159,000 square feet of retail, numerous parks and green spaces, vertical winter gardens and roof terraces, and the addition of Three Sisters Gallery. The new park proposes an innovative capping of the highway between the Three Sisters Bridges, which would establish a park to cover the 10th Street by-pass facing the riverfront.

A key component of the Concord Eastridge plan is the LEED-certified and environmentally sensitive buildings. Ground breaking is scheduled for mid-2007 with construction progressing over an eight-to-ten year period.

First Casino/Racetracks Getting Underway

While the awarding of casino licenses is still not finalized, two of the operators who anticipate receiving those licenses have moved forward with the construction of the gaming facilities.

In Erie, Presque Isle Downs began construction on the site work and temporary gaming facilities in late 2005. The $30 million facility, owned by Ted Arneault's MTR Racing, is being designed by Weborg Rectenwald Buehler Architects of Erie. Turner Construction is the Construction Manager. Work should be completed on the racetrack and temporary facility by late 2006. Racing will likely be delayed until 2007 to allow the track construction to settle. Construction on the permanent 55,000 square foot clubhouse should begin this Summer.

At the Meadows, track owners Millenium Gaming have selected LPCiminelli Inc. as Construction Manager for the $450 million Meadows Racetrack and Casino. Designed by Climans Green Liang Architects, the project involves a 90,000 square foot temporary facility which should get underway by Fall, and a permanent 250,000 square foot casino and racetrack.

Pittsburgh Market "Least Risky"

It's good to be last in some things. According to PMI Mortgage's study of regional housing risk, Pittsburgh is the least risky of the Top 50 housing markets. PMI Mortgage evaluates the market's historical patterns of appreciation and models several scenarios of future growth and appreciation. Because there have been very few periods of accelerated appreciation in the past decades, Metropolitan Pittsburgh is one of the least over-valued regions, with little expectation of any runaway appreciation or precipitous decline in housing prices. The table below shows the most risky markets nationally.

According to the National Association of Realtors, the average down payment was 2% in 2005. In a market with less upside, like Pittsburgh, low down payments are less common, since equity is going to grow through mortgage payments not rapid appreciation. With almost negligible risk of home values in Pittsburgh declining, however, the first-time or move-up buyer will have more confidence in borrowing. This buyer confidence helps soften the effects of a declining national economy, keeping demand for housing construction steady in Western PA.

1	San Diego-Carlsbad-San Marcos CA	59.9%
2	Nassau-Suffolk NY	58.9%
3	Boston-Quincy MA	58.8%
4	Santa Ana-Anaheim-Irvine CA	58.8%
5	Sacramento-Arden-Arcade-Roseville CA	58.5%
6	Riverside-San Bernardino-Ontario CA	58.3%
7	Oakland-Fremont-Hayward CA	58.2%
8	Los Angeles-Long Beach-Glendale CA	57.5%
9	Providence RI-New Bedford-Fall River MA	56.8%
10	San Francisco-San Mateo-Redwood City CA	56.0%
50	**Pittsburgh PA**	**5.7%**

Source PMI Mortgage U. S. Market Risk Index

Available Labor Tightening Up

After three strong quarters of contracting in a row, the availability of labor will be an issue for construction projects in the third quarter and into next year. More than $1.5 billion worth of construction is in progress right now, with the majority of that volume in the early stages of construction. According to Rich Stanizzo of the Pittsburgh Building and Construction Trades Council, capacity is becoming an issue with some trades now. "The trades involved with the early stages, operators, iron workers, laborers, carpenters, and masons are real busy right now."

With several large power plant projects expected to start late in 2006 and in 2007 there will be a strain on the labor capacity in the region. "When both stadiums and the convention center were in full swing we were still able to man all the work with local trades," says Stanizzo. "I expect it will work out the same way in the next year or so, although it looks like there may be enough work in Pittsburgh that we'll bridge any economic slowdown that might occur nationally."

First Ethanol Stations in PA Announced

An Altoona-based retail gas station operator, Sheetz Inc., announced plans at the All-Star Fan Fest to offer an ethanol/gasoline alternative fuel at its new store on Route 51 at Lewis Run Road in Pleasant Hills. Sheetz is partnering with refiner VeraSun Energy and auto maker General Motors to distribute VE85, a mixture of 85% ethanol and 15% petroleum. VE85 will be available in two more Western Pennsylvania Sheetz stores before the end of 2006.

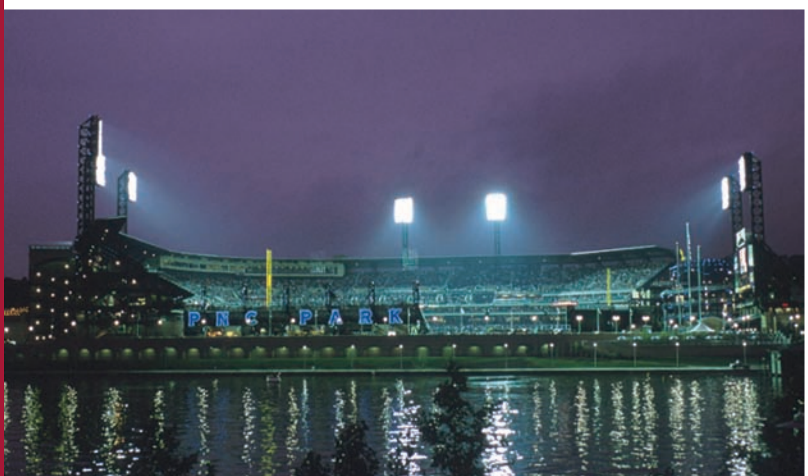
Ethanol represents an excellent alternative fuel solution in the United States because of the growing capacity and the availability of corn, from which ethanol-based fuel is distilled. Retail availability is limited, but the number of vehicles that can run on alternative fuels is growing, with 6 million currently on the roads. General Motors has promoted partnerships like VeraSun/Sheetz in eight other states. In Chicago there are 32 VE85 stations, and in Minneapolis-St. Paul there are 16 stations.

"GM already has more than two million vehicles on the road today that are capable of using VE85 ethanol fuel," said Elizabeth Lowery, GM vice president of environment and energy. "We appreciate VeraSun and Sheetz for joining our efforts to make this great fuel alternative available to more people in Pittsburgh." As part of GM's effort to promote flexible fuel usage the company made 100 flex-fuel vehicles available to Major League Baseball for use here during the All-Star game.

Governor Signs Amended Mechanics Lien Law

On June 29, the Governor signed House Bill 1637 which amended the Mechanics Lien Law. Under the amended law for non-residential construction, this bill provides that a waiver by a contractor of lien rights is against public policy, unlawful and void unless given in consideration for payment of work, services, materials or equipment provided, and only to the extent such payment is actually received. This rule also applies to a subcontractor and, in addition, a waiver will be recognized as valid where the contractor has posted a bond which guarantees payment for labor and materials provided by the subcontractor.

With regard to residential buildings or developments, the bill allows a contractor or a subcontractor to waive his right to file a claim against a property owner for services in which the total contract price between the two parties is less than $1 million. It also permits a subcontractor to waive this right, regardless of the contract price, if the contractor has posted a bond guaranteeing payment for labor and materials provided by subcontractors.



House Bill 1637 passed the House 191-0 and the Senate, with amendments, 50-0. The House concurred on the Senate's amendments 196-0. House Bill 1637 becomes effective on January 1, 2007. The Master Builders Association is prepared to assist any union-affiliated contractor in dealing with the amended Mechanics Lien law.

Business Relocation Services Upgrade Pittsburgh

At a panel discussion hosted by the Allegheny Conference on Community Development several national site-selection and relocation specialists gave high marks to the Pittsburgh Regional Alliance and numerous community development groups for raising the profile of the region. The panelists noted an increased awareness of the region compared to earlier decades.

The increased availability of "shovel-ready" sites and the diversity of the economy were cited as noticeable improvements which are attractive to businesses seeking to relocate. Overcoming the Census data and perception of population loss was noted as the biggest obstacle to attracting new businesses.

Two More Residential Projects Announced for East End

The continued growth and redevelopment of the city neighborhoods between Oakland and East Liberty has attracted two more large-scale residential mixed-use projects.

Former Pittsburgher Guy Totino, of Polaris Real Estate Equities, has announced plans for The Chelsea, a 17-story residential and commercial building proposed for the corner of Craig Street and Centre Avenue. Totino, who plans to relocate back to Pittsburgh from his base in Cleveland, believes the Oakland rental market presents opportunity for a new product. The $50-60 million project proposes 156 dwelling units along with first floor retail/commercial space and an underground garage. Ratio Architects from Indianapolis has been commissioned to design the project

Already a development force in the East End, Walnut Capital is in the early stages of planning Bakery Square at Eastside, a combination of new construction and adaptive re-use of the landmark former Nabisco Plant on Penn Avenue across from Mellon Park. The $50 million project is to be comprised of 132,200 square feet of retail space, 153,400 square feet of office space, 38 residential units, a 120-room hotel and a 992-car parking garage.

Downtown High-Rises Pass 50% Mark

Downtown's two newest high-rise residential projects have already moved past the 50% mark in sales or leasing.

Encore on Seventh, a 151-unit apartment building, is owned by Lincoln Properties, and has been available for rent only since early this year. Lincoln recently announced that 80 of the units have been leased. Encore, which sits on Fort Duquesne Boulevard at Seventh Street, is an 18-story building built by Mascaro Construction and designed by Astorino.

151 First Side, located between Fort Pitt Boulevard and First Avenue near Stanwix Street, is an 18-story, 82-unit condo just getting under construction. The project is being developed by Ralph Falbo Inc. and Zambrano Properties. As of July 1 the presale of units has reached 42 units even though structural steel is only now visible at ground level. The project is being built by Zambrano Corp. and was designed by Indovina Associates.

REGIONAL MARKET UPDATE

Coming out of the third quarter of 2005 the construction economy in Western Pennsylvania was mired in a pattern of stagnation that dated back to 2002. For three years following the completion of the "Plan B" projects contracting had declined and then held at lower than usual levels, creating a competitive environment that was aggressive and kept profit margins low. By Labor Day, housing was down 15% from the previous year, and non-residential construction was lagging forecasts by more than that.

The fourth quarter of 2005 ended with housing activity picking up smartly, making up most of the decline from the first three quarters. Non-residential contracting was even more active with more than $750 million contracted, an amount that equaled almost 50% of the first three quarters, in what is typically the slowest time of the year.

Expectations coming into 2006 were uncertain. The year-end 2005 activity carried over into the first half of 2006 in the non-residential market, with $1.61 billion dollars contracted. Contracting during the first quarter of the year has historically represented around 17% of the total for the full year; therefore, money tends to be very tight by early April. Having two active quarters in a row at the turnover of a calendar year has dramatically improved cash flow; this has had a positive effect on subcontracting and supplier credit.

The story of 2006 so far has been big projects. Since the mid-1990's there have only been a handful of projects that cost $100 million, and a number of years there were no building projects that were as large as $30 million. Currently there are 15 projects worth $20 million or more, ten that cost $30 million, five that are $50 million or more, and three non-residential projects that are $100 million in construction cost, Children's Hospital Clinical Services Building, Children's Research Building and the modernization of the Beaver Valley Nuclear Plant in Shippingport.

Going into the second half of the year it is expected that three or four more $100 million plus projects will get underway, 3 PNC Plaza, VA Pittsburgh Medical Center CARES Replacement Hospital, the Allegheny Energy Hatfield Plant Scrubber Modernization, and the North Shore Connector. In addition to these projects another $9 billion worth of projects have been announced in the design stages, including another 17 projects over $100 million. Many of these are centered on the new economic realities of Pittsburgh, with healthcare projects like the Hillman Cancer Center II, Pitt's Bio-Medical Science Tower 4, Carnegie Mellon's Gates Center, and the Cultural Trust's RiverParc development.

One cautionary note concerning the coincidence of these large projects is that the impact on regional supply and demand of building materials will increase the likelihood of higher prices. And it's likely that the volume of many building products used in these large projects will have to be served by more than one competitive supplier, which will increase the difficulty of managing logistics and quality control.

A positive effect of this increased contracting level is that contractor's backlogs are higher than usual. A recent survey of local general contractors found that backlogs as of July 1, 2006 compared to July 1, 2005 were more than 75% higher. High backlogs allow contractors to plan more efficiently and to put on resources to react to more work. Owners and architects will need to recognize this, however, since the current backlog levels can mean contractors will have diminished capacity to respond to additional

Current Projects Over $50 Million

Project	City	County	Estimated Cost
Beaver Valley Nuclear Plant Modernization	Shippingport	Beaver	$200,000,000
Children's Hospital Clinical Services Building	Pittsburgh	Allegheny	$120,000,000
Children's Hospital Research Building	Pittsburgh	Allegheny	$100,000,000
Renovations to Baldwin High School	Baldwin	Allegheny	$52,488,798
Penn-Jefferson-Middlesex Sewage Plant Expansion	Various	Butler	$51,761,860

work, and will make more realistic assessments of the competitive environment and the risks associated with projects. Owners wishing to get the best response should allow plenty of lead time for pricing projects, and expect that requests for value-engineering may not yield significant savings.

The residential market in Southwestern PA has been declining slightly each of the past two years since a peak of about 3,300 single-family units in 2003. While housing starts typically drop off 8-10% during the first year after a cycle turns, the decline here has been only 2-3% each in 2004 and 2005. Three straight years of declining activity is unusual in a building cycle but because of the gentle downtrend in 2004-2005, and the general slowdown in housing demand, the volume is off 1.5% in the first six months of 2006.

Housing Starts Jan - June 2006	SFD	SFA	TOTAL
Total Pittsburgh MSA 2005:2	1,402	639	2,041
Total Pittsburgh MSA 2006:2	1,382	1,025	2,407
% Change	1.4%	60.4%	17.9%

For the first half of 2006 there have been 1,389 single-family detached (SFD) units permitted in the six counties which make up the traditional Pittsburgh MSA (Allegheny, Beaver, Butler, Fayette, Washington and Westmoreland). That compares to 1,402 units started in 2005. In multi-family and single-family attached housing (SFA) the action is hotter, with 1,025 units started versus 639 in 2005.

Expect to see single-family construction continue to be flat throughout the next year, and also for the national upward trend in multi-family housing to be felt in Western PA also. The increasing interest rates work to delay first-time buyers, and also discourage homeowners with low-interest mortgages from buying up. Another positive influence in multi-family development is the increased demand for Downtown housing. It's forecasted that there will be enough housing in Downtown by 2010 for 8,500 people (a 31% increase), which will not meet the demand.

It will probably surprise many people to discover that the municipality issuing the most permits for new housing construction over the past decade is the City of Pittsburgh. That's one of the misconceptions about the region that is being changed. Another is the perception of "brain drain." The newer technology businesses that have been established are reliant upon the talent graduating from the region's universities, and companies like Google would not have invested in hundreds of jobs here unless they were comfortable that the area offers the kind of lifestyle amenities that are attractive to young talent. Google isn't an isolated case either. According to a study by Pittsburgh Future, higher-paying jobs in the sciences and healthcare are being created here at a pace that's nearly double the national rate. That reality may explain how all those higher-end restaurants and retailers are catching on in Pittsburgh.

For the next year or so the construction and development landscape will be marked by large non-residential projects, continued increased demand for city living and lifestyle amenity projects. Manufacturing and energy construction will be strong, as will multi-family housing and healthcare construction. Higher interest rates will continue to make public construction more difficult to deliver, even with favorable demographics.

Along with the increasingly strong non-residential market will come increasing uncertainty that could raise costs high enough to derail or defer projects. This region will not be immune to the material inflation that is occurring worldwide, and the volatility which will accompany the higher pricing will challenge owners to watch the markets more closely.

NATIONAL MARKET DATA

After several years of strong growth in housing construction nationwide there is mounting evidence that the party is over. During the week of July 17th there were three separate announcements that indicated that a housing decline, perhaps a steep one, was fully underway.

The Department of Commerce announced that seasonally-adjusted housing starts were down 14% from mid-year 2005, and building permits were down 15% from the first six months of 2005. The National Association of Homebuilders survey of builders showed a 14-year low for the index of builder's sentiment. Indexes for sales expectation and prospect traffic were also off about 10% from the end of 2005. Finally, the American Institute of Architects announced that billings at architectural firms were down for the second consecutive month for the first time since November 2003, owing to the decrease in residential commissions. It's expected that total housing starts for 2006 will fall below 1.8 million units for the first time since 2002.

Overbuilding in hot regions and the continued rise in interest rates have combined to finally take the steam out of the housing "bubble," and builders are taking steps to reduce inventories of unsold houses throughout the country. Adding further strength to this evidence is the relative strength of multi-family housing, an indication that the cost of borrowing and economic uncertainty are stronger incentives to renting right now.

The magnitude of the decline has a bright side, however, as it suggests that builders are adjusting quickly to the change in demand. While the market value of publicly-traded builders has been pummeled there is little evidence that these high-production builders are denying the decline, making the pain of the downturn less severe and likely more short-lived.

On the non-residential side of the industry demand remains strong enough that contracting nationally was 7% ahead of contracting in 2005. Within the overall non-residential category several sub-sectors are experiencing double-digit growth. Construction of new hotel/motels is up over 50% from last year, and manufacturing and communications facilities, both laggards for years, are up over 20%, as is hospital construction. Multi-retail or "big box" centers remained strong with greater than 15% growth in construction and warehousing construction grew by about 10%.

One sector that remains flat is offices, although vacancy rates have continued to fall, remaining below 15% in suburban offices, and below 12.5% nationally in central business districts. Continued net absorption is expected throughout this year, which should stimulate demand for more square footage of offices in 2007.

While overbuilding has created a slowdown in several markets there are boom markets still going strong. In Las Vegas construction of all non-residential types is in high demand. For Clark County, which surrounds Vegas, more than $29 billion in construction is expected to be put in place by 2010. Metropolitan Washington DC has experienced some moderation in the pace of its growth, but non-residential construction is still growing at double-digit rates, with a growing pipeline of projects planned. Other cities with higher-than-normal construction activity include New York, Dallas, and Los Angeles.

Despite the drop-off in housing, construction employment is still about 3.5% ahead of 2005. According to the Bureau of Labor Statistics average hourly wages in construction increased by 14 cents to $19.81 per hour in May. This represents a 2.3% increase in wages compared to May 2005. The high wage levels, coupled with continuing increases in material costs will present ongoing challenges to developers as they attempt to meet new space demands while maintaining budgets.

WHAT'S IT COST?

The reason that construction is such a cyclical, almost rhythmic, business is that development capital is always chasing demand. Since demand almost always turns away before all the companies with the capital notice, overbuilding happens and the market slows down to adjust. Because demand is often driven by how the consumer, or business owner, feels about the economic future, the building cycle can vary by a year or two in its movement from region-to-region.

On occasion, however, there are factors influencing construction universally beyond the demand for square footage or dwelling space. When interest rates climb towards 8% and higher, for example, the need for construction projects will be deferred until money becomes cheaper. Another factor which can dampen demand is extraordinary inflation of building material costs. During the past few years the cost of some of the most basic construction materials have sky-rocketed, and there is enough volatility and shortage of supply currently that runaway pricing may begin to derail what is a very strong non-residential construction market.

Virtually all of the critical building materials experiencing rapidly increasing costs can trace the run-up to one of two factors, the high cost of energy or high global demand. Looking ahead to the most volatile time of the year for pricing these two factors will bear watching almost daily.

While there has been a heightened awareness and action taken for decreasing energy consumption, the positive effects have merely slowed the rate of the growth of demand for oil. Adding to the upward demand pressure is the unprecedented political uncertainty in virtually all the major oil-producing regions. An oil price that hovers around $75 barrel for crude will continue to have negative effects on the costs of asphalt, roofing, plastics, transportation and the energy needed to manufacture.

Both locally and nationally the non-residential building cycle will continue to swing higher for the next 12-18 months, creating even higher demand for materials which are in short supply. The more dangerous factor will be the effect of demand from booming foreign markets like China and India. These nations have manufacturing economies which struggle to keep up with their domestic demand. Should either China or India begin to aggressively import building materials as they did in 2003-2004, manufacturers here will be able to sell more profitably abroad and supplies in the U. S. will tighten further.

Through the first six months of 2006 inflation of construction materials has outpaced overall inflation. The costs of building materials have grown 7.8% compared to the 4.2% national inflation rate. While some basic materials will be experiencing deflation due to decreased housing demand (lumber and drywall are two examples), prices of copper are up 81%, asphalt is up 71%, and steel is again moving higher, up 12% this year.

There are some inevitable results of this inflation for local owners and designers. Where there is flexibility of structural design

Percentage Changes in Costs

Percentage Change in Costs	to June 2006 from— 1 mo. ago	3 mo. ago	3 yr. ago
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	0.2	1.6	4.3
Producer price index (PPI) finished goods	0.3	1.7	4.9
Materials and components for construction	0.2	1.9	7.7
Costs for Inputs by Construction Types			
Nonresidential buildings	0.5	3.0	8.3
Highway and street construction	1.0	6.0	16.2
Multi-unit residential	0.3	2.5	8.7
Single-unit residential	0.1	1.8	7.4
Costs for Specific Construction Inputs			
#2 diesel fuel	3.9	21.0	33.0
Asphalt	12.8	35.1	71.4
Ready-mixed concrete	0.3	2.0	13.0
Plastic construction products	-0.1	-1.1	19.2
Gypsum products	-0.6	3.7	23.3
Lumber and plywood	-4.2	-3.8	-5.4
Steel mill products	4.1	8.1	11.5
Copper and brass mill shapes	-0.1	38.4	81.5
Aluminum mill shapes	2.4	7.4	17.1
Construction machinery and equipment	0.1	0.0	3.9
Costs for Basic Inputs			
Crude petroleum (domestic production)	-3.7	10.2	25.7
Industrial natural gas	-6.7	-12.2	3.0
Plastic resins and materials	1.3	-2.0	6.8
Construction sand/gravel/crushed stone	-0.1	1.1	8.0
Cement	-0.1	1.8	14.4
Source: Bureau of Labor Statisticsbg			

and finish choices, buildings can be designed using more price-stable materials. However, where the size or end-use precludes the use of wood framing, for example, or in hotels, where increased plumbing and electrical distribution will be impacted by copper escalation, budgets will simply have to reflect the higher prices. It's possible that in some of these kinds of cases the project's financial feasibility will diminish to the point of deferring or abandoning construction.

One specific material issue that is impacting both budgets and schedules is asphalt paving. The record high cost of crude oil has, of course, ultimately affected the cost of the refined products for road oil and asphalt. In addition, the new Federal requirement for ultra low sulfur diesel fuel has pinched the refining capacity normally used for paving materials significantly. Many municipalities who had not already contracted for paving programs by April or May will find that materials to complete programs in the Fall will not be available at any price. Likewise, developers of building projects which cannot operate without paved parking lots may also find that completing those projects at the end of the paving year is not possible, regardless of budget.

Avoiding the adverse effects of material inflation will be difficult but owners and architects must stay well-informed about specific costs, and be prepared to take extraordinary measures in response. Beyond design flexibility, steps should be taken to expedite decision processes, entitlement and municipal approvals. Bidding should allow for alternative saving solutions and compressed review and contract award cycles.

Owners may also want to consider pre-purchasing volatile or critical components, assuming they can handle offsite storage and insurance. Finally, care should be taken in writing contracts to specify which parties will assume the risk of price escalation, and all parties must recognize that the cost associated with that risk must be shared in some manner.

Whether we are experiencing a paradigm shift in building costs similar to the mid-1970's, or just riding out a short-term energy wave, the next couple of years will be times of volatile and rising costs. Projects whose ownership and design/construction teams recognize and compensate for the risk of escalating costs stand the best chance of developing smoothly toward an on-time, on-budget opening.

Pittsburgh Transf

Feature Story

For a century and a half, Pittsburgh was a dominant economic force in America and the Western Pennsylvania region benefited from it. The Steel City built this land from coast to coast, from New York's Empire State Building to San Francisco's Golden Gate Bridge. When "Pittsburgh" was mentioned during the majority of the twentieth century, people thought steel – the city and its number one product were synonymous. Pittsburgh could arguably be considered the capital of our nation's industrial economy.

But then the mills shut down and the rust set in. Since the end of the heyday of big steel mills, over 20-years ago, Pittsburgh and the Western Pennsylvania region have been searching for an economic identity. Much time and many dollars were spent by government and quasi-government agencies to find a new economic base, and to "re-brand" the region.

Like the success stories of other cities all around the nation, however, the turnaround came from the response of Western PA's private business people to the changing demands of the market. And, also like the rest of the nation, the key to the turnaround was in the hands of the generation born after World War II.

Baby Boomers, as a generation, have demanded more services, created more jobs, made more income and spent more money than any generation which has ever inhabited the United States. As the "Boomers" came into adulthood in the 1970's and 1980's, they created a larger market for goods and services than had been available in the past, which meant that a region in search of a new economy could find ready business consumers if the region's businesses could listen to these new consumers.

As manufacturing became less important to Western PA, information became the key. The good news was that the manufacturing sector always required lots of support from "information" businesses in the past. Pittsburgh was already a hub for lawyers, accountants and engineers; and, the region was home to great universities poised to solve the problems of industry. Instead of churning out metallurgists, chemists and industrial engineers, the local universities began educating students for careers in hardware and software design, bio-chemistry and financial services. Entrepreneurs nimbly responded to America's new demands and information-based ventures grew up throughout Western PA. Unlike the industrial revolution, however, these ventures didn't require a

forming Its Image

new mill, so seeing the new economy wasn't quite so easy. In construction and real estate, though, one could see something was going on as early as the days when tens of thousands of jobs were being lost in the mills. Between 1981 and 1983 the buildings we now know as One Oxford Centre, One Mellon, and PPG Place were being erected. Within five years three more high-rises were built. Anyone living or visiting Pittsburgh and the surrounding counties knew that everything was different here by the time the next decade began.

The Region's Residential Renaissance

To understand our region's future, it's important to understand our past. The heart of the Western Pennsylvania region was the 10th most populated city in the country in 1940, but now Pittsburgh's population can be considered stagnant at best. It ranks as the 56th largest city in the United States according to the 2000 census. A decreasing population is almost an annual occurrence when the U.S. Census Bureau releases their figures. The most recent report revealed that Pittsburgh shed one percent of its population as of July 1, 2004. The population exodus from the city to the outskirt areas has direct negative ramifications on the city of Pittsburgh, which are felt throughout the region.

In late 2003, Pittsburgh's credit ratings were significantly downgraded, resulting in Pittsburgh to be the nation's only major city to hold "junk bond" ratings. In response, the city filed for and received distressed status under the Municipalities Financial Recovery Act, Act 47 of 1987. The Act 47 tag led the state to finance a recovery team to craft a plan to deliver the city out of economic distress. The team created a balanced approach to regain a stable budget environment. Suggestions from the team centered around the city running a more efficient government; for example: trimming the Mayor Office's budget, Fire and Police department cuts, and a decrease in recreation centers spending. As the plan states, it will not ensure long-term fiscal constancy. In order for that to occur, Pittsburgh's agenda will need to focus on renewal.

"The missing piece of the equation to Pittsburgh transitioning economically out of the post-heavy manufacturing is the residential market downtown," said Allegheny County Chief Executive Dan Onorato. "If Allegheny County is going to experience major economic development in the city [of Pittsburgh], population will have to increase to attract new commerce to the area. Pittsburgh has attempted the 'business-first' approach, which more often than not has proven to be unsuccessful."

Over the last 15 years the city has had its share of experiments with numerous business venture plans to revitalize downtown, of which the Fifth-Forbes corridor garnered most of the media attention. Most of the previous plans were intended to attract businesses, in hopes that a stronger commerce could be the answer – the results were nothing to boast about. None of the plans implemented focused on the central point Onorato makes in the previous paragraph: economic development follows residential development.

"Pittsburgh is well on its way to creating one of our country's happening cities...

Since the mid-1990's the suburbs surrounding Pittsburgh have experienced steady, sometimes fast-paced, population growth. During the same time period that the understaffed Census Bureau estimates that the region is declining, over 40,000 new housing units were built in the seven-county area. And the price of those new houses has nearly doubled since 1995. What's driving that growth is the fact this region is growing jobs in the sciences and healthcare at an almost 13% pace, nearly double that of the national rate. These are jobs that pay 50% more than the region's average salary.

In the wake of the growth have come all varieties of retail and lifestyle amenity development. Many of the local economists and government experts expressed doubt about the success of developments like The Mall at Robinson, or The Waterworks, or the revitalized Galleria, but that's because our region had never put the free-spending Boomers to the test before. The crown jewel of this new kind of development is the South Side Works, which has attracted the kind of tenants that were once believed to only exist in somebody else's town.

Now finally, the City of Pittsburgh has found what it hopes will improve its economy – a condominium building craze to revitalize downtown, attracting residents and in turn, businesses to follow. Other cities nationwide have attempted to rejuvenate their downtowns by this method, as documented by the Brookings Institution:

"Over the past few decades, public and private officials have tried to re-invent their downtowns with a variety of tactics. One of the most popular – and arguably most successful – strategies of recent years has been downtown residential development... …creating a vibrant '24-hour' downtown has become the mantra for injecting life into struggling main streets and business districts."

Pittsburgh's current *unofficial* downtown redevelopment includes 11 major residential projects, which are being spearheaded by a new group of urban investors and the well-established businesses of this area. The projects consist of constructing high-end residential projects as the main tenet of new structures, which also feature office space and retail. Following suit with the national downtown residential trend, the posh housing units hope to lure young professionals, mostly single or married without children, to the city. Yet the luxurious condos alone cannot attract young professionals – a 24-hour vibrant lifestyle must have a presence.

"Pittsburgh is well on its way to creating one of our country's happening cities," said Washington & Jefferson College President Tori Haring-Smith. "In fact Pittsburgh might even be considered a happening city right now. New students relocating to the area comment how there's always something to do in Pittsburgh, from the symphony to plays to three professional [sports] teams. Pittsburgh is a lively city."

image was strengthened by the gushing of the press covering the 2006 Major League Baseball All Star game, and next summer the U.S. Open Golf tournament, and the national spotlight, returns to Oakmont. Times are changing and, while it has taken a few decades, the image of rusted steel mills is no longer the first, and sometimes only, thought when Pittsburgh is mentioned.

"This is an exciting time for residents in Western Pennsylvania," said P.J. Dick Incorporated Chief Executive Officer Cliff Rowe, Jr. "The moniker of heavy-industrial region is fading and our area is finally being recognized as an environmentally-conscious place to live and work. The images of old steel mills are being replaced by green buildings, attracting a new type of company and individual that does not rely solely on a blue-collar workforce."

Image Disappears Like Smog in the Air

The biggest problem the region has had to overcome in the past 20 years, however, has been its self-image. There is an enthusiasm in our key leaders today, but a number of our elected officials and civic leaders have chosen to take a "glass half-empty" view of things during the past. Local media seemed perpetually focused on the negatives which do exist here, like any city. Anyone who has lived here since the 1970's can see the incredible positive change and the beauty of our region today, and for the past year or so our media seems to have finally caught on to that reality. The *image* of Western Pennsylvania is now almost as good as the region itself.

If the residential renaissance is going to succeed, Pittsburgh must continue to change its perception as a steel-producing, smoky city. The city has been fortunate to receive recent positive national attention that combats the deep-rooted negative images of Pittsburgh. During the summer of 2005, Pittsburgh hosted the annual CITGO Bassmaster Classic. This event was broadcast nationally and depicted Pittsburgh as an environmentally attractive city. On the eve of the 2005 Thanksgiving, the city was the featured backdrop for a highly-rated NBC concert broadcast. This concert featured numerous picturesque shots of Pittsburgh's evening skyline, an intangible attribute that other cities cannot offer. Both the fishing contest and the concert resulted in positive public relations for Pittsburgh.

But the biggest public relations splash came after the Pittsburgh Steelers won the National Football League's Super Bowl XL on February 5, 2006. The Steelers won the contest 21-10 and the city celebrated by honoring the team with a victory parade, which attracted as many as 250,000 people to the city's downtown streets. Pittsburgh was cast nationally as an exuberant and energetic city. That

The Old Welcoming in the New

Creating a happening scene to entice young professionals to the area can greatly assist Pittsburgh, yet this process does not happen overnight nor can it happen in a city without established companies buying into the renewal plan. Pittsburgh has been fortunate to have reliable businesses call this area home: H.J. Heinz, Inc.; PNC Financial Services Group, Inc.; Mellon Financial Corp.; Alcoa – not to mention the numerous and respectable educational and medical institutions. An example that encapsulates an established company going along with the downtown renewal plan can be illustrated with PNC's plans to construct Three PNC Plaza. This 25-30 story skyscraper will feature an upscale hotel, condominiums and office space. PNC is investing in the future, hoping the area will experience an improved economy by rejuvenating its downtown. PNC's economist, Stuart Hoffman, believes his company may see returns on the investment soon: "Pittsburgh is on the verge of a multiyear economic expansion that will produce the area's best job growth since the late 1990s."

The favorable forecast is good news and, coinciding with the downtown revival, it should draw interest from businesses outside the region. Nationally, the Associated General Contractors of America Chief Economist Ken Simonson reports that "the economy remains healthy. That will pay off for the nonresidential construction industry." The larger, higher-priced cities, like New York, Chicago and Miami, have led buyers into smaller city markets, like Pittsburgh. The construction industry looks to benefit in the immediate future as the economy picks up and

If you're looking for a way to learn about what is going on in the region without dealing with the doom and gloom of the mainstream media or the political hoopla you can try two websites launched by a couple of people already involved in Pittsburgh's development scene, Eve Picker and Harold Miller.

Harold Miller is President of Future Strategies, LLC, a consulting firm specializing in analysis, strategy, and communications, and formerly President of the Allegheny Conference. PittsburghFuture.com is a community service initiative of Pittsburgh's Future, LLC, with the goal of focusing attention and action on the priorities that will have maximum impact on the region's future economy and quality of life.

"I created Pittsburgh's Future because I thought the region needed balanced information about strengths and weaknesses, opportunities and threats, rather than either the whitewash hype or the doom and gloom that seems to be the norm around here," said Miller. Speaking of the region's business community he says, "I think there are a lot of kindred spirits, we just haven't figured out an effective way of identifying and mobilizing them."

The information on the website is as comprehensive and wide-reaching as you could want, with extensive research available, and links to additional research and key political leaders. Pittsburgh's Future isn't all sunshine. The region's weaknesses aren't covered up, nor are the state government and business climate sugar-coated; however, the site offers solutions to be considered and facts to counter the spin that can mask the reality of problem areas that can be fixed.

Pop City is a weekly e-newsletter and Web site showcasing the positive and sustained transformation of the Pittsburgh region. Founded by no wall productions' Eve Picker, Pop City highlights new development and news about Pittsburgh in other markets. One of the more valuable features of the site is its "Neighborhoods" section, which offers information on where to shop, eat and be entertained throughout town. More importantly, Pop City profiles the organizations active in each city neighborhood and provides a forum for identifying great places to buy or rent in those areas.

no wall productions is a ground-breaking developer with the completion of over 130 loft style residential units in 13 buildings, and approximately 70,000 square feet of renovated commercial and retail space in the past decade. These projects have set the stage for future residential development in Downtown Pittsburgh

Ms. Picker sees Pop City as an extension of her commitment to "all things urban". Pop City media is another extension of her desire to help transform Pittsburgh. "What's not good about Pittsburgh? There is so much to write about here that Pop City seemed like a slam dunk to me - a way to get the word out about all the extraordinary things happening here"

new structures for the residential renaissance are built. Locally, the nonresidential construction contracts should approach, and may exceed, $3 billion for 2006. According to Pennsylvania construction forecaster Jeff Burd of Tall Timber Group, the 2006 outlook will receive a boost from large-scale projects and this trend will continue into the future:

"Economic conditions in Western Pennsylvania are continuing to improve, with evidence of long-term change growing stronger. Interest rates should remain this year at what are historically favorable levels. If materials costs remain more stable than recent years, the region's construction market should be responsive in 2006 to much higher levels of demand for many building types."

But before rolling out the welcoming mat for more businesses to the region, Southwestern Pennsylvania must address some issues. A top issue of concern is the region's competitiveness through a simpler, more cost-effective government. This region has the undesirable ranking of number one amongst the nation's metropolitan areas for most governments per residents. And the area's top ranking (17.7 governments per 100,000 residents) is almost triple the national average. This inflated number is due in large part to the abundance of counties, cities, boroughs and townships existing in the area – not to mention the many school districts, authorities, utility districts and other forms of governing bodies. The governing bodies compete against each other instead of focusing on the global scene, let alone national level.

A way to combat the large quantity of governments in the area is to consolidate governments. The Allegheny Conference on Community Development is promoting a Pittsburgh-Allegheny County merger to make our region more competitive. The conference's chairman, James Rohr, expressed the need for a merger to the conference: "we have the most complicated and overburdened government structure in the United States."

Undecided owners are weighing their options with such factors as Pennsylvania's corporate tax burden, overhead costs, health-care expenses and a hostile legal environment. Even with reports of businesses relocating out of the area, or deciding not to move to the area to enjoy lower taxes and other business advantages, Southwestern Pennsylvania has a reason to be optimistic about the future. In less than two years since receiving the Act 47 tag, Pittsburgh closed out of calendar year 2005 posting a year-end surplus of $15 million. While the city might not be 'on their feet' yet economically, ending the year with a surplus is a good enough sign to discuss dropping the Act 47 label in hopes of renewing itself. The city has even renewed its top office with the election of Pittsburgh Mayor Bob O'Connor. The new mayor has made it a point to focus on renewing the city and region in his inaugural address:

"The financial situation is not fixed. This administration is inheriting a huge structural deficit that hasn't been addressed or solved yet by the state, our overseers. We all have a challenge to work together. We must continue to create more efficiency in government…today (January 3, 2006) we begin anew. Our agenda is dedicated to renewing Pittsburgh."

Conclusion

Looking ahead, the Western Pennsylvania region will celebrate the 250th anniversary of Pittsburgh in 2008. During the storied history of Pittsburgh, the city has drastically changed since its inception as an Indian trading post, the last stop leading to the western frontier. The post sat on three rivers, providing travelers with enough supplies to make it on their journey. Today, Pittsburgh still proudly sits on the three rivers, but now the city hopes the one-time favorite stop for travelers can be a place to call home. Pittsburgh has been in the midst of a massive economic and demographic change for two decades, and now it seems we are ready to awaken to the change and tell the world about it.

Pittsburgh was and still is the commerce hub for Southwest Pennsylvania. The transition from a manufacturing economy to an information economy was traumatic (as all change is), but no more so than the transition from beaver pelt trading to farming to steel mills. It takes resilient people to grow through such changes, the kind of people who are still being raised in Western Pennsylvania.

Project Profile

South Side Works Retail Development

One of the articles of faith in the mid-1990's was that Pittsburgh was "under-retailed" compared to the rest of the nation. The reverberation from the traumatic loss of manufacturers in Western PA in the 1980's made retailers and developers gun-shy about building or leasing here. Even as confidence in the region grew other markets always seemed hotter, at least enough so that large-scale retail development in Western PA hadn't kept up with housing construction and the suburban growth of the late 80's and early 90's.

Between 1995 and 2000, however, big retail projects came to fruition in all parts of the area. At the Pointe in North Fayette and the Mall at Robinson millions of square feet of big box and mall development were put in place. The Waterfront put a large mixed-use project successfully on the site of a storied U. S. Steel mill in Homestead. Successful retail centers were built in Cranberry, along Route 30 in Westmoreland and Route 19 between Peters and Washington. While there were isolated cases of somewhat unique tenants, these projects featured and attracted mostly the kinds of retail tenants who had locations already in the region.

Prior to this suburban development, Damian Soffer had secured the right to redevelop the LTV site on the South Side, east of the Birmingham Bridge. Soffer's vision for what that redevelopment would hold was very different from what was being built in the suburbs. South Side Works was going to become a place where people lived and worked (although not necessarily the same people), and shopped and ate, but in an environment that was overtly urban and unlike any other neighborhood in Pittsburgh. Creating

Soffer Organization

such an environment could be accomplished through architecture and urban design, but the critical attraction would be the kinds of tenants who ultimately signed on for shopping and dining.

Soffer Organization

According to Mark Dellana, Vice President, Development, Soffer's original dream was very literally one-of-a-kind tenants. "He truly wanted shops and restaurants that there would be only one of in the world." Since there are precious few truly original stores, even in places like London or New York or Tokyo, the strategy shifted to attracting tenants who were growing and had no other locations in Pennsylvania, or at least Western PA.

"Mr. Soffer did not want to be in competition with the other malls or centers in Pittsburgh, no matter how successful," says Christine

Fulton, Vice President of External Relations for Soffer Organization. "He wasn't interested in chasing tenants who were already here, so that set the bar very high for marketing the development." The competitive advantage of South Side Works was going to be attracting the kind of tenants who were themselves magnets for other, one-off kind of businesses.

It is no easy task to market a project which aims to eschew a large group of prospects, to brokers who get paid for making deals. "This is where Damian Soffer shines," Fulton said. "He delivered a message, loud and clear, to local brokers and national representatives that South Side Works was not a development but an environment where tenants would want to locate." A model was built of how the 34-acre site would appear when built that visually cemented the image of that lifestyle environment. That model is, for the most part, what South Side Works looks like today.

The site was a brownfield which required environmental remediation, and the design of a town center meant that parking solutions could not include acres of surface parking. These considerations added cost burdens to the pro forma which would have made the project unfeasible compared to a suburban mall. To bridge that gap the Urban Redevelopment Authority contracted for site clean-up, infrastructure and parking garages, relieving the developer of these extraordinary costs. While this kind of public investment in private projects is unpopular in some quarters it is important to remember that the URA's goal was to take a toxic, non-performing site along the Monongahela River and make it contribute to the city's economy.

"The public/private partnership was critical to the success of the project," notes Fulton. "The site simply would have been rejected in favor of a clean suburban site by any developer who had to take on the burden without the URA's help."

When the URA began its work in 1995 the plan was to develop South Side Works like the Penn Centers had been developed decades before. "We expected to build one building, stabilize the occupancy, and then build another," said Dellana. "That's how it worked with Quantum One (which UPMC leased) and Quantum Two. And then we landed this restaurant called the Cheesecake Factory."

The Cheesecake Factory is one of those "magnet" tenants and adding it to the center meant adapting to co-tenancy requirements, which meant that planning for the cinema went into overdrive. Signing

South Side Works Construction Facts

Building	*Size*	*Started*	*Tenant*
Block D1	150,000	Feb. 2002	Hot Metal Grille
Architect	Design 3		
Contractor	P. J. Dick Inc.		
Block B1	138,000	Jan. 2002	Urban Outfitters
Architect	Design 3		
Contractor	Jendoco Construction		
Block B2	150,000	Dec. 2004	REI
Architect	dggp Architecture		
Contractor	P. J. Dick Inc.		
Cheesecake Factory	12,700	Sept. 2003	
Architect	TRM Architects		
Contractor	Shawmut Construction		
Block C1	180,000	Nov. 2003	Joseph Beth Booksellers
Architect	JSA Architects		
Contractor	P. J. Dick Inc.		
Cinema at SSW	105,000	Oct. 2003	
Architect	WTW Architects		
Contractor	Jendoco Construction		

Cheesecake also seemed to give the marketing the critical mass that clinched deals with other first-time Pittsburgh tenants like REI Outfitters, 'Z Gallerie, Joseph Beth Booksellers, McCormick & Schmick, and Sisley.

According to Howard Gordon, Vice President for Business Development, The Cheesecake Factory had been interested in Pittsburgh for some time, "because it's a good restaurant town," but there hadn't been the kind of retail project that fit its needs until South Side Works.

Between 1995 and the third quarter of 2003 only about 100,000 square feet of retail had been built. Within the next two years another nearly 250,000 square feet of retail and entertainment would get underway and opened, as well as a similar amount of office and condos. Adding to the headaches of building 500,000 square feet in two years was the fact that the buildings would be designed differently from one to another. Plus, says Mark Dellana, "we had time in those first few years to travel to other like developments and pick up a lot of great ideas, none of which made design and construction easier."

Part of the way the Soffer Organization ensured the unique character of each building was to commission different architects (see the table above). The differing designs created individual challenges in construction also.

Joe Carozza, Project Manager for P. J. Dick Inc., who built three of the four retail “block” buildings, remembers “building C1 was one structure but the elevation was designed to be nine different buildings, like the old East Carson Street. D1 was a steel structure that shared a foundation with the precast concrete garage that the URA had already under construction, and was built with an exterior wall within a foot of the garage’s exterior wall.”

Block B1 started out as two linked apartment towers before changing into its more “Main Street” appearance, and Block B2 was done design/build, with the space for REI operating as a two-story facility linked to the three-story main building with a different façade. The varieties of elevations, the architectural flexibility to accommodate the needs of key tenants are indications of the process of creating an environment rather than space.

Critics of the South Side Works often deride the use of public funds to aid in the development of a suburban-style retail center, longing instead for more of the kinds of shops that exist further west on Carson Street. But the lifestyle demands of 21st century Americans preclude those kinds of shops from developing on a scale that would satisfy a 34-acre site. Our expectations for selection, comfort and price have made small-shop retailing almost impossible to maintain. South Side Works created an environment which attracted some of the most interesting of today’s retailers.

Perhaps the more important effect of the South Side Works is that the marketing of the project helped raise the awareness of what this region was really like. National companies are reliant upon the kind of demographic information that may no longer be reliably gathered by our government in older industrial cities that have re-forming economies. South Side Works promoted the region as a place where a unique shopping or eating establishment could thrive.

The proof in the pudding is that the tipping point of South Side Works success also proved to be the tipping point of the region’s attraction as a “cool” city for others in the nation to visit. Businesses like Nordstrom’s and Trader Joe’s may have already had Pittsburgh on their radar, but the success of South Side Works helped demonstrate that Southwestern PA would support them as well.

Firm Profile

BURT, HILL

Can an 800-pound gorilla have an identity problem? That's the way Jeff Funovits, Principal in Burt Hill's Pittsburgh office, feels others look at his firm. "It seems that, depending on what part of the industry they serve, people either see us as the 800-pound gorilla or know us as the big architectural firm that isn't doing much work here."

With more than a hundred current jobs in Western PA the firm has plenty going on at home, but the 800-pound gorilla isn't too far off base. Within the past year, the firm's 70th as a practice, Burt Hill grew both its billings and employee count by over 40%. Its work is now spread throughout almost every continent. In fact, Burt Hill was recently ranked the 25th largest architectural-engineering practice in the 2005 "Building Design World Architecture Top 200" survey of the world's largest architecture practices. With offices in seven U.S. cities and Dubai, UAE, Burt Hill has grown to over 650 employees worldwide, but the management of the firm tries very hard to retain the culture that was fostered when the firm was a two-partner practice.

Jeff Funovits

"There's still a partnership culture here. There always seems to have been a pair of partners directing Burt Hill, and the emphasis is still on building partnership relationships between principals and between offices so that we can rely on each other," says Funovits. The commitment is serious enough that when CEO Peter Moriarity laid out the criteria by which the principals and management team's performance would be judged it was clear that if a manager was not contributing to the process of relationship-building his or her evaluation would reflect that negatively.

Peter Moriarity

Founded in 1936 by G. Edwin Howard, Jr., the firm took on the management tone that guides it still today when Ralph Burt and Alva Hill joined the firm in 1952. By 1968 John Kosar and Richard Rittelmann had become partners, Edwin Howard had retired and the firm was renamed Burt Hill and Associates.

During the early to mid-1980's the firm, by then Burt Hill Kosar Rittelmann Associates, expanded from its Western PA roots, opening an office in Washington, DC in 1980, a Philadelphia office in 1986, and merging with Interior Designer Paul Planert Associates in 1987. A decade later came another expansion push with an office in Boston in 1998, a new location in Cleveland in 2001, and a commitment to international work by opening an office in Dubai. An office in State College opened this year.

The many far-flung offices still work together, however, depending on the skills, experience and relationships that can be brought to bear on a project. Jeff Funovits cited as an example a condo project in Philadelphia, which can be seen from the office there, that is being designed in Boston, with civil engineering done in Pittsburgh.

Funovits also told of a master plan commission for the University of Dayton that was a collaboration of four offices. "The master plan and project management is being done in Pittsburgh, but we have such expertise in other places that we're handling the athletic piece in Boston, the student housing and student life aspects are coming from Philadelphia, and the academic planning and programming are being done in Butler. Oh, and the project originated from a relationship Peter Moriarity, who's in Washington, has with the Dayton President from projects done together when the President was at St. Joseph's."

Another aspect of the culture at Burt Hill is management's encouragement of employees to pursue work that the employee feels strongly about. "Everyone still has work they have to do to get the firm's projects done," says Funovits, "but the staff here is expected to prod us in directions they feel passionate about."

Dick Rittelmann brought an abiding interest in energy conservation to Burt Hill when he joined in 1967. That passion led Burt Hill's practice toward energy-efficient design and inclusion in organizations

Dick Rittelmann

like International Building and Construction Solution (IBACOS) before sustainable design had much attention. Today the firm is a member of the U. S. Green Building Council, and boasts more than 40 LEED Accredited Professionals on staff. Burt Hill represents the United States in the International Energy Agency research programs and is among the leaders in performing contracted energy research for the U.S. government.

Haydar Hassan

Another principal, Haydar Hassan, has roots in the Middle East, and became aware of the enormous development efforts going on in the United Arab Emirates in the late 1990's. Hassan was encouraged to pursue projects in the region, and, along with partner John Kosar, led a team of Burt Hill associates in founding the office in Dubai in 2003. Hassan now manages an office of over 200 employees and over $1 billion in projects in design.

During the Fall of 2005 the company underwent the process of "re-branding." In recognition of their partnership transition they decided to change the name back to Burt Hill. Don't be alarmed, both Messrs. Kosar and Rittelmann are still among the quick and though Dick Rittelmann retired in June, John Kosar continues to contribute to the business. "I always admired the way the business had made the transition from partnership to partnership-this is actually the third time-and with my partner retiring (in June) and my stepping down next year, it seemed appropriate," Kosar says. "We were always referred to as Burt Hill anyway."

John Kosar

Kosar joined Burt Hill as an intern in 1957 so next year marks his 50th as an employee and his 40th anniversary as partner. Until then he's "doing the fun things again, running projects, marketing, working with clients." The Burt Hill that Kosar joined had eight or ten employees. "It's time to step away," he said, "but it's rewarding to see what the new management is doing to grow this firm for the next generation."

Legal Perspective

Looking In On The Bilt-Rite Case

On January 19, 2005, The Supreme Court of Pennsylvania, in the case of *Bilt-Rite Contractors, Inc. v. The Architectural Studio*, 866 A.2d 270 (Pa. 2005) reversed a lower court ruling and held that §552 of the Restatement (Second) of Torts applied to architects and other design professionals. The Court found that an architect, compensated to provide information that will be relied upon by others in the course of their business, had sufficient interest in a construction project to have liability for flaws or falsehoods in the construction documents.

As equally important was that the Court found that owners, particularly public owners, relied so thoroughly on architects and design professionals that "given the important reliance placed upon such professional services, there is no reason to exempt such professionals from the tort consequences of a negligent failure to perform those services in a competent fashion." This higher level of reliance was judged by the Court to allow contractors to seek economic damages, as in legal or medical malpractice, even though no contractual relationship existed between contractor and architect, and even if no physical or property damages were incurred.

In the immediate aftermath of the decision the reaction within the construction community was that the landscape had been changed so that contractor v. architect lawsuits would abound, insurance rates for professionals would be prohibitive, and the disruption of the delicate three-way relationship would make publicly-funded construction undesirable to pursue.

For more than a decade, however, public sector design and construction has been viewed as a sector with inherent litigation, claims and counter-claims, and unnecessary hassles. The protracted nature of public construction created sub-niches within K-12 market, state and federal government jobs and attracted relatively limited numbers of architects and contractors. At least a couple of experts believe that the *Bilt-Rite* case has the potential to change those dynamics, even if no one is sure for better or worse.

"Prior to *Bilt-Rite*, if a contractor encountered a problem with a project's plans or specifications and could not amicably resolve that problem, its only recourse was to institute an action against the owner to recoup the costs associated with that problem," notes Edward DeLisle, of Cohen Seglias Pallas Greenhall & Furman. "The owner would then have to bring an action against the architect to recover any monies deemed due to the contractor. Very often, however, the bond between the owner and the design professional, coupled with the professional's protection from direct liability to the contractor, resulted in no action being taken by the owner." DeLisle's point suggests that the *Bilt-Rite* decision offers all parties incentive to find resolutions as they occur, since all parties have potential economic liability.

Michael Yablonski, of Meyer Unkovic & Scott, feels that "self-preservation will have architects looking closely at their contracts with owners and at the contracts between owners and contractors." As an avoidance strategy "design professionals may ask the project owner to indemnify them from contractor claims, and contractors may be asked prospectively to waive claims against the designer or to assume greater responsibility to detect and report errors in a project's plans and specifications." Yablonski notes that the potential consequences will result in more careful examination of contracts, better understanding of how risks are being assigned, and more detailed and accurate recording of job site activities.

> "self-preservation will have architects looking closely at their contracts..."

Scott Cessar, of Eckert Seamans Cherin Mellott, has seen practical implications so far. "For their part, construction professionals –architects, engineers and construction managers – in conjunction with their insurance carriers, have been increasing coverage and, most notably, working to attempt to limit exposure by way of express disclaimers and other contractual language included in the contract documents." Cessar sees that evolving with the case law as "stakeholders in the construction process take steps to meet the changes and protect their interests."

If the fallout of the *Bilt-Rite* case was to make architects, owners and contractors more resolute in solving problems on the job, and more careful about the agreements they sign then maybe *Bilt-Rite* wasn't so calamitous after all. What, then, about the firestorm of litigation between contractors and architects? Well, in legal terms, we're in the top of the first inning.

There have been a number of claims filed by contractors against design professionals, but it's too early to know how many will be judged to have merit, or how many more claims are currently being prepared right now. The answer to the former will likely have a strong impact on the latter.

What can be seen in the eighteen months since the decision is that the Bilt-Rite decision is being used as a platform for expanding the precedent to even broader industry application. Thus far courts have sought to limit the liability of the design professional to negligent misrepresentation, rejecting a contractor's claim of negligent malpractice in Harrisburg. And a trial court in Philadelphia rejected a claim of one subcontractor's misrepresentation to another subcontractor on a project.

A recent decision of Superior Court of Pennsylvania, however, broadened the precedent of *Bilt-Rite* to include a utility company acting under the One-Call program. In *Excavation Technologies v. Columbia Gas Co. of PA*, the utility mistakenly marked two gas lines and failed to mark two others at all causing the excavator to suffer lost time and equipment use to repair and uncover the lines on his own. Relying on *Bilt-Rite*, the Superior Court found that Columbia Gas, acting on behalf of the public authority in the One Call System, is in the business of providing reliable information, even though they were not paid to do so, and could not be protected from claims simply because only economic loss was suffered.

"Interestingly, the *Excavation Technologies* decision highlights the difficulty that courts are facing in the wake of *Bilt-Rite*," says Matt Jameson, of Babst, Calland, Clements & Zomnir. "Perhaps more than any other industry, the construction industry is filled with examples of party's relying upon the representations of other parties. For example, in *Bilt-Rite*, a contractor relied on an architect's plans and specifications. *In Excavation Technologies*, a contractor relied upon representations by a utility. Courts are likely to continue to face an expanding array of situations involving Bilt-Rite claims."

Jameson continued, "Consider the following possibilities: an architect that relies upon information provided by a geotechnical engineer retained by the owner; a subcontractor that relies upon scheduling information provided by the general contractor; a construction manager who relies upon schedule durations provided by a prime contractor. All of these possibilities present scenarios that clearly could lead to Bilt-Rite misrepresentation claims. Certainly the decision in Excavation Technologies makes it more likely that parties will continue to push the Bilt-Rite envelope."

Sucession Planning For The Family-Owned Business

With clients to call, jobs to negotiate, and employees to manage, succession planning is a luxury that the head of a family-owned business can afford to put off – right? Before you let another year or two slip by, consider these disturbing facts:

The average life span of the family business is 24 years. Only 30% survive to the second generation, and only half of those are still family owned and operated by the third generation. One study found that 55% of family business CEO's who planned on retiring within five years had not yet decided on a successor.

These statistics show that the same vision and energy that built your business are needed to ensure that it survives, and thrives, when the time comes to pass it on to the next generation. To help get the process rolling, think about these *Do's and Dont's* of succession planning:

Do take the time to determine your personal desires and goals regarding the transition. Where do you see yourself at the outcome – retired, moving on to another business opportunity…or maybe wishing you had never left? A clear and honest goal will be easier to plan for and achieve. The key to successfully passing on a business is adequate planning, and that planning should take place well before the time comes for passing the mantle on to the younger generation.

Don't do it alone. Succession planning includes financial and tax considerations, legal implications, strategic planning, leadership development, wealth management, retirement planning, and possibly negotiations with key employees. Accounting, investment, and legal advice are a must. Some families are even hiring consultants to interview family members, facilitate communication, and help build consensus.

Do consider all the options. Many succession alternatives are available. While family succession may be your desired choice, it may not always be the most favorable or appropriate one. It is important from the very start of the planning process to look at all of the options before settling on a single one.

When an owner decides that family succession is the road to take, there are several ways to accomplish that objective. Your planning should examine how your business interest will be acquired by the younger generation and how that acquisition will be financed. Transition strategies to consider include:

A corporate recapitalization into two classes of stock can "freeze" the value of the owner's stock, removing future appreciation from the owner's estate while maintaining control of the business. Selling stock on the installment basis effectively freezes the value of the owner's stock at its value at the date of sale. If the owner desires to maintain control, up to 49% of the stock could be sold. However, the buyer must have sufficient funds to make the installment payments. Gifting stock to family members up to the annual gift tax exclusion amount can avoid taxes, with the added benefit that no funds are required for the transfer. If the business has a large cash reserve, a redemption of the majority owner, with the corporation as purchaser, should be considered. Other strategies such as trusts, redemptions financed by life insurance, and buy/sell agreements.

If a succession plan with a family member is not possible or practical, you might consider devising a plan that transfers control to a trusted employee or group of employees. Often, these individuals are in the best position to know the business and learn the skills needed to keep it operating successfully after you stop working.

Don't focus solely on the legal and financial details of the transition. The plan should also focus on how the business will be managed after you are no longer working. Determine if the younger generation has the desire to manage the company, and if so, whether they have the necessary skills and aptitudes to be successful. If more than one family member is able and willing to take a role in management, determine what role each will play. If they are lacking the skills or desire to take over daily management but want to maintain ownership, provisions for acquiring the needed management should be included in the plan.

Do begin training your successors. If the younger generation is to manage the business, it is extremely important that you effectively pass on the business acumen that you have used to build the company. This is especially so with a construction or real estate-related company where so much of the business is based on what you know and whom you know. An orderly transition plan will identify the critical management skills and industry expertise a younger generation manager will need to possess.

It will also look at the business relationships that must be maintained for the business to continue its success.

Then, the plan must assess the desires and abilities of the potential successor manager or managers, list out the skills and experience which the successors already have, and those that still need to be developed. Finally, a determination should be made on whether or not the successors have the raw potential and the motivation to learn these skills, particularly if they will take them out of their comfort zones.

Once the needs have been identified, a detailed action plan and time line should be laid out and agreed upon. Consider which of the skills would be best passed on by you, and which might be better acquired from outside sources. Give the successor managers the opportunity to participate with you in the decision-making process. Gradually bring them into relationships with the contacts who have been key to the company's success, and as they become ready, let them take over those relationships. Then, when the time for the transition comes, the successors will be equipped to step in and take over, and equally important, will have the confidence to do so.

Don't make a plan, and then forget about it. The plan should be periodically revisited and updated to reflect changes in tax law, the industry, the family, and other factors. For instance, Congress has recently been debating upcoming provisions in the estate tax, and any changes made could have a significant impact on succession plans.

In summary, transitioning a family-owned business can be done successfully with the proper planning and preparation. Identify your long-term goals, then discuss and evaluate your options with accounting, legal and other advisors. Once the plan is made, work it, and be part of the thirty percent who effectively transmit their family business to the next generation.

Dick Spence, John Marsh
Hill Barth King

Management Perspective

Transitioning A Family-Owned Business

When Americans think of business, we're conditioned to think in terms of Wall Street, and mergers, big banks and corporate cultures, all the trappings of big

> ...62% of the nation's workforce is employed by a family-run business...

business. The reality, of course, is that the majority of businesses in this country are small, local companies, employing 50 people or less. And the majority of those are family-owned, employing at least one of the founder's extended family.

What does majority mean? 62% of the nation's workforce is employed by a family-run business, including 33.6% of the Standard & Poor's 500 companies in which the family retains at least 18% controlling interest. The numbers grow closer to home, as 80% of Pennsylvanians work for family-owned companies.

If you're the scion of a family business, or better still, if you're biggest customer is a family-run company you should pay attention to these facts: according to University of Pittsburgh's Family Enterprise Center 70% of family businesses don't survive the first generation, only 12% survive the transition to the third generation, and only 3 in 100 make to the fourth generation and beyond.

Western Pennsylvania is one of those areas chock full of family enterprises. Our rich heritage of immigrants dates back 100 years or so, and many of the businesses serving the construction industry are owned by families who trace their time in America to that period of industrialization at the turn of the 19th century. In Western PA dozens of contractors are family-run, a number of architectural and engineering firms are multi-generational, and even the developers have handed real estate holdings down from the founding owners.

The key to becoming part of the 30% that successfully takes a business into the second generation is, as you might expect, planning. Most accounting firms have been dealing with transition issues for so long that they can provide a good road map for planning the most efficient transfer of the company assets and wealth, and the lawyers that advise on construction and real estate issues usually have an associate who can navigate the legal waters of transition planning. Both these kinds of firms, as well as a number of other management consultants can help lay out a plan for transferring the business properly.

The real challenge though comes in transferring the intangibles that make a company unique, because in a family-owned business those are usually tied directly to the personal traits of the founders. "The transfer of values is as important as the transfer of wealth in these generational changes," says Christine Kush of Pitt's Family Enterprise Center. "It's not just work ethic but also the business's identity in the community, its philanthropy, how it views the employees and customers." Again these values are formed by the original ownership's interactions over the years, and passing them on requires advance planning and lots of communication.

Ray Volpatt Sr. and Jr.

Concentrating on his customers' feedback was an important factor for Ray Volpatt Sr., founder of Volpatt Construction, to judge when his son was ready to take the helm. "I had decided in 2001 that I wanted to start transitioning toward retirement. There wasn't a lot of discussion between Raymond and myself about it. I knew he wanted to run things for the long haul, and I just needed to see how the clients were reacting, what the superintendents and subcontractors were saying." In pretty short order Ray said, "I knew from the feedback that I could entrust things to Raymond." How did the transition get formalized? "He came in with a box of business cards and said to throw the old ones away," Raymond Jr. said. The new cards had the title President under his name. "That's kind of how Dad does things," Ray Jr. said, "Of course, I thought he'd waited too long"

Ray Volpatt's career had been influenced by the transitions of two venerable Pittsburgh contracting businesses. He had been one of a handful of Dick Corp. employees to leave in 1979 with Perry Dick when the latter split with his brother Dorsey after Noble Dick stepped aside; and he had founded Volpatt Construction in 1991 shortly after the passing of Perry Dick. While both of these companies experienced rather high profile transitions, Ray Sr. said he was more influenced by observing a subcontractor procrastinate the handing off of his business. The founder was a hard-driving man, Ray said, "who left the son hanging into his 50's. I knew I didn't want that to happen with my son."

One of the other important factors in successful transitioning is to match the roles of the successors to

Chip & Luke Desmone

their skills and passions. Founders often develop skills they wouldn't otherwise in order to survive. Christine Kush says that doesn't always translate to sons or even key members of the succeeding management team. "Those in the succession must find a role they want to take on," says Kush. Even then "the roles need to be clearly defined, and ground rules need to be established for how the conflicts (which will come) are to be resolved." After the plan is implemented, she says, "we encourage the founder to step aside, and we see less problems arise when they break cleanly"

Luke Desmone, founder of Desmone & Associates Architects, has been on both sides of the family business transition and would agree with Christine Kush. "It's difficult for an architect to be a good designer, and manager, and handle client relationships, and become a rainmaker on top of all

> "...I finally called him just to see what was going on!"

that," Luke says. "Finding another person who can handle those roles, who has a good mesh of those traits with yours, is almost impossible."

Luke had worked for his uncle since he was 16 years old. "He was a mentor to me. I got into architecture to follow him." In 1964 Luke was offered a partnership in his uncle's practice. He was happy to join his uncle but "at the time I was working for both Larsen and Ludwig, and IKM, and it was hard to take the pay cut!"

In 1985 when he dissolved another partnership to go it alone again, his son Chip had just finished his undergraduate studies in architecture at Carnegie Mellon. Within a few years, when Chip became registered to practice, Luke offered his son the partnership that had been extended to him 25 years earlier. "I respected Chip's talent and his integrity, and I believed he could complement my strengths and weaknesses." While this wasn't the kind of situation that called for father to step aside, Chip says, "Dad allowed me to make a lot of mistakes early on."

Some twenty years later father and son still share an office, and Luke stills bills a full week's work, but the transition of the "managing partner" has quietly taken place. Luke had an interesting way to measure it. "Fifteen years ago, when I took a vacation Chip and I would talk on the phone every day, reviewing the problems and keeping me in the loop with the clients. This past year I took an 18-day trip to Italy. About a week into the vacation I finally called him just to see what was going on!" Chip says, "it was nice to hear from him but I told him everything was fine, that he should just worry about enjoying his vacation."

Minority Contractor in the Spotlight

LORRAINE Construction, Inc.

Lorraine Construction is a minority owned business specializing in commercial and residential construction. Incorporated in 2002, the owner and employees have over 50 years of experience in General Contracting and Construction Management. Recently, Lorraine added a division within the company specializing in development packaging, financing and program management.

The driving force behind Lorraine is its commitment to its clients and the communities in which they work. This holistic approach to construction and development is the motivation for delivering a quality product on schedule and within budget – quality is Lorraine's number one priority. Customer loyalty is a testament to the quality and service that Lorraine offers.

Owner Marc Little confers with Darryl Gilmore

Past Projects:

• The Stevenson, New York, New York
Pre-construction Services Rapah Edison Charter School, Pittsburgh, Pennsylvania

• YMCA of Pittsburgh, Pittsburgh, Pennsylvania
Self –Preformed
Homewood-Brushton YMCA, Pittsburgh, Pennsylvania

• Enterprise Rent A Car, Pittsburgh, Pennsylvania
Self –Preformed Enterprise Rent A Car Office
West Mifflin, Pennsylvania

• NCA, Pittsburgh, Pennsylvania
Pre-construction Services Early Childcare Center, Pittsburgh, Pennsylvania

• Emory Church, Pittsburgh, Pennsylvania
Coordinated construction management for Senior Assisted Living

Company Profile

Lorraine Construction, Inc.
Marc Little, President/ Owner
Darryl Gilmore, Project Superintendent/ Consultant
3445 Butler Street
Pittsburgh, PA 15201
Phone: 412-535-0779
Fax: 412-535-0444
Email: realtime10@aol.com

Years in Business: 4 Years

Specialty: General Contractor & Interior Buildout

Affiliations: Carpenters Union

Number of Employees: 15

Greatest Challenge as a Minority Company: Bonding

"Business Philosophy: Be Loyal, Honest and Have the Right Attitude"

Trend to Watch

BEST VALUE CONTRACTING

The publicly-owned sector of the construction market typically makes up 50% or more of the non-residential contracting in a given year. In certain segments, like heavy and highway or waste and water, public projects make up almost all the work. Over the past fifteen to twenty years, public owners, which once represented great repeat clients for architects and good customers for contractors, became more consumer-oriented. Design services are shopped hard for fees on many public projects. Public contracting became a cut-throat bidding arena where getting low meant being dogged about pursuing change orders and claims from day one.

Many of today's design and contracting firms who were responsible for the construction of public facilities in the 1960's and 1970's no longer pursue public work. From an owner's perspective building a public project can often be an exhaustive process.

During the 1990's many public entities throughout the country began to try alternative methods of delivering projects in the hope of reducing some of the by-products of the low-bid method. In particular, Federal agencies began to employ a contracting process that allowed for pre-qualification of contractors (and often design/build teams) with the contract awarded to the team or contractor that was judged to offer the best value to the government, not necessarily the lowest price. A number of Pittsburgh design and contracting firms have successfully pursued "best value" jobs for a decade or more.

When Pennsylvania Department of General Services (DGS) Secretary James Creedon joined the department in June 2003 as Deputy Secretary for Public Works, he saw a contracting process that had surprising results. Change orders on DGS projects were averaging 20% of the contract value, claims were higher than other states, and "none of our projects seemed to ever get done," Creedon said. It also seemed to him that the pool of firms doing business with DGS wasn't changing much.

The Governor was also concerned that the same companies could continue to work for the state, even if their record of quality and performance was poor. Since debarment of contractors seemed an extreme and potentially unfair solution, General Services began to search for other ways to attract different firms, and to influence contractors to behave differently on DGS projects.

Creedon felt that the federal best value process offered benefits to the owner that were appealing, but the Commonwealth Procurement Code did not have specific provisions for that kind of delivery method. Section 513 of the Code, however, did provide for the state to contract through competitive sealed proposals "when competitive sealed bidding is either not practicable or advantageous to the Commonwealth."

On April 7, 2005, DGS changed policy for certain construction contracts by issuing a policy determination authorizing the use of Request for Proposals (RFP) for awarding construction contracts to contractors on complex projects or projects with allocations exceeding $5,000,000. Those contracted under that process would be awarded based on the cost (60%), a technical score on competency of the contractor to perform the work (30%), and a disadvantaged business score (10%). A committee formed by DGS would award the contract.

While the federal best value process was the inspiration for this decision, DGS needed to model its process differently. One very big difference was that the state had to abide by the Separations Act of 1913, which requires separate prime contracts. And while DGS felt that the Procurement Code gave them latitude to use best value contracting in lieu of hard bidding, there was no ambiguity about the Separations Act. Secretary Creedon observes that "the Separations Act is not an obstacle to best value. We simply had to design a process for four or five best value competitions instead of one."

The process that was designed was not an easy one to use for contractors, with much paperwork and untimely submissions of subcontractor and minority participation plans. Jim Creedon traveled the state introducing the policy change and applied the feedback he got on the road to modify the process significantly before the first project was even released. After six months of public meetings, feedback and changes, the first projects were put out for RFP.

So far a total of seven projects have been awarded by best value proposal, ranging from a $5.1 million Boiler Plant at Graterford State Correctional Institute to a $33 million Science and Technology Building at East Stroudsburg University. Here in Western PA the only awarded contracts have been for the $9 million dollar Steele Auditorium Renovation at California University.

But even with the many adaptations Pennsylvania's version of best value contracting differs from the federal government's in some significant ways. One important difference is that the federal process is generally a two-step process, with an open field invited to submit technical proposals which vet the potential bidders' experience and performance in similar projects. If a firm is judged to be outside the top three or four technical proposals they cannot successfully compete during the pricing phase.

The DGS process is open and the technical proposal is submitted along with the rest of the proposal. A minor difference but one that means that "you can't avoid competing against firms which wouldn't be qualified under the federal standards until you're already submitting a price," says Mike Mascaro of Mascaro Construction, which has successfully competed for several federal best value contracts.

Another difference that makes the federal process appealing is the number of best value contracts that are design/build projects. Architects and contractors find this attractive because as many as 40% of these projects are awarded to a team that isn't the lowest priced proposal, as compared to 5% awarded a project with 100% documents at proposal time. That extra room gives design and contracting teams more confidence that they can secure a project because of the value of their qualifications.

And, of course, there is the fact of the separate contracts.

The desire to participate in a best value competition is still appealing, even to those who haven't jumped in yet. P. J. Dick Inc. of West Mifflin has performed hundreds of millions of dollars worth of projects for the Federal Dept. of Corrections, General Services Administration and Corps of Engineers.

"We would like to put our experience and technical resources up against similar contractors in PA," says Jeff Turconi, Executive Vice President at P. J. Dick. "We're just not certain about the state's inexperience with best value, and there are so many other opportunities out there right now, plus there's the ABC challenge."

In October of 2005, the PA Association of Builders and Contractors (ABC) filed a complaint seeking to enjoin DGS from using best value contracting. While the rhetoric surrounding the case alluded to the selection of higher bids and the potential for favoritism by the selection committee, the case actually rested on the interpretation of the Procurement Code and the General Assembly's historical intent. On May 18, 2006 Commonwealth Court, in a 4-3 decision, held that the General Assembly had intended to exclude construction contracting from Section 513 when providing for methods other than sealed competitive bidding. DGS was ordered not to issue any more projects under the best value method, but was permitted to continue with projects already released. That was significant, since the $100 million State Judicial Center project had been released in March. Department of General Services has appealed the decision to PA Supreme Court.

Jim Creedon remains positive about using best value contracting. "We are concerned about the more limited response to projects in the Southwest, but the contractors in the Northeastern and Southeastern parts of the state have adapted to best value aggressively. I know there are other factors influencing contractors in the Western half of the state and some of those are already working themselves out"

Secretary Creedon points out that a single vote determined the Commonwealth Court's decision, which gives him optimism about the Supreme Court appeal. Again he's upbeat, "Our charge is to get the best deal for the taxpayer. We have reduced claims by 90% and change orders have declined from an average of 20% to 6%. I think best value contracting will be an important factor in maintaining that downward trend while getting the taxpayers better projects."

Best Practice

BUILDING SYSTEMS COMMISSIONING

Over the past century, and particularly over the past 20 years, many facilities design innovations have been implemented in order to enhance performance, protect occupant health and safety, reduce operating costs, and minimize negative impact on the environment. These innovations have led to the integration, and also the complexity, of building systems.

How does one know that all of the complex features are working and/or are prepared to work when called upon during normal operation or in an emergency? Unfortunately, the design and construction process is not built to optimize integration. Whether it's a traditional process or an alternative method that is employed, architectural and engineering design is done by separate professionals, often from different firms. Contracting of the building systems usually requires coordinated effort by several different subcontractors, with diverging scopes of work, and frequently without any direct contractual obligation to the owner.

Building systems commissioning is a process that has been developed to integrate into and fill these voids in the design and construction process, pulling together the professionals who design and install the building's systems to ensure the owner's expectations are met.

Commissioning (Cx) is a systematic process of ensuring that building systems are designed, installed, integrated, and tested to perform according to the design intent and the building owner's operational needs. It is a process that enhances the quality assurance of a building project and requires an extended project team effort to realize the full benefits.

Commissioning begins with the development of a project-specific Cx Plan. The Cx Plan is the roadmap for the Cx process through pre-design, design, construction and occupancy of the facility. It lays out the roles and responsibilities for each team member during the various phases of the project, identifies the systems to be commissioned and the level of rigor for each system.

It establishes expectations early so there are no surprises later in the project for any team member.

The Cx process is facilitated by a Cx Professional (also known as a Cx Authority or Cx Agent). However, commissioning is a team sport and a primary role of the Cx Professional is that of a coach. The team is comprehensive and includes the owner's project and operations staff, the design team and construction team. If possible, engaging the local Code official early in Cx planning and execution will allow the Cx process to support and dovetail with the occupancy certification process, so that systems questions don't delay occupancy.

Very simply, Cx helps the team understand the owner's performance goals and is a step-by-step process for successfully achieving those goals at the end of construction and prior to owner occupancy. The following are some of the fundamental elements of Cx in project chronological order:

- Prepare Cx Plan
- Define owner's systems performance acceptance criteria
- Review design documents for compliance with acceptance criteria
- Prepare Cx specification section for bidding documents
- Review shop drawings and equipment submittals for compliance with acceptance criteria
- Observe installation for future maintenance and operations accessibility issues
- Verify that equipment is installed and started per manufacturer's recommendations
- Provide appropriate time in the construction schedule for coordinating and executing "system" level activities such as air and water testing and balancing, controls programming and checkout, and inter-system communications
- Verify functional performance of the systems and integrated systems to confirm final compliance with the acceptance criteria
- Train owner's staff in equipment maintenance and systems operation
- Provide system-level operations documentation for future reference and training of owner's staff
- Develop Re-Commissioning and/or Continuous Commissioning plans for the owner's execution throughout the life of the facility

One of the most important parts of the Cx process is the documentation of the Owner's Program of Requirements (OPR). The systems acceptance criteria need to be defined in quantifiable and measurable terms in order to set the stage for objectively determining success at the end of the project. The criteria to be included in the OPR go beyond the functional requirements of the building systems to the long-term operational and maintenance needs of the facility. A target energy budget may be part of the OPR, as well as the ability to monitor and meter system performance over the life of the system.

Any system whose performance can be defined in measurable terms can be included in the commissioning process. Some sometimes-overlooked examples are security, life safety, medical gas, lighting controls, emergency power, pneumatic tube distribution, windows, doors, roofs, etc.

Bringing the Cx Professional on to the project team early is another critical step in integrating Cx into a project. The ideal time to bring on the Cx Professional is when the project's feasibility is being examined and prior to the creation of the OPR. The Cx Professional can review and critique the OPR and include the OPR in the RFP for design services.

Cx does not replace the quality control component of a project but rather enhances the quality process on the jobsite. Quality control focuses on the static elements of the project, e.g., equipment, piping, conduit, installation coordination, etc. Commissioning goes a necessary step further to focus on how all of the static elements dynamically work together as systems. It is only through the interaction of system elements that the owner's performance requirements can be met.

The Cx Professional is the eyes and ears of the future operations staff during the design and construction process, and the Cx process brings the long term view of the facility to the forefront of all decisions. When there are decisions to be made with respect to budget, schedule, and quality, the Cx process helps bring as much weight to the quality issues as is given to the other two goals. Quality will not always "win," but the owner will be able to make informed decisions with an understanding of the long range cost of each decision.

To close the loop on the process, it's essential that facilities engineering staff responsible for operating the systems are adequately prepared through training, documentation, and involvement in the Cx process. Although the traditional project closeout activities include training of the owner's staff, that training is typically limited to the preventive maintenance and troubleshooting of individual pieces of equipment. Commissioning takes this further by focusing on systems operation training.

Systems' training provides explanations of the system performance criteria and how the designers' systems will achieve those criteria. The goal of this training is to convey how all of the individual pieces of equipment are uniquely configured to operate as a "system." There is heavy emphasis on schematic

continued on page 43

AWARDS & CONTRACTS

What's Going On Around Town

P. J. Dick Inc. was recently awarded a contract for CM at Risk services for construction of a *new office building for MEDRAD, Inc.* The $13.2 million project is a steel-framed, 125,000sf, 3 story building with metal panel and glass exterior. The owner has established a goal of achieving a Silver LEED rating for the project. The project also consists of 16+ acres of site development. The project architect is IDC Architects.

P. J. Dick is providing CM at Risk services for construction of a new 23-story, 780,000 gross SF building for office space, an "upscale" hotel with 150 rooms, 32 residential condominiums and a 330-car underground parking garage. The *3 PNC Plaza* building will also feature a hotel fitness center and spa, a 6,300 SF ballroom with dining facilities, separate hotel, office and condominium entrances, and a restaurant and coffee shop accessible to the public and building occupants. Architects are Astorino and Gensler Associates.

P. J. Dick is serving as the General Contractor for *major architectural code upgrades throughout six dormitories at Penn State's University Park campus.* This fast- track summer project starts June 1st, 2006 and is scheduled for completion on August 25th, 2006. The work includes either hardware additions or door/frame replacements at 2200 locations, wall in-fills, railing upgrades and minor MEP upgrades. Three of the dormitories will be partially occupancy over the summer. RSH Architects are providing design services for the $1.7 million project.

P. J. Dick is providing construction services for *$1 million of fit out work for Google* space on the first floor of the new Collaborative Innovation Center at Carnegie Mellon. P. J. Dick completed construction of the $28 million building in December of 2004.

P. J. Dick is providing general construction for a $10.3 million, 28,700 SF addition and 29,000 SF of renovations to *Edinboro University's University Center* for a new food court, theater, gymnasium, indoor running track, an exterior plaza and general office space. The addition features a brick facade with metal panels and a standing seam metal roof.

Massaro Corporation has been awarded two new contracts, both pursuing LEED Certification, by Saint Vincent College and West Virginia University, to provide General Construction services totaling $30,000,000.

Saint Vincent College selected Massaro to construct the 40,000 SF Fred Rogers Center for Early Learning and Children's Media and the Saint Vincent College Conference Center. This project will feature a workshop for development and demonstration in early learning and children's media, Fred Rogers' archives and exhibit, and banquet/ meeting rooms. Work is scheduled to begin December 2006 with a scheduled completion date of January 2008. Saint Vincent College is pursuing LEED Certification status for this project.

Work has commenced at West Virginia University's Oglebay Hall, which includes renovations to the designated historic landmark and the construction of a two-story addition. The project scope includes electrical and technological systems for forensic laboratories, extensive masonry restoration, and reuse of existing millwork, wooden doors, and door frames. West Virginia University is actively pursuing silver status for this LEED Certified project, which will be completed in June 2007.

Volpatt Construction announces that they have been selected by the Diocese of Pittsburgh as contractor for the $8.5 million renovation and addition to St. Paul's Cathedral in Oakland. The architects for the project are Celli Flynn Brennan Architects and Hayes Design Group. Volpatt was also the successful contractor for the Cardiac Care Expansion at Forbes Regional Hospital. The architect is IKM Inc.

Allegheny Construction Group has gotten underway on a new 70,000 square foot facility for Fed-Ex Ground on Neville Island. The project is being developed by Jones Development of Kansas City. Also underway is the 8,500 square foot Reactor Lab Building for Bechtel Bettis. The project was designed by S/D Engineers.

A. Martini & Co. has been awarded three separate projects at Westmoreland Regional Hospital in Greensburg totaling approximately $9 million. Work is underway on the OB Department, Emergency Room and Cardiac Care Expansions. The owner is Excela Healthcare System and the architect for the projects is Burt Hill. Work is also underway on a $2,500,000 build-out for Kindred Healthcare in the former Mercy Providence facility on the North Side of Pittsburgh.

Nello Construction Co. was the successful General Contractor on the new 60,000 square foot K-2 Primary School for Center Area School District. Their contract was $6,730,800. The architect was Burt Hill. Nello was also awarded $12,850,000 contracts for Clay-Baftelle Middle/High School and Mason Dixon Elementary School for the Monongalia County Board of Education. The Clay-Battelle project involved 47,900 sq. ft. of new construction plus renovations, and the Mason Dixon project included 8,000 sq. ft. plus alterations. Architects were Williamson Shriver Architects. Nello has also started work on a $5,084,400 contract for Mars 5-6 Center for the Mars Area School District and $5,753,000 contract for Additions and Renovations to Chartiers Valley Middle/High School. The architect for Mars Area is Roth Marz Partnership, and for Chartiers Valley School District is Valentour English Bodnar and Howell Architects.

Landau Building Co. has started work on the $9 million first phases of the Imperial Business Park for CSG Properties. Buildings 150 and 250 are 100,000 sq. ft. and 200,000 sq. ft. respectively. The architect was Dan Delisio of Next Architecture. Landau was also the successful contractor for the $3,114,000 Harrison County 4-H Center in Clarksburg WV. The architects are Blackwood Associates. Work is also underway on $1 million second phase of the Carnegie Free Library Renovations. The Design Alliance is the architect for this and the first phase of the work, also done by Landau.

John Deklewa & Sons is getting underway on the newest building at Trammel Crow's Cranberry Woods in Cranberry Township. 600 Cranberry Woods is a $8.9 million, 106,000 sq. ft. office building. The project's architect is Herring Trowbridge.

Jendoco Construction Corp. has been awarded the following projects during 2006: 87,000 sq. ft. Warehouse Expansion for American Textile. The $5.7 million project was designed by Desmone Associates.

$20 million Duquesne University Multi-Purpose Recreation Building. Architects for the 130,000 sq. ft. facility are DRS Architects.

Carnegie Mellon University Doherty Hall Phase II, a $19.3 million renovation and 171,000 sq. ft. expansion. The architect is Burt Hill. Also for Carnegie Mellon, a $1.2 million renovation of Cyert Hall designed by The Design Alliance, $1.35 million Lower Level Renovation to University Center designed by Graves Architects and $429,000 Renovations to 311 Craig Street designed by Quad 3 Group.

Jendoco was successful contractor for $754,000 Exterior Renovations to West Penn Hospital School of Nursing for West Penn Allegheny Health Systems.
Underway are four projects for Verizon: Renovations to Central Offices in Carnegie, Coraopolis, Pleasant Hills and Seventh Avenue Downtown totaling $3.8 million. The projects were designed by the Atlantic Architectural Alliance.

Construction is underway for the Turtle Creek Propel School East, a $2 million, 25,000 sq. ft. renovation designed by Tasso Katelas Associates.

St. Joseph Roman Catholic Church Sanctuary and Choir Loft Renovations. The $363,000 project involved 1,900 sq. ft. of renovations. The architect was The Design Alliance.

Jendoco is working on a 5,000 sq. ft. renovation to the Providence Heights Alpha School in McCandless. The architect on the $300,000 project is The Design Alliance.

Site work and interior renovations are underway for the $149,000 Water Tower Trail Head for the Steel Industry Heritage Council. Architect is MacLachlan Cornelius Filoni.

THE INDUSTRY in the COMMUNITY

Rebuilding Together, Pittsburgh's North Shore Club Noir

Heinz Field was electric with excitement, and oddly enough the Super Bowl Champion Pittsburgh Steelers were not playing a game. On July 14, 2006, the champion at Heinz Field was Rebuilding Together Pittsburgh (RTP). Over 400 friends of RTP reveled at the second annual North Shore Club Noir to support the efforts of RTP in providing free home repairs and renovations for low-income elderly and disabled homeowners in Allegheny County.

"The overwhelming success of North Shore Club Noir is a testament to Allegheny County's embracement of RTP," said RTP Board of Director Melody O'Brien.

Helping to create the ambience of the 1920s speakeasy era, "Jimmy Sapienza's Five Guys Named Moe" played the jazzy tunes of yesteryear while flappers did the Charleston and card players enjoyed a hand or two of poker.

"North Shore Club Noir provides the opportunity for volunteers to gather and share their past Rebuilding Day experiences, while at the same time raise funds for future Rebuilding Days," said Kevin McKeegan, Managing Partner for Meyer, Unkovic & Scott LLP – presenting sponsor for this event.

Because of thriving events like North Shore Club Noir, RTP is able to increase their efforts each year. The most recent Rebuilding Day in April was the largest in RTP's fourteen year history. Free repairs, renovations and modifications valued over $475,000 were completed on 31 homes..

Since its inception in 1993, RTP has renovated more than 725 homes in Allegheny County. RTP is fortunate to be supported by generous corporations, foundations, civic groups and individuals, plus the expertise of the Pittsburgh Building Trades, Pennsylvania Occupational Therapy Association and the Master Builders' Association.

"RTP is a great example of the construction industry and commerce leaders of Allegheny County uniting for the common good of the area," said Jack Brooks, Executive Secretary Treasurer for the Greater PA Regional Council of Carpenters. "I am proud of all Union Carpenters who volunteer their time and skills for such a worthwhile cause."

Enjoying the evening at "Club Noir" are Masters Builders President Joe Burchick, RTP House Captain Steve Mazza, former Steeler Dwight White, RTP Director Bill Waterkotte and Michael Sepesy.

"It's important to remember that our area's senior citizens built the Pittsburgh region as we know it today. Many of them are living in homes that are dilapidated, unsafe and, in many cases, uninhabitable," said RTP Executive Director Cindy Gilch. "I'm proud to say that RTP volunteers did not forget who built our region at this year's North Shore Club Noir."

For more information on RTP, visit www.rebuildingtogether-pgh.org.

Greater Pittsburgh Community Food Bank's 25th Anniversary Dinner At The Hilton Pittsburgh

P. J. Dick-Trumbull was honored at the Greater Pittsburgh Community Food Bank's 25th Anniversary Dinner held at the Hilton Hotel in June, 2006. The Food Bank is a network of nearly 350 agencies throughout the 11-county southwestern Pennsylvania region that provides groceries each month to about 120,000 people. The event honored those who have supported the food bank's efforts to stop hunger in this region. Cliff Rowe, CEO, accepted the 2006 Hunger Awareness Day Award on behalf of the company from Chris Heinz, Honorary Chair.

Cliff Rowe and Christopher Heinz

Burt Hill Celebrates 70th Anniversary

On June 21 at the David Lawrence Convention Center Burt Hill celebrated its 70th anniversary. Founded in 1936 by G. Edwin Howard, Jr., the firm has grown from its roots in Butler to have 650 employees in seven offices in four states, plus an office in Dubai, UAE.

Jon Shimm, John Kosar, J. Rossi, Dick Rittelmann, Michael Carter, John Brock

Burt Hill was recognized as the 25th-ranked firm in the 2005 "Building Design World Architecture Top 200" survey of the world's largest architecture practices, up from 85th place in 2004.

Enjoying the Burt Hill celebration are George Ehringer of UPMC, Jack Grzybek of Burt Hill, Jim Frantz of TEDCO Construction, and Rob Sklarsky of Zambrano Corp.

MBA Golf Outing

Joe Burchick, Jack Ramage, Gennaro DiBello

The annual golf outing for the Master Builders Association (MBA) sponsored by the Affiliate Council was held at Laurel Valley Golf Club on July 31. Over 150 golfers braved both rain and heat during a full day of action. Enjoying the post-golf activities above are (left-to-right) Joe Burchick, current Board President of the MBA, Executive Director Jack Ramage and Gennaro DiBello, Chairman of the Affiliate Council.

Faces & New Places

TEDCO Construction has hired Dan Ford as Estimator. Dan will be responsible for all phases of pre-construction estimating, including takeoff, subcontractor pre-qualification, scope review, value engineering, constructability review and logistics.

P. J. Dick is pleased to announce the promotion of Dale Lostetter, PE, to Vice President of Contract Administration. With over 34 years of dedicated and tireless service to P. J. Dick, Dale has continually led by his example, and his continued service is critical to the future success of our company.

P. J. Dick also announces the following new hires:
Casey Jones has joined as a Project Engineer assigned to the Loudoun County High School project in Leesburg, Virginia. Casey is a graduate from Ferris State University with a Bachelor of Science in Construction Management and currently resides in Baltimore, Maryland.
Adam Majcher has joined as a Project Engineer working on the Children's Hospital project. Adam is a graduate of the University of Pittsburgh with a Bachelor of Science degree in Civil Engineering and has over 10 years industry experience. He and his wife, Kristin, also a Project Engineer with P. J. Dick, reside in Pittsburgh.
Bob Egan has joined the family of companies as a Profitool / Imaging System Administrator in the main office. Bob has a Bachelor of Science in Management Information Systems and an Associates of Science in Computer Science.
Bill O'Toole joins the Estimating Department as an Estimator in the main office. Bill has over 30 years of industrial and commercial construction experience and a Bachelor of Science Degree in Electrical Engineering.

Pittsburgh Builders Exchange has hired Karen Kleber as Reporter. Karen is responsible for gathering and reporting information on construction projects being planned in the region, as well as reporting on privately bid projects. Prior to joining the Exchange's staff Karen had worked as a Reporter for the Pittsburgh Construction News since 2000.

TEDCO Construction is pleased to announce the launch of its new website on June 2, 2006. TEDCO invites owners, architects and subcontractors to visit us at www.tedco.com to view some of our projects, and look forward for future projects to be posted.

Landau Building Co. and Marks Construction have joined forces to form Marks-Landau Construction. The new company, which serves the northern half of West Virginia will be located at 18 Carriage Lane, Bridgeport WV 26330. Tom Landau will serve as President of Marks-Landau, with Jim Marks as Vice President.

Rycon Construction Inc. announces the hiring of Lou Ferraro, of Hampton Township, as Vice President of Operations.

MBA Membership

The Master Builders' Association (MBA) is a trade organization representing Western Pennsylvania's leading commercial, institutional and industrial contractors. MBA contractors invest in a skilled workforce, implementing award-winning safety programs and offer the best in management and stability.

The MBA is a chapter of the Associated General Contractors of America, the nation's largest and oldest construction trade association. The MBA is committed to improving the construction trade association through education, promoting technological advancements and advocating building the highest quality projects for owners. To learn more go to www.mbawpa.org.

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Burchick Construction Co.

Clifford R. Rowe, Jr.
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Thomas A. Landau, Treasurer
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diagrams and automatic and manual control sequences. And, in the interest of sustained proper operation of the equipment and systems, Cx heavily emphasizes the importance of complete, accurate, and easy-to-use systems documentation, designed with the "new employee" in mind.

Commissioning offers a substantial benefit to the design and construction project by providing a framework in which the entire project team can successfully achieve their operational, schedule, and budget goals. However, the greatest value from Cx accrues to the facility Owner through focused planning, documentation, and training for the on-going operation and maintenance of the new systems.

The project team benefits from improved communication and coordination, on-time successful completion and turnover of the building to the Owner, and far fewer "call backs" after project completion. The Owner receives a building that works at the time of occupancy, while the designers and contractors have a satisfied customer and a more profitable project.

The Owner's facilities team takes over a building that they understand and in which they have confidence. They are also given the tools to successfully serve their customers – the building occupants.

A well-commissioned facility will result in improved productivity and well-being of the building occupants. In the long term economics of facility-ownership, happier, healthier, and less distracted building occupants are where the cost savings add up in a hurry.

Rebecca T. Ellis, PE, LEED AP, CCP, CxA

Rebecca T. Ellis is President of Questions & Solutions Engineering, Inc. of Chraska MN. Rebecca is a nationally recognized leader in the commissioning industry. She has helped define mainstream commissioning services and contributes a monthly column about commissioning for Engineered Systems. Prior to founding Q&S Engineering, she developed and led the largest commissioning service group in the country.

BreakingGround

SEPTEMBER / OCTOBER 2006

ADVERTISERS INDEX

Closing Out

Separations Act From the Owner's Perspective

As a member of the Mt. Lebanon School Board for more than 18 years, I have been involved in two major renovation projects. The first project in 1996-98 was a fairly straightforward one in that both middle schools were unoccupied before and during the project. We carried out that work with the help of a very competent clerk of the works.

Our recent renovation of seven elementary buildings, however, was carried out on a very ambitious timetable; most of the work was done during the summers when students were not in the buildings. Renovations were extensive since some of our buildings date back to the 1920s. We started by renovating two buildings during the summer of 2003; we continued with three buildings during the summer of 2004 and did the final two during the summer of 2005.

The purpose and function of our school district is the education of our children. We do not have expertise among the members of our staff to oversee major construction. We must hire such expertise when we embark on these big projects. The cost of that outside expertise is greater under the current requirement to use at least four separate prime contractors. It was our outside construction manager who was responsible for coordinating the critical schedules and overseeing all the separate contractors to ensure that the project was completed in a timely and cost-effective fashion. Since the contractors' agreements were with the school district, they were not actually answerable to the construction manager. The ultimate authority for managing and coordinating the trades still rested with the school district as did the resolution of all project disputes.

When we began planning for our elementary projects, waivers to the multiple prime requirement were being granted by the Department of Education. We applied for and received such a waiver in November of 2002 based on estimates that we would save between $1.5 and $2.6 million on an estimated $45 million project, a 3-5% savings.

Unfortunately for us, results of litigation in eastern Pennsylvania over similar mandate waivers in January of 2003 caused us to lose our ability to use a single prime contractor for the construction scheduled to begin a few months later. The project bid specifications were changed to require multiple primes, and the anticipated savings were not realized. Other predictions of our construction managers and architect have come true for our district as well.

This spring we reached a settlement out of court on a lawsuit filed by one of the contractors on one of the buildings renovated in 2003. There are still lawsuits pending by three contractors on two of the buildings renovated in 2004. Negotiated settlements were necessary with many of the others. All disputes were based to a great extent on delay claims resulting from the difficulty of coordination of schedules for multiple prime contractors. In addition to the costs of the claims themselves, we must also pay legal fees to resolve these cases. Under a single prime contractor scenario, that scheduling (and any related issues) would be the responsibility of the prime contractor. During the 2005-06 school year, we finally undertook the completion of punch list items from one of the 2003 renovations with our own maintenance staff because it became less costly to do it ourselves than to pursue the responsible parties. We did the same thing with one of the buildings renovated in 2004.

Pennsylvania is one of only four states with a multiple prime requirement for public construction. Projects in the private sector can use whatever system the owners choose – and they rarely choose multiple primes. The legislation which has been introduced in the Pennsylvania House of Representatives (HB 2100) would give public bodies the option not to use four prime contractors – multiple primes could still be used if the public bodies feel that is more desirable. Those of us who are elected local officials want to get the best construction deal we can for our taxpayers. We know that a change in the four-prime requirement will not eliminate all the causes of cost escalations on public building projects, but we believe it will save money. And it will certainly focus responsibility for timely and cost-effective completion of a project on the prime contractor, not the school district or other public entity.

We expect to begin extensive renovation of our high school in the next few years, and we would certainly like to have the option of carrying out that project with a single prime contractor (or even a design-build process).

Carol Walton, Member
Mt. Lebanon School Board

BUILDERS GUILD

BG

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The Builders Guild of Western Pennsylvania, Inc.

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We ARE Union Workers and Contractors

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"Without the assistance of our general contractor and major subcontractors from design development through construction, the Lincoln at North Shore may not have been developed. Today it is recognized as the most successful apartment community in the Pittsburgh metropolitan area."

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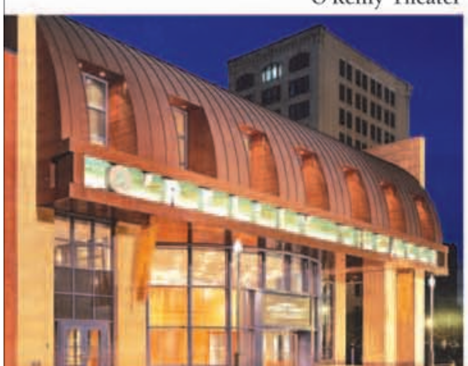
O'Reilly Theater



"The O'Reilly Theater provided a number of unique challenges as a highly visible project on a tight urban site. More visible exterior and interior finish elements, such as exposed architectural concrete stair risers, curving millwork and the vaulted copper roof, were all beautifully executed."

Caroline L. Hancock
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Kevin McClatchy
CEO & Managing General Partner
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To view projects and testimonials from satisfied customers, obtain a brochure, or, for a comprehensive list of construction resources visit:

WWW.BUILDERSGUILD.ORG

THE Greening of Historic Properties National Summit

October 30, 2006

Join this national forum on preserving our historic buildings while making smart improvements to promote efficiency, health and the environment.

When: October 30, 2006 from 5:30pm to 7:30pm

Where: Town Hall meeting at the Heinz History Center
Refreshments will be available.

How: To register visit us online at www.phlf.org or call (412) 471-5808 by October 15, 2006
The Summit is free, thanks to our sponsors.

Supported By: The Heinz Endowments, Massaro Corporation and the Roy A. Hunt Foundation

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