



CAPITAL CONSTRUCTION TASK FORCE REPORT TO THE
BOARD OF GOVERNORS
Committee on Budget and Finance
July 22, 2020

DUTIES AND MEMBERSHIP

The Capital Construction Task Force was formed on November 14, 2019, to review the capital project delivery process and to make recommendations to improve efficiency and ensure value. This report summarizes the work of the task force from November 2019 to July 2020.

The Capital Construction Task Force is composed of the following members:

Governor R. Doyle Parrish, Chair
Governor Robert Rucho, Vice Chair
Governor W. Marty Kotis, III
Governor James L. Holmes, Jr.
Chancellor Randy Woodson, NC State University
Chancellor Sheri Everts, Appalachian State University
Jonathan Pruitt, CFO, UNC–Chapel Hill
Mike Byers, CFO, Western Carolina University
Virginia Teachey, CFO, UNC Pembroke
Mark Edwards, NC Department of Administration

ACTIONS

The Capital Construction Task Force met three times between November 2019 and July 14, 2020. Several members of the task force also met with campus representatives and the State Construction Office in an informational meeting. The major actions of the task force are summarized as follows:

Formation:

The Capital Construction Task Force held its first meeting by conference call on December 6, 2019. A majority of the task force members were present for the meeting. The task force discussed the problems with the current project approval process, including concerns over the limitations and use of the OC-25 form, and areas for improvement. The task force generally agreed that the following areas should be studied:

- Improving the project cost estimating and budgeting process; including the use of the OC-25 form
- Improving the efficiency of the project construction process
- Improving the bid market by increasing bid participation and bid outcomes

Several task force members discussed the work that had been done by the previous working group. It was recommended that any information or reports from the previous working group be collected and shared with the current task force before the next meeting.

Vice Chair Rucho recommended that the task force have a better understanding of the complete approval process. It was agreed that the task force would research the project delivery process, including the project approval process at the individual campus level, the approval process at the Board of Governors level, and any required approvals from the State Construction Office.

Information on Capital Project Approval Process:

On January 23, 2020, Chair Parrish, Vice Chair Rucho, and Mr. Kotis met informally to learn about the design and construction approval process for a university capital project. The informational meeting included presentations from representatives from several universities and the State Construction Office. Nick Katers, associate vice chancellor for facilities management, Appalachian State University, and Doug Morton, associate vice chancellor, Facilities Division, for North Carolina State University, both made individual presentations highlighting current capital construction projects, their universities' processes, and the challenges with the current project delivery process. Latif Kaid, State Construction Office, presented information on the role of the State Construction Office for state projects, including the reviews, approvals, and inspections required by statute. Mr. Kaid also discussed the State Construction Office's building standards. Materials from the previous working group were also shared with the task force members.

Review of OC-25 Development and Contractors Panel:

Members of the Capital Construction Task Force met on February 26, 2020. Jonathan Pruitt, chief financial officer for University of North Carolina-Chapel Hill, talked about the university's capital project process and discussed the OC-25 process. Representatives from several construction companies participated in a roundtable discussion, which explored their experiences and observations related to work on UNC System projects. The representatives included David Philyaw from T.A. Loving; Brian Walker from Vannoy Construction; Eric Reichard from Rodgers Builders, Inc.; Aaron Thomas from Metcon, Inc.; and Marty Moser from Barnhill Contracting Company. The task force members discussed all of the information presented in past meetings by the State Construction Office, the university representatives, and the contractors and previewed ideas for improvements to the capital construction and project process.

Discussion of Ideas and Recommendations:

On July 14, 2020, members of the task force met to review and discuss proposed ideas for improving the capital construction approval and project delivery process. The task force discussed a list of proposed ideas and recommends approval of the action items on the attached table to the Committee on Budget and Finance.

CAPITAL CONSTRUCTION TASK FORCE

Summary of Ideas for Discussion

Goal: To ensure capital resources are being used efficiently and that the value of the final project is equal to the expenditure

Concerns:

- **High Cost per SF** – Construction costs often are not comparable to private sector (significantly higher) or similar historical project costs.
- **Appropriate Project** – Project scope should be right-sized, and demand driven as opposed to adhering to a “bigger is better” sensibility.
- **Appropriate Building Standards** – The 50-year life cycle is not always compatible with fast-changing program needs.
- **Lack of Competition** – Too many bid openings have few or even a single bidder.

<u>Potential Actions:</u>	<u>Primary Party</u>	<u>Approve, Further Study, or Table?</u>
1. Modify BOG capital project approval policies and procedures <ul style="list-style-type: none"> • Delegate advanced planning authority to the campus level, further limited to design & development aspects only • Delay approval of new capital projects and OC-25 cost estimate until design development when project scope and initial project schedules/costs have been defined • Require professional cost estimates and funding verification prior to advertising for bids • Allow cost increases of up to 10% without requiring additional BOG approval; increases of more than 10% must be submitted to BOG for approval and must be justified 	BOG BOG BOG BOG	Approved
2. Improve construction cost estimating <ul style="list-style-type: none"> • Establish shared services agreement at UNC Sys Ofc for professional cost estimating consultants • Use historical data, cost information from State Construction Office, and cost estimating services to develop a cost reference database (updated annually) for use by universities 	UNC Sys Ofc UNC Sys Ofc	Approved
3. Establish baseline for R&R funding <ul style="list-style-type: none"> • Ensure predictable annual R&R funding at a level that will allow campuses to effectively plan projects; avoid constant use of R&R for overdue deferred maintenance • Establish sinking fund to support R&R needs • Establish building maintenance standards to prevent early building deterioration 	Legislature Legislature SCO	Approved

APPENDIX L

4. Develop appropriate life cycle building standards based on building type <ul style="list-style-type: none"> Adjust building standards and life cycle to best fit the intended use of the building Consider impact of lower construction standards on long-term maintenance and operations cost Consider impact of lower construction standards on DOI insurance premiums 	SCO UNC Sys Ofc UNC Sys Ofc	Approved
5. Improve capital construction project delivery <ul style="list-style-type: none"> Strategically manage construction market capacity; stagger bidding of major construction projects to avoid market saturation Streamline prequalification process to maximize participation from qualified bidders Award projects under a guaranteed maximum price (GMP); discourage use of preliminary GMP and phasing as a way to begin projects before final project costs are established Review costs of project acceleration to ensure costs are reasonable and justified Evaluate projects at completion for quality of work, timely completion, and delivery within budget and schedule to ensure quality and value 	UNC Sys Ofc SCO SCO UNC Sys Ofc UNC Sys Ofc	Approved
6. Increase value of project and efficient use of project funding <ul style="list-style-type: none"> Develop alternative insurance programs, such as CCIP (Contractor Controlled Insurance Programs), OCIP (Owner Controlled Insurance Program), to reduce individual project insurance costs Develop library of common building types and prototypical designs (such as housing) to minimize design time and cost Review fees for design professionals and CMs to ensure fees are reasonable and comparable to surrounding states and peer institutions Encourage better project management through peer-to-peer mentoring between universities and additional training opportunities 	BOG UNC Sys Ofc SCO UNC Sys Ofc	Approved