UNITED STATES DEPARTMENT OF STATE
BUREAU OF OVERSEAS BUILDINGS OPERATIONS

INDUSTRY ADVISORY PANEL

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I, Adam Namm, certify that this is the true and correct version of the Minutes of the September 18, 2008 Meeting of the OBO Industry Advisory Panel.

Signed:

10/28/08

Adam E. Namm
Acting Director
Overseas Buildings Operations

September 18, 2008

P R O C E E D I N G S

VOICE: Take your seats, please, so that we can begin.

MR. COOPER: Good morning, ladies and gentlemen. I'm Uriah Cooper with OBO Security. I'll be giving you a quick safety and security briefing while you're attending the Industry Advisory Panel today.

Again, welcome. Thank you for coming. While you're here at the conference, please make sure that you wear your badge at all times. I'd like that you wear it on the outer-most garment and above your waist so that it can be seen.

Today while you're at the briefing, in case of an emergency or subsequent evacuation, we're going to exit calmly and orderly throughout the door and we're going to head out following the exit signs out to the 23rd Street side through the main entrance. And we're going to assemble across from the main entrance on the opposite side of the street.

If anyone has any special needs or you need to leave the conference for anything, an emergency or rest room break or anything like that, just make sure when you exit that you have an OBO representative with you at all times and that you're escorted at all times while you're here.

For purposes of lunch breaks today, the panel members will be escorted up to the main entrance where they will be shuttled over to their lunch location. You'll need to turn in your badges back to security, myself or Linda Lewis Clay, prior to departing. And we will collect those from you. And then you come back, we'll reissue it to you and then you'll come back down here.

If anyone else needs to leave at lunch and will not be returning, you're going to turn in your badges again to security and we'll sign you out and we'll wish you well as you exit today.

Does anybody have any special needs that we need to be aware of today?

(Whereupon, there was no response.)

MR. COOPER: Okay. Again, thank you for coming out today and I'll turn it over to OBO Director Shinnick. Thank you.

MR. SHINNICK: Okay. Thank you for coming today. (Unintelligible.) And the relevance of that testimony, if you will, is testified to by persons to my rear and Jeffrey Smith. I just met Mr. Jeffrey Smith who runs BRAC for the Corps of Engineers.

And in our short colloquy, he mentioned to me that they are very much in the hole in their budget projections and it's all Mr. Simonson's fault. We're going to give him a chance to alibi his way out of that, but it just goes to testify to the fact that this is a very interesting meeting.

And, Ken, you've made it particularly relevant for the situation with oil and the stock market and everything else that affects the business people in this room no less than the government people here. We're trying to run the program. You guys are trying to execute it for us and survive in the private sector. So it's going to be a very good day.

You've heard a lot of speechifying from me in the last several meetings. I'm happy to say that this is not the last meeting for the members of our -- any of the members of our panel. So we're going to get -- have you guys here for a while to go because some continuity is important to -- so that you can judge and we can get your feedback on what we consider to be progress at OBO.

We've had the benefit of a lot of input from this group, separate inputs from the AGC, and the benefit of -- it's a strange thing to say, but I mean that -- the benefit of an ongoing GAO review of our operations in the contracting area.

It's -- we didn't -- I don't -- I'm not trying to pretend that we called up the Congress of the United States and said could you please send GAO over to look at our socks and underwear. That's -- that didn't happen.

But they came at a very fortuitous moment in that our own Office of the Inspector General came to inspect the -- us for the first time in seven years. That is the first time since OBO had been raised to the status of a State Department bureau.

And so they came in and they concentrated on not only some bureaucratic issues about what a bureau should look like, which OBO was not looking like to be very candid from the bureaucratic side, but also to look at some of the issues that are well known to the people in this room which was the declining contract debates, the way we were doing contracts, the complaints of the contractors about risk factors that were certainly not helped by the complexity of that process, some of them that may even have been caused by that process.

So OBO was the beneficiary of an inspection that went from the end of January, and you -- some of you know that I came in the beginning of January and the luckiest thing for a Foreign Service Officer is to have the inspectors arrive on the same plane because you can say, hey, I just got here, look at this mess this predecessor of mine made. Thank God we're here to change everything, you know.

Not true in this case because we all know that OBO and the leadership had a record, quite prestigious record in the sense that as we sit here, almost 20,000 foreign affairs personnel worldwide have been moved to more secure facilities from much less secure facilities.

And it's an especially propitious moment to talk about that because you all have seen the news reports and read in your paper about the attack yesterday in Sana’a which it's not a situation when you have the loss of life of ten people in which you can take any pleasure at all, so I don't mean to gloat about that.

But from the point of view of the facility and the point of view of the security processes that are in place, the attack was a total failure. They never got into the perimeter. It was a very, very, very sophisticated, two-pronged attack.

One was designed to take out the facilities in the front so that the second attack could drive through, get into the -- inside the perimeter and penetrate one of our buildings. It was a total failure in that there was a -- they did manage to blow up the guard post and part of what -- the Sally Port man trap, but the attack failed. They did not penetrate the perimeter. That's what those walls are for, to keep the bad guys out and the walls worked.

So everyone, and I said yesterday when I had my senior management team meeting that everybody in OBO who participated in this program to date should be very proud of the fact that we've had -- this year alone, we've had several attacks, direct attacks on our facilities. John Hampson in the breaks will be glad to talk about that with you. John is a special agent assigned to OBO.

And, John, it's safe to say that those attacks have failed as far as their primary targets.

And we have an integrated security unit with us, security management at OBO that's staffed by professional security personnel. It's professional security engineering offices and professional special agents like John who's the deputy of the organization.

So we're feeling good about that. We mourned the loss of our own guard staff. But the important thing is the core program of OBO is successful. And by that, I mean the core program of OBO is the security construction program that you're all involved in.

You know, when you hear me expound, I'll talk about changes in maintenance, changes in organizational things, and, yes, they're all important. The maintenance is tremendously important to me as the director and tremendously important to the organization in that we have to protect the investment of the billions of dollars that have been thankfully given to us by the Congress. Our stewardship of that money has to include maintenance.

But our core function is to get secure facilities up and built to protect the foreign affairs personnel and the Americans and the foreigners who are visiting our facilities. And we are -- the program is being successful, although I have to point out in honesty that Sana’a was not one of the -- one of this program.

It was a predecessor program that some of you are familiar with. It was what we call an in Inman embassy. In other words, it was built on the, if you will, the prototype first attempts of the Department to build more secure facilities as a result of the Inman Commission.

We're all now involved in the follow-on program, and so I welcome you here today to move that forward as our core goal is to continue and improve that program. And to do that, the contractors execute this program. We build the facilities in the sense that we send Foreign Service construction engineers overseas as project directors.

So in the sense that we have a real role in building the construction, doing the work, but the execution of these contracts is done by the contractors. So I hope in addition to making money, we can have the contractors realize they're making a real contribution to the country, too, in what is described as a war on whatever. The point of view is we're not losing that war in the -- a facility sense because of the efforts of our contractors.

And to improve the contractors' positions and relationships with OBO, on October 1st, we will put into effect a massive realignment of the offices that do things directly relevant to our contracting function. That is the development of the RFPs.

Both the GAO and the OIG had voluminous comments about our RFPs which they point out a fact well known to you have 6,500 pages of documents in the -- in what you are sent in an RFP. Now, that's an assertion made by them. I haven't counted them, but they say there is 6,500. I don't know. Maybe there are only 6,000. But there are probably too many. Maybe it's 5,500. Somebody want to argue.

There's no doubt that the RFP process is -- produces documents for your review that are too voluminous and in some cases, it's been pointed out they're contradictory. Three different documents that purport to transmit the same information regarding the RFP, some can be said that they are duplicative at best. Sometimes we are told that in addition to being duplicative they have been contradictory.

So we are not -- we did not make little changes around the fringes and say, well, who does the documents and you got to check them more and who's responsible. We said we are moving the RFP process and in this case, it's moving it back. It's re-realigning it back to a, in a sense, to another part of the house.

But this was not a personality issue. This was not a leadership issue. This was not the fault of the leadership of either of these offices. It was a direct result about a process that had not met the demands of the program for the contractors or for the government.

So we moved it. I use the analogy. We took the RFP process and we brought it to an operating room and we called in the best surgeon that we knew in Washington capable of operating on it. He's with us here today, Walter Cate.

Some of you know Walter from your contracting with the government. Some of you have probably had a very adversarial relationship with Walter because he was the State Department's chief contracting officer in A/LM for our program.

So we brought Walter in with the concurrence of the head of A/LM. He's now retired. He's now -- we were able to bring him back through A/LM and made him the chairman of this effort because he had the unique view of being the person who has to carry out this contract and get these contracts after the RFP is presented to A/LM.

And they have been at work since July, a committee, if you will -- committee is a bloated word -- but a group of dedicated professional practitioners, the people who do the work in OBO every day and who lead the workers directly.

The people who are seated up at this table, wonderful executives and leaders that they are, were not members of that committee because the one thing I did not want to do was to split the baby bureaucratically. That's what you do in government. You call it a realignment, but what really happens is the senior leadership sits around and protects its turf. Not at OBO. That's not my charge. It's the way things work in government.

How do I know that? I've done it several times and say I'll give you this, you give me that. We'll all end up with justifying our senior executive and senior Foreign Service positions. You have five boxes. We'll all end up with four. That's the way we're splitting it. Not this time.

This time, we said let the process drive what the organization should look like. That's been done. I have the draft. I'll sign it today. If Walter Cate is late, I'll sign it tomorrow because I can't get hit with a trolley car until I sign this thing.

Even if I do get hit with a trolley car, I assure you that my deputy has been given -- the way you do it in the Army, you know, when the -- when you're going to charge something, you say if I'm -- if I get killed, this guy's in charge. If he gets killed, this guy's in charge. And you go all the way down to the last corporal. I haven't gone that far. But if a trolley gets me tomorrow, this is getting signed.

What we did is we created a new organization called Construction Commissioning and Maintenance. And it is headed by a senior, newly promoted only last week. We should give him a round of applause.

Mr. McKinnie, where are you sitting? Rob McKinnie is over here.

(Applause.)

MR. SHINNICK: Rob McKinnie is now a minister counselor in the United States Foreign Service. Those of you who are not very familiar with the Foreign Service as an institution, let me point out that if McKinnie goes to a military base today, he gets ruffles and flourishes equal to a major general and he gets seated with major generals.

Now, they take a little shot at the State Department, so the seniority works that he gets seated in seniority after the last major general. But the point of the matter is he's ahead of brigadier generals, all of them. Jeff will bail me out on that because these are Corps of Engineering guys.

So we now have another major general at OBO. The difference is he's a Foreign Service major general. He's been building these buildings and working in OBO and he is going to lead this new organization.

And in that organization, we have put the Foreign Service construction engineers naturally who previously worked for, may I point out, Brigadier General Toussaint, who was a Foreign Service construction engineer, and he ran the construction engineers and did it very, very well.

But it was time for a change. It was time to recognize that we also had some new technical and maintenance requirements that are being performed by a group called facility managers who wore a Foreign Service skill coat.

So we took this position. We created it at the minister counselor level with the concurrence of the Secretary and we have in that organization the Foreign Service construction engineers, the professional security engineering officers who are detailed to us from the Diplomatic Security Division and the Foreign Service facility management managers.

So all the Foreign Service people are in one alignment and this is a full life cycle on a construction project at an embassy. Construction engineers supervise and work with the contractors in the execution of the contractor.

One of our historic maintenance management problems has been in the handoff. We've had a lot of crossfire in the handoff saying, well, is that a design element failure or whatever.

The facility manager says I've just been burdened with a massive maintenance problem because there's a big hole in the roof that's designed in there, but nobody designed the cover that goes on and keeps the rain out. That's pretty -- that never happened.

But the point is these are the kind of things we have crossfire over. Now we have a single life cycle view of how we do the embassy from the time we build it to the time we decommission it. And the maintenance guys are fully on the team and they all work for the same boss. So all that turf has been taken out of the problem.

Similarly we have a full life cycle view now on the way we are going to put the RFPs out and the way we do our planning is largely unchanged in that -- I have Jay Hicks seated here to my left. Jay runs our Planning Division. And the Planning Division is still going to be responsible for the planning and real estate of all of our projects up to the time when we do our initial planning surveys. You're familiar with what we do there.

At that time, when Jay is convinced that we have a viable project and he can see that the funding is coming, and he is also responsible for our long-range building plans, so there's synergy there, when that is now a viable project and ready to go, he will turn that over to our new division who will do the development and coordination of the project. And the RFPs will be done in a new organization created there which will be led by Will Colston.

Now, Will Colston is the State Department's or I should say OBO's, there may be a couple of others hiding around the corner somewhere, he is a certified, fully certified acquisition professional within the meaning of the OMB directives, et cetera, et cetera.

So we now have the person who's running the RFP process for us at the State Department is a certified acquisition professional who is also a certified project manager. He ran the project for the rebuilding of the Pentagon in the wake of the attack. In other words, the wing that was rebuilt there, Will was the officer in charge of that, the project manager.

That's the quality of the people that we have here running this program. He's a graduate of the Coast Guard Academy in his earlier days when he wanted to play sailor. I just mention that because he understands responsibility. He understands accountability and he understands the clear mission of this organization since he left for the Coast Guard Academy at 17 years old. He's no longer a sailor, but he has that -- brings that same dedication and mission sensitivity to what we're doing at OBO.

So that's what this new organization will do. That also is going to give us a full life cycle view because the project coordinators, which is what you're called until you're fully certified as a project manager, because in the new OBO, we have truth in lending. You can't be a project manager if you're not certified, so you'll be a project coordinator. You'll be doing largely the same function, but everyone will be aware of what professional level is being done, led by fully qualified professionals.

So we will have a full life cycle view

because there's natural bureaucratic tension between the Washington project coordinator and the project director who goes overseas to build the construction in the field.

We've taken the tension out of that situation by saying it's all a project. This is a project from its -- beginning of its life to the end of its life. Who owns that project? There was a lot of back and forth until I pointed out I'm the freekin' director. It's my project, not anybody in OBO's project. The buck stops here with me.

So, therefore, when we do our monthly performance reviews, we're going to have sitting there the project director represented by the construction executive and the project coordinator who is responsible to get the support that the project director continues up until the time that the project becomes preeminent in that he goes to build it. That's when he becomes the contracting officer's representative and the person that you folks all refer to as these contracts are carried out.

Up until that time, the project coordinator has been driving this project through the RFP process, through the design process, et cetera. He stays in that chain and his role changes slightly to one of support for the project director's effort in the field because you still have to reach back, make design changes, perhaps make a contract mod.

All of you folks are aware of what I'm do -- what I'm talking about. They will then report jointly to me, one on the overseas project and how it's running, one about the support that's being provided, and one about any dissent about either one of their meetings. They're going to sit in front of me.

The guy says he's getting lousy support, I want it all said when he's in the same room with the director, not just me, but my successor. The project coordinator says we're building a lousy project, I want it out in the open, not the way it normally runs in government.

So that's the process that we've created. There are going to be great benefits for, I believe, for the people that we're doing business with because the RFP, reduced RFP process that's less complicated is going to take some of the risk out of what you folks do because you're not going to have to protect yourself against three or four different views of what the project is supposed to look like coming out of an RFP process.

They only give me a few minutes because they know how loquacious I am, so I have to cut to the chase. We have said for a long time we're doing design build here. And Rebekah is sitting over there. She would say if she were an honest woman, which she is in many ways, but she's too polite to probably say, what you folks were doing was not design build. It was some kind of an aberration. It was adaptation of design build. But we shouldn't have been able to say that we were doing design build strictly because it wasn't close enough, I don't think, to really meet the definition.

We've moved considerably closer. With the use now in the new process, we're going to use bridging documents to get closer to a design build. The contractors are going to be responsible at an earlier stage for the completion of the design. Lots of dissent in how you do this.

We have a design shop. They have real ideas about it, but this is the way we're going for now. Why? Some folks would like to do design bid build instead of design build in a professional organization. We might even have gone that way, but I just said earlier it's our core responsibility is to get these things up quickly and to get our people from less secure facilities into facilities that will survive a car bomb attack.

Therefore, we have made the decision managerially to stay with design build, make the corrections with bridging documents to make it closer to the concept of design build so we can say it honestly. And we've worked with the design build institution in Walter Cate's group to make those changes.

You haven't kicked me yet for misrepresenting it, but that's what we -- that's what I think we're doing. And Walter is not frowning at me, so that's what he thinks the group is doing.

And I'll sign that thing today or tomorrow and that's what we will be doing. And that's what will get turned over at the end of my odd interim time to whoever comes after me.

How can we -- and it will be kept going somewhat of the momentum because seated on my right is the first principal deputy assistant secretary equivalent that this organization has had. Previous to this, who the deputy was was kind of gray, kind of depending on who picked the deputy of the week. Now it's signed by the Deputies Committee of the State Department.

John Negroponte and the under secretaries have taken Adam Namm's position, made it a position that is decided at the highest levels of the department and are assigning Adam Namm to that position.

All of these things are making OBO look like a State Department bureau. In some ways, that's not a great thing, I admit, but it is taking the personality driven role of whoever follows me out of this and putting it in a State Department process.

If you don't want this guy to be the deputy, go back to the heads of the department, the head of the State Department and the under secretaries and bring him up to the kangaroo court and he'll be out of the job.

But you can't just say I don't like the way that guy gives me an honest view of Foreign Service and overseas' needs which is a suspicion that was held by some of the regional bureaus founded or not. I'm not the judge.

The last thing I want to say is some of you people might get our Bugle magazine in the past. I don't know if you've ever seen it. Do we -- if we don't, we should send it certainly to the IAP folks.

Where's Andrea? Do we send it to the IAP? So you've seen it.

It was pointed out to me that it's too easy to change that name from the Bugle to the Bungler. So we're going to change the whole thing. You'll be looking forward to it. We're going to put out a special edition. We're starting the work on it now as part of the changed management.

Someone came up to me and said to me what are your plans for changed management. I said I plan to sign the recommendations and give everybody a copy of it and tell them October 1st, this is what you do. That's how we're managing the change.

We're going to put a magazine out that will explain some of it to you and then we'll handle the bruised egos in October 1st to whenever. But the way we're going to be operating is with the format that's presented to me by that group.

So welcome. That's what's happening here. We're going to have a very -- a much more exciting time when you get out of this bureaucracy.

Kathy Bethany is going to introduce Mr. Simonson. And it's in one way psychologically and from a point of view of negotiating, this is the worst thing we could do possibly with the people who we depend on to give us contracts in that we bring you here and facilitate briefings that tell you how aware we are of the fact that costs are going up. We know that. And we are saying that right out in our relationship.

We know costs are going up. We know the cost of rebar. We have relationships with the AGC. We know -- Kathy wouldn't give me this figure which she's told me before. It's something like two to six thousand, but I'll leave it to her.

The cost of shipping a 40-foot container which --

MS. BETHANY: Eight thousand.

MR. SHINNICK: Eight thousand. It's gone up dramatically.

MS. BETHANY: Five thousand dollars in six months.

MR. SHINNICK: Five thousand dollars in six months. That's what we're facing here. So what are we going to tell you? Do the jobs for nothing? No. The point is we're being open enough to say we realize that costs are going up.

But we also need -- we need more

competition. We need more people in this. We need competitive bids and we need more firms stepping up to do our work. And we hope that the management changes that we're making at OBO will allow those things or facilitate those things to happen.

So with that, I'll turn it over to Kathy and more professional end of the program unless -- did you have a question? No. Great. That was an involuntary shutter. You're about to hear the facts and figures of the economy. I don't blame you. We're all shuttering.

MS. BETHANY: Yes.

MR. SHINNICK: The man weeping silently in the back, as I point out, is Jeff Smith who runs BRAC. I mean, he told me astronomical figures that -- he's from the DOD side, can't quote them -- of how his costs are skyrocketing.

So we're all in the same boat, if you will. So --

MS. BETHANY: Yes.

MR. SHINNICK: -- Kathy, please.

MS. BETHANY: Thank you, sir.

MR. SHINNICK: Thank you very much.

MS. BETHANY: Well, I'm Kathy Bethany, Cost Management Division director here at OBO.

I'm going to start with a ten to fifteen minute presentation of what we have seen at OBO and then I'm going to be turning it over to Ken who will give a little bit of an overview from the AGC.

And then my two panel members, Douglas Noonan and Satch Pecori, will be also giving their thoughts and what they have seen from their members and what they're representing on what this whole issue of cost management and a changing construction marketplace and how are the public, that would be me, and the private sectors dealing with the ever-changing global dynamics.

What we're looking for is some advice. I'll present what we're doing and we're looking for advice on what we could do slightly different or completely different that might help in this situation.

I'd also like to introduce -- I have my two branch chiefs here, Rob Jordan and Greg Reilly. Raise your hands. They're going to be taking notes for me. And after the presentations, if you have any one-on-one questions that you want to ask, then they're here along with me to help answer questions.

But before I get into the presentation, I wanted to get a sense of the room to find out how many people understand or are working in this. So, first, anybody who is a construction contractor, can you raise your hand.

(Whereupon, there was a show of hands.)

MS. BETHANY: That's good.

How many of you are suppliers to the construction contractors?

(Whereupon, there was a show of hands.)

MS. BETHANY: Good.

How many of you are AE firms that work with us?

(Whereupon, there was a show of hands.)

MS. BETHANY: Interesting.

How many of you are cost firms? I know of one at least.

(Whereupon, there was a show of hands.)

MS. BETHANY: Yes. Okay.

How many of you have done cost estimates recently even if you're not a cost firm or have tried to guess?

(Whereupon, there was a show of hands.)

MS. BETHANY: I would think there would be more of that because how many of you have tried to purchase something in the grocery store or a major purchase? Everybody, I think, has done that recently. You know, you're planning to buy a new car and all of a sudden realize wait a minute, I can't buy that SUV because I can't afford the gas.

That's the kind of thing everybody is a cost estimator at heart. So that's -- I have the challenging job of trying to project what our budgets are going to be along with doing the independent government estimates of what the actual costs are going to be. And a lot of times, especially this year, those things are not aligning.

And I also do the Value Engineering Program and I've been here before talking about both of those.

Next slide. What we've been seeing -- this is a chart that was put together in January of this year -- cost price index and how it's been growing. You know, we used to use an estimated growth of 3.5 percent annually because that was what the CPI index was showing. And that was a generic. I'm sure the BRAC Corps of Engineers uses something similar, three to five percent.

But what we've actually seen is a nine percent annual growth. So how -- you know, how would you have projected that three years ago or two years ago when we start doing our budget projections? So this is one of the problems.

The next slide that I just put together recently is the average cost of our OBO NEC's per growth square meter. You'll see, of course, it's not a straight line.

And I have to qualify this that in 2007, since it's an average, some of our smaller projects, the average or the cost per growth square meter is much higher than one of the larger projects where you can take some of the infrastructure and spread it across.

So we have quite a few smaller projects in 2007 as compared to 2006 which had a couple of large projects in it that skewed the average. But as you can see, the delta from '07 to '08 was 22 percent on average. That's the actual costs that we're seeing in bid prices increases.

If I had projected that a year ago, I would -- you know, I should be in a different profession. I could be, you know, you know, reading palms or, you know, crystal ball reading or something because I never would have projected that.

So one of the things that we do do is we try to present cost escalation and cost alerts from various sources including the AGC which I know you had them -- Ken's report, you know, in terms of what costs are getting ready to do.

We also get various ENR articles. We try to go to posts and look and see what's happening regionally. One of the things that I thought was interesting, I got this this week. Well, I may have gotten it earlier, but I opened it this week. It was the Voice, the official magazine of the Construction Users Roundtable. And booming and busting in construction was one of the headlines.

And, of course, as I was reading it, I found it kind of interesting given the news of this week that the two sources they're quoting, Merrill Lynch's expert saying that, well, we might be heading to a recession and Lehman Brothers who said there are ten reasons why the U.S. economy would never enter into a recession. Front page.

Obviously even those that are paid to do the forecasting, this economy has caused some interesting dynamics. And so it's been very difficult for somebody like me and my people who are trying to guesstimate this and inform our management as to what the costs are going to be to come terms with what's actually happening in the marketplace.

So we do try to let people know what's going on. We do try to change our numbers. I know we're waiting on '08 awards right now because we had to go to Congress and say we need more money. So we're trying to inform that.

The next page is another chart that we get from Global Insights periodically or one that I created from Global Insights where we try to track what's happening where our projects are located. Again, this is last year's list of projects. It's not the '08 list of projects.

But it shows, you know, if you put the gray line which is very difficult to read on this chart -- I apologize for that -- but at three and a half percent is where out in 2011, they are all kind of converging. But just in looking at Madagascar or Ethiopia, the green or the red line with the yellow, look at -- you know, they were running at 20 percent a year ago.

It's kind of hard. You know, we have to take not only the U.S. economy into play and what the costs are doing here, but we have individual projects that have significant problems with escalation and cost growth.

So the next slide, this is what the director has been quoting from. I had been asked, okay, why did prices go up so high. So we, you know, threw a few things in, shipping, 167 percent increase just to go to China for one container. On our average SED or medium SED -- I shouldn't call it an average. A regular medium SED, that would be a million dollars added to it.

Skilled U.S. workers and I'll talk to this in a little bit, you know, $800,000 increase. Rebar, I'm sure everybody in here who's had anything to do with steel prices recently, is a 92 percent increase in six months this year. That's another million dollars.

So the next few slides, I'll take -- Satch had come up with a list of questions that he was asking his people and I'm using the same questions. This is the government's answer, what we're doing on some of these questions, what -- the first one being fluctuation on cost and materials. How do we do that?

Well, we track material costs both globally in specific market areas with our IDS trips, going out and doing surveys to try to figure out what the costs are. But obviously we couldn't have guessed, I don't think, or we didn't guess steel prices going up the way they have.

So some of the things that we're talking about doing is possibly a contract escalation clause to allow some commodities to be tied to a generic metrics such as the CPI and then have a -- I want to call it a slush fund, but I know that's not the politically correct term, but a fund to be able to pay for those or another possibility is escalating -- or estimating all projects in current year dollars and then having a separate line for escalation or currency fluctuations so that if they go higher than what was anticipated, we might have a management reserve or be able to identify those right away.

MR. SHINNICK: I don't see the (unintelligible). (Unintelligible) is our resource management (unintelligible).

MS. BETHANY: Yes.

MR. SHINNICK: When Kathy says she has to explain to the director, let me point out she also has to explain to the managing director for resource management sitting over there. And slush funds scare them.

MS. BETHANY: Yes.

MR. SHINNICK: Management of slush funds scare him, but we know we have to do something.

MS. BETHANY: Uh-huh. So one of the things I'll be looking for your input as we go through the rest of this conversation is are there other ideas, do you like these ideas, is there something that we could tweak maybe. I know being government sector, we may have our hands tied in some respects. But what are you doing with your companies to see how this can work.

So the next slide we're talking about fuel costs. I think everybody understands that. I have -- I was driving by one of my favorite gas stations this week after the Hurricane Ike hit and watched the gas price jump one dollar a gallon just in -- you know, overnight. It went to 4.50 from 3.50. Of course, across the street, there was a gas station that still was at 3.80. So that's where I got my gas.

But, you know, it's one of those things that I think you're all very aware of. So some of the other things that we're considering along with the escalation in current year project estimates, we're considering maybe decreasing the amount of material shipped to site, but we have security issues with that, so we're, you know, having to wrestle with this and trying some more sustainable construction to help in the operations and maintenance costs to avoid some of these fuel costs in the future.

Next the currency fluctuation. Project costs, and this has been real interesting, as the first -- the slide that I had up, you know, $13 million change for a 13 percent decrease on the U.S. dollar to the euro.

Now, this doesn't happen on every project because some currencies in the world are tied to the U.S. dollar. So in those cases, we're not in as much trouble as we are on some of the other projects.

And I'm having the, I guess, enviable job of having to explain why projects like The Hague and others in Europe are costing a lot more than what normal people would think they should cost, you know, so -- because of the weakening dollar.

Now, it's gotten stronger recently, so maybe we'll not have this problem, but it's again the crystal ball effect.

The next slide shows the Expat labor rates.

Again, we require cleared American labor in some of our projects and in some areas because of security problems. Cleared American labor is highly competitive and there's a limited pool. So one of the things that we're looking at here is maybe doing more oversight.

And that goes to the next page which is security costs being factored. Well, we do have the cleared American guards to monitor construction activities. We may have to hire more of those in order to decrease the amount of or the requirements of the cleared American labor in some areas. Some we still have to have. But, again it's a matter of tracking that.

MR. SHINNICK: And just to be very clear, though, I've made this very clear, the security costs of our projects are not a soft cost. It is absolutely the hardest of our costs.

We will make -- we cannot have any reduction of our security posture because we are in a cost constrained situation. We would have to present that case to the Congress and show them that tradeoff. We are not going to reduce security costs.

MS. BETHANY: Uh-huh.

MR. SHINNICK: We have a former director of the State Department's entire security organization who was the head of Diplomatic Security, a man named Greg Bujac, well known in the security industry, was the vice president of the security of Altria Corporation.

When he left, he went and got wealthy and he's now come back to help OBO look at its security programs overseas. So I just want to make very clear in a group, a public group like this that we are not looking at any reduction in our security profile.

In fact, we have the highest level of security people, not construction people, looking at that issue right now as to how we can further harden our program against the various threats that you folks with clearances are aware of and to raise the profile of our program.

So I just wanted to add the political element to what Kathy is talking about. There will be no diminution of the absolute total commitment of both partners in this relationship because we don't often speak about that and we acknowledge that we have a security engineering element.

But our partners in this are the Diplomatic Security. And my direct partner is Eric Boswell, who's the assistant secretary for Diplomatic Security. So -- and we -- that relationship is every day, is back and forth, multiple telephone calls, multiple exchanges.

Security officers attend virtually every meeting in Diplomatic Security in our organization, not to monitor what's going on, but as full contributors and partners in every element of what we're doing.

And the folks who build our embassies are aware of that and those who really are RFPs will be aware that security is involved. And accreditation by security is one of the or if not the primary, it is one of the primary elements for our acceptance at the end of a project that a building is complete.

We do the normal security elements, but the thing that makes an embassy separate from anything else is that building by U.S. law must have security accreditation assigned at the highest levels of the security organization.

So I just want to illustrate that that partnership is not in any way challenged by the budget situation. The program is, but not the security partnership.

MS. BETHANY: Yes. Thank you.

And, yes, part of what I should have explained is what we're not trying to do is reduce the functions of what we are providing. We are trying to figure out how to pay for them and also how to project what they're going to cost so that when we go forward with a project that we ask for the appropriate amount of funding immediately.

But when I was talking about going CAGS (phonetic) and CSTs versus the cleared American labor, the function is still there. We're still providing all of the security. It's just a different way in value engineer parlance doing a value engineering recommendation for looking at what's an alternative to provide the same level of service.

MR. SHINNICK: Or better.

MS. BETHANY: Or better.

MR. SHINNICK: And that's the kind of a thing that Greg Bujac and the assistant secretary for security will be fully involved in --

MS. BETHANY: Yes.

MR. SHINNICK: -- in any changes to our

operating methodology or profile overseas.

MS. BETHANY: Right.

MR. SHINNICK: John.

MS. BETHANY: Yes. Okay. So the next slide which is pre-purchase agreement, you'll find this one kind of interesting because we do have some government purchase contractor installed items such as the furniture. FEBR windows and doors are the big ticket items.

Considerations under discussion, either expansion of the program or scaling back the program to encourage design of excellence. So we're still talking about this one and there are some recommendations that are being made.

And it might be that we scale back on some parts of it, but increase other parts. So I'm looking for input also as to what your thoughts are on this kind of program.

The next --

MR. SHINNICK: I'm sorry to do this, but I have this report on my mind. This report is on my mind. And one of the elements in this report will be for the Oversight Committee that we set up to make sure that this is a living document and is continuously looked at and revised.

One of the tasks, there are two that will be passed to this Oversight Committee at the inception, is looking at exactly that issue of the government furnished equipment and how best that we should do that.

So we do want your input because they will be addressing this issue and it will be done by a separate business case decision and a separate action. What the recommendations will be of the group that we've put together is that be looked at as one of the first tasks of the Oversight Committee.

MS. BETHANY: Thank you.

General conditions. We do include risk

elements and we try to do risk assessments or we do risk assessments at the various stages of the projects. And we try -- we include those in our cost estimates and we do carry some nominal contingencies. Obviously this year may not have been enough, but we do try to anticipate what's going on with -- both in the general conditions.

So the last of the questions, cost control and budget forecasting, how do we control costs over long term. Well, we award firm fixed price contracts. The problem is that puts a lot of the risk on our contractors and obviously there's a disparity of risk. And they're having to -- we underestimated what the risk was this year in terms of what the contractors were going to be putting in their bids obviously.

So it's one that with a firm fixed priced contract, we at least control it once the contract is awarded. It's getting to the contract award that we have some difficulty.

And, finally, this is a lead-in chart because one of the charts that I put in our last project or performance review happened to come from Mr. Simonson on the changes in the producer price index and how the inputs to construction industries is significantly higher than what the producer -- consumer price index was.

And with that, I'm going to turn it over to you to get your remarks.

MR. SIMONSON: Thank you very much, Kathy and Director Shinnick. I really appreciate the opportunity to talk to this group.

I did bring a crystal ball, but, of course, it's a communications device, so I had to check it outside the room. In any case, I have enough trouble getting signals for Washington let alone Ouagadougou or Antananarivo.

So I would not trade places with you, Kathy. You certainly laid out some daunting challenges there in terms of figuring out where costs are headed.

But I did want to talk a little bit today about what I see happening with materials cost for construction in the U.S.

For those of you who are not familiar with Associated General Contractors, we're the largest national construction trade association. We operate through 96 chapters from Alaska to Puerto Rico. Collectively they blanket the country and have as members 7,500 general contractors, 12,500 specialty contracting firms, and 13,000 suppliers of goods and services of all types.

And as the chief and only economist for the association, I try to provide a variety of information about what's happening to the economy and how it affects construction and certainly in the last four years, what's been happening to materials costs and perhaps where they're going.

Now, this being the State Department, I see that they have provided an interpreter to translate the economics into English. But in case your headphones aren't working, you can go ahead and ask me a question directly and I'll try to put it in terms that you can relate to.

Now, Kathy was kind enough to advertise the construction inflation alert. This is a document that I write twice a year. I brought along some copies and I expect I'll be going to the office and coming back to join you at lunch so I can bring some more if these run out.

This does try to make some predictions about where some of the costs are headed. But in the talk, I want to focus just on what's happened so far and then make some more general comments rather than specific predictions about what's going on.

Let's start with the state of the economy because certainly that is going to drive a lot of things. And to boil it down very -- to just a few elements, I think we're in a situation where we still have positive growth in real gross domestic product. GDP, of course, is the broadest measure of all goods and services produced in this country netted imports. And then real in econo speak is net of inflation.

In the second quarter, that figure was up 3.3 percent. That's actually higher than the long-term average for the economy, but it was clearly boosted sharply by a one-time spending spree financed by rebate checks that most people received in May or June. And so that effect will have tailed off very sharply in the current quarter.

And the question is, what's going to keep the economy growing going forward. I think that at best, we're in a period of one to two percent real GDP growth for the next several quarters. And, in fact, my outlook has darkened with the events of the last ten days on Wall Street or across town at the Treasury Department down the block at the Fed.

I think that the credit market is in such deep turmoil now that it's very questionable that companies that otherwise would be in a position to expand and contribute to economic growth that they'll be able to raise funds either from lenders or from the security market.

And so we may hit a period of actual contraction which is in the layman's understanding is what makes a recession.

Now, in fact, the National Bureau of Economic Research has a Cycle Dating Committee which looks at four factors to try to determine more broadly if the economy has fallen far belong its -- far below its long-term growth path. So they may decide several quarters hence that we are in a recession.

Certainly if you're one of the 600,000 people who've lost your job in the first eight months of this year or the many thousands who are facing job loss as a result of this month's turmoil, it feels like a recession. If you work for a company that's going through job cuts, it feels like a recession.

What are those implications for construction? Well, we're in the unfortunate situation where we've been experiencing abnormally high consumer level inflation in spite of having this sluggish or erratic growth. And so while we may still be getting growth in GDP, we're barely seeing any growth in personal income.

In the last twelve months, what is called real wages, that is take-home or average hourly earnings, net of the consumer price index change has been negative by two and a half percent. That means that people who are working full time are nevertheless losing ground, have less to spend at stores.

The state and local governments are generally taking in less income tax, less sales tax, and at the local government level less property tax than expected. All of that means that various types of construction are headed for less growth or even for a downturn.

So let's move on to what is happening with the construction market. This slide shows the latest monthly figures from the Census Bureau which every month reports on a figure on value of construction put in place or construction spending. That measures all of the spending going on on existing projects.

The private residential dropped 28 percent from July '07 to July '08. The nonresidential was up 16 percent. Public spending, mostly state and local, but some direct federal spending such as what the OBO pays for, was up eight percent. That was a good figure, but these are in nominal terms. They don't take into account the cost of materials or increase in cost of labor for that matter.

And compared to where we were for a full year of 2007, these are generally not as good. Total change over the twelve months through July '08 was a minus five percent. For '07 compared to '06, it was minus 2.6 percent.

The private residential has gotten worse. Private nonresidential has pretty much held where it was. It was up 18 percent in 2007. Public was up twelve percent. Now it's up eight percent. So it's fading a little faster.

Well, let's get into a little more detail on what is happening with the nonresidential, private, and public combined. This very crowded chart shows that in 2007, all eleven subcategories that I've shown here and then there are five others that I consolidated into a bottom line, they only add up to nine percent of the total, the combined increase was 16 percent. And all eleven of these categories had a plus side, mostly with two digits.

Well, so far this year, YTD, year to date, change in January through July was up 14 percent compared to January through July '07. Almost as good.

And, again, these eleven categories all have plus signs, but there are a lot more that have single digit plus signs. So with that higher escalation of materials, a lot of those are probably stagnant or actually dropping already in square footage.

In the next two slides, I've broken this out into ones that I think will be winners for 2008 as a whole and then mostly in 2009. And the next slide after that, which I'll get to in a minute, shows the ones that are weakening.

The leading segments, power and energy. Now, in a lot of people's minds, these are the same, but the Census Bureau defines power construction to mean electric power plants, both retrofits to reduce environmental emissions and increase performance and green field plans which we're finally starting to get some, transmission lines which are largely now in the planning and right-of-way acquisition stage, permitting stage, but some work is happening.

And then wind farms and other alternative power sources, huge growth last year, 34 percent, continued at the same rate through the first seven months of this year, up 33 percent.

My forecast for the year as a whole, still in that range, 20 to 30 percent. Could go higher. It depends really how quickly those permits and construction starts come through.

And for 2009, I have boldly put another up arrow with no numbers after it. So I think we will still have even more spending on power construction. That's even if we don't get into nuclear plant construction. If nuclear does get started, that figure will be an even steeper upward arrow.

Now, energy is not shown as a separate category in census figures. It's consolidated within a very large chemical manufacturing category. That same category also includes, and that chemical category includes prominently refineries, but also last year and continuing somewhat this year to my surprise ethanol plant construction, bio-diesel plants, pipeline oil and gas field, some experimental energy.

So that was up 55 percent last year, 31 percent year to date. Should stay close to that range and should be very positive again next year.

Third, communication construction was up 22 percent last year. A new wave of cell towers, conversion of TV broadcast towers from analog to digital, and a lot of data centers, not just for telecoms company, but more and more companies are building private data centers. And I suspect State Department may have some of those kinds of secure communications projects contributing to the total.

The forecast -- well, what we've seen so far this year is quite a slowdown. That's probably because that conversion of the TV broadcast towers is largely complete. Some uncertainty about going ahead with the data centers. But I think it's still going to be a growth category for this year, but by next year, with the weakening economy, I think probably at least a slight downturn.

Hospital construction is a category that has grown sharply for several years. It's weakened so far this year, but I think the trend will still be positive. There's so much technological change going on in hospitals that have to do major rebuilding to accommodate new diagnostic and operating equipment, convert semi-private to private rooms, and then we're getting these specialized facilities, limited care hospitals, surgery-centers, emergency care only, that are going into neighborhoods that didn't previously have hospitals.

Higher education did very well for the last couple of years. I've kept that as a strong plus. But with the turmoil in the financial markets, I'm no longer so sure. What's driven this in part has been demographics as it has for the hospital segment, that you had huge growth in the over 85 population that uses hospital facilities a great deal.

With the universities, we graduated a record class from high schools last spring and so college enrollment is at an all time high. It's expected to continue growing. On the supply of funds side, universities with endowments have seen very good gains. Ones conducting capital campaigns have often been exceeding their targets. And then they're able to fund their multi-year campus plans incorporating multiple buildings.

But with the turmoil and the sharp decline, at least for now in the stock market, I think a number of those projections or counted on pledged funds may not materialize. So we may see some dropping off, but I still think that will be a positive category.

I wish I could stop there, but we need to look at what's happening on the rest of the nonresidential construction, the weaker segments in this year and next.

Lodging has been doing extremely well. It was the leading segment last year. Still up strongly this year, but we're starting to see a lot of cancellations of projects.

The giant echelon project in Las Vegas was stopped in mid construction because the financing for two luxury hotels there did not come through.

Just yesterday, Pinnacle announced that it was not going ahead with a bid on a resort and hotel casino project in Kansas and had also not yet broken ground on a project in Atlantic City.

So lodging and related amusement projects, I think, are very shaky.

Similarly, office construction, while it's gone -- been going strongly so far this year, I think with the huge number of layoffs happening, not just in New York City, but now these firms like Merrill Lynch, WaMu, if that runs into difficulty, they have offices all over the country. And many other kinds of business have also been laying off workers. Office construction demand, I think, is going to be way down as is the supply of funds.

Commercial, that's mainly retail, although the census term also includes warehouse and so far, we've already been seeing a lot of store closings, bankruptcies, scaling back of expansion plans. Again, I think very dim prospects for the next couple of years.

Primary, secondary schools, largely funded by property taxes, lately we've been seeing a lot of school districts -- just heard it on the radio this morning about Montgomery County, Maryland having to cut back. Now, their cutback plan includes leaving vacant positions vacant, but next we'll be hearing about school renovations or new school construction being deferred or cancelled.

And then highway construction, we just dodged a bullet this week when the President signed an emergency transfer of funds from the general fund to the highway account of the Highway Trust Fund, but that doesn't solve problems for states. Really every state that depends on the gas tax and diesel tax has found those receipts coming in far below projections and at best, highway spending will remain level next year.

Why is so much of this happening? Well, partly it's the economy, but partly it's materials cost. So the next several slides show what's been happening on that.

First, a recap of where we're headed for overall construction. My forecast for this year is that residential will be down 20 or even 25 percent, nonresidential up four to eight percent on the strength mainly of projects already underway.

But by next year, perhaps we'll see an

upturn in the second half of the year in single-family home building that would make residential look a little bit better than this year's weak performance. But the nonresidential is likely to be down five to ten percent.

So total construction which was down two and a half percent last year, down between five and nine this year, and close to break-even next year at best.

All right. On to materials cost. This shows in Table 4 on what Kathy already showed in a slide that for five straight years now, we've had a higher increase in what's called the producer price index for inputs to construction industries.

That long mouthful which I've condensed down here to construction PPI means -- it's a measure of the change in the costs of every material going into all types of projects from single-family homes to hospitals to highways to hotels, plus importantly material used up by contractors such as diesel fuel.

Compare that to the CPI, the consumer price index, for all urban consumers, which is the typical measure of cost of living and also importantly of what agencies are required to use in their projects and this shows why not just OBO but every level of government project, the bids have come in so far over what had been projected.

The cumulative change, as Kathy said, is 44 percent since December of '03 when we first had a big price hike for steel, but also copper, diesel, gypsum going up a lot whereas the CPI has gone up 19 percent.

What the next slide shows us is a graph, same as what Kathy had, updated by a month. It turns out that for the month of August, that construction measure did move up, although the overall PPI actually dropped very sharply, 1.6 percent, but construction still has some rising costs that kept that level for the month. The CPI dipped by one-tenth of a percent in the month of August.

Let's break it out now by type of construction. On the next slide, you can see that not only has total construction gone up very sharply, but the nonresidential segments have gone up even more.

Highway and street construction up 75 percent over those four and a half years. Other heavy construction up 60 percent. That would include some non-building construction for state projects.

Nonresidential buildings up 42 percent. That's the one most representative of what you guys do. Single unit residential has gone up 32 percent and the consumer price index as shown at the bottom, 19 percent.

Why has it been so high for nonresidential construction? The next slide shows that the number one driver has been diesel fuel. That's used by contractors to move earth, to operate other off-road machinery, to power dump trucks, concrete mixers, and pumpers, mobile cranes, other kinds of vehicles.

And then contractors have also been paying huge fuel surcharges on the thousands of deliveries of equipment and machinery and materials and the hauling away of dirt and debris and equipment at the end of the job.

Second largest increase has been copper and brass. Mill shapes 167 percent, that yellow line snaking across with big wobbles up and down.

Third, steel mill products, the green line that has curved up so very sharply this year in particular.

And then, fourth, concrete products, the blue line, looks well behaved, but very unusual for that to be up twice as much as the consumer price index, 36 percent over four and a half years.

And then gypsum products, you can barely see. It went up sharply through mid '06, down for the last two years. Just in the last month had a bump up. We'll see if that lasts.

Let's get a little more closely into what's happening this year compared to last. The first slide here, the first graph here, diesel fuel, you can see that for most of last year, it was fairly well behaved. Only at the end of the year did we have a hop up and then even after that, it came down a little.

Well, this year, every month, it was up, sometimes sharply, until August, down a lot. The September figure, because it's based on prices as of the 13th, just before the hurricane effects, also down. Diesel has actually continued down this week unlike the gasoline that Kathy had to buy and I think will continue down for the rest of the year based on what's happened to crude oil.

But as you can see, it's got to come down a lot more before it reaches last year's level. So for the year as a whole, I think diesel will still be up quite a big compared to 2007 as a whole.

Second, steel mill products, you can see last year started up and then came back down, wound up pretty much where it had been. This year started up a little faster and then accelerated greatly through August.

Now, we've just had a couple of reports August 14th and September 10th, the two major rebar suppliers cut their price based on a huge drop in the cost of scrap which is an index they use, but they also adjust and they took back some of that drop in scrap costs.

So while the scrap price index dropped $171 a ton in September, they raised their base price 101. So the total price is down $70.00 a ton. That's pretty nice on a thousand dollars. That would still leave you several hundred dollars higher than you were last spring.

And I think again for the year as a whole, this slide shows clearly that steel will be a lot more expensive and will probably start next year a good deal higher than it started this year.

Finally, asphalt paving mixtures and blocks have been very well behaved last year, totally flat, unlike '06 when it had a big spike in the first half of the year, but this year has just soared again through August. Big drop so far in September, but for the year, going to be much higher.

Let's move on to a little bit of good news. Gypsum products, you can see for most of this year well below last year, now started to move up. I don't know that they can make it stick given the falling demand not just from residential but from nonresidential. Should be somewhat lower for the year as a whole.

Lumber and plywood has been trending lower for four and a half years now and I think will also stay lower for this year.

Copper and brass mill shapes, you see a lot of volatility in both years. Right now it's come down about 25 percent from the record price set in May and I think probably has the more downward path to go, but we're not getting back to the prices of two years ago, let alone five years ago.

And then concrete products, a smaller upward creep. Cement prices have flattened or will be coming down some more, but the aggregate depends -- requires a lot of diesel fuel to quarry, crush, deliver. And so the aggregate makers have been better able to pass along those costs than the cement makers.

Where does this leave us when we put that whole mix together? Obviously a lot of challenges and guessing where any individual product or a mix for a given project will come out, but I would say that year over year, we're going to see for the full range of construction products a six to eight percent increase. It's been running higher than that.

I'm a little bit the barefoot shoemaker. I gave you all tables and produced data digest. Didn't bring my own copy. But each month I send out a set of detailed tables that show the change in that PPI for construction industries.

This is the third line of the first table here and the next to last number shows the twelve-month change. It's 12.7 percent, so more than double the change in the last twelve months in the consumer price index which was 5.4 percent.

I'm willing to say it will come down to a range of six to eight percent for the year, but I think the CPI will also be down in about a four percent range.

And for next year and the next several years as the next slide shows, I think we're risking the same thing, six to eight with wide variance, above and below in any given time period because construction is dependent on a set of materials that are often in very erratically growing supply.

Last Friday was a meeting of the Copper Development Association and they're developing mines in places like Indonesia and the outback of Australia that will eventually bring more copper and other metals on stream, but the development costs are enormous. And meanwhile, demand for copper has been growing steadily.

So you get these huge price spikes and when the new supply does come on, it's much pricier than what we had been buying a few years ago.

On top of that, construction has very high delivery costs. As Kathy mentioned, the cost of containers can go up 167 percent in less than a year. The price of diesel fuel, as you saw from that slide, more than tripled over a four and a half year period.

And construction just cannot get away with smaller and lighter and thinner materials. If anything, the specs for your kinds of projects have gotten much tougher as you see the need for much more hardening.

So I think with the fuel costs likely to have a strong upward trend over the coming years, construction materials cost will surely be rising more than the CPI.

Well, let me wrap up with a little look at labor costs because this is a bit of a puzzle to people. We've had a sharp drop in construction employment.

This slide shows in the last twelve months through August, construction employment fell by 5.7 percent whereas for the overall private sector, it was down half a percent. And, yet, average hourly earnings in construction up five percent versus a 3.6 percent increase for the private sector.

The next slide attempts to show, although I have to admit not very simply, why this has happened. The left half divides that construction employment drop between residential, down eleven percent, nonresidential down two percent.

But the story goes beyond that. When you compare on the right side on the bottom half the residential employment drop, the residential spending drop, you can see there's something out of kilter, that spending was down 27 percent. This is mislabeled. It's actually July '07 to July '08.

And I think that residential employment had to have fallen just as much. It's just improbable in the extreme that home builders and their subcontractors would have held on to most of their labor force when the workload was dropping that much.

So I've assumed that residential employment dropped just that much and that the shaded area between there actually represents about 530,000 workers who are still working. They work for subcontractors who call themselves residential specialty trade contractors when they enter BLS database, but they've been going to work on schools and hospitals and hotels.

And so I've added them back to nonresidential side. It turns out nonresidential employment has risen ten percent, not dropped two percent. That not only fits with the orange line that shows the increase in nonresidential spending, but next slide, it also matches the notion that you would need to pay higher wages.

So, in fact, I think wages, which have already gone up five percent, will be up between five and six percent for the year as a whole. And why is that? Because not only are many of those transferable workers working, but the biggest job growth will be for categories that really require very high skill and aren't scarce.

Particularly when you look at the rebuilding of refineries and other facilities that were damaged last weekend, you know that there is going to be a strong premium paid for crane operators, for pipe fitters, for people who can work on things like the cell towers, the transmission lines, the power plants, the refineries. You've got to pay more in order to get them in.

Kathy had one bullet point about the per diems and so forth. That certainly is a factor, straight wages also for those highly skilled workers.

So moving on at last to my wrap-up here, I think that for 2008, we're going to see materials costs up six to eight percent, labor costs up five to six percent in spite of a drop in total construction spending. It's because we're still getting very strong growth in energy, power, communication, hospital, higher ed.

For next year, the next slide, I'm guessing that nonresidential spending will actually be down a little bit. Residential will start to pick up, specifically single family. Materials costs still up between six and eight percent and labor costs up because we'll still have demand for those highest skilled workers and start to have an overall increase in demand for labor.

So that's my story. I'll leave it there. You're welcome to pick up a copy of the construction inflation alert. And if you want to get on my e-mail list, just send me an e-mail at the address that is on this data digest which is a weekly one-page summary of economic news relevant to construction. It goes not just to AGC members but anybody else who wants to track the issues.

MR. SHINNICK: And let us know who didn't ask to be on that list so we can make sure they're never on another one. That seems to me the best freebie I've ever heard since I got into this business. Send him an e-mail address and you're going to get that level of professional expertise.

And we have, you know, had the benefit of it on several other occasions at OBO, me once before, and so we're just absolutely delighted and grateful to have you as our partner as we go forward.

MR. SIMONSON: Thank you.

MR. SHINNICK: Thank you very much for coming to this and I hope for your continuing relationship with us at OBO.

MR. SIMONSON: You'll have it, sure.

MR. SHINNICK: Thank you very much.

MS. BETHANY: Thank you.

MR. SHINNICK: And, Kathy, one thing, Ken said a trigger word in there when he went down to the various types of construction and plans for the future. He said that, you know, the most representative, and it's certainly of interest to the people in this room, but I decided to use that as a springboard because I hope that the people in this room are here today evidenced by the overriding concern and interest in our program.

So although it was not scheduled, I've asked our director of planning who is responsible for a long-range building plan, a new responsibility that's put him is the long-range maintenance plan, which is a big deal, informed by all of the people in our organization that do maintenance and by the posts, and also is responsible for real estate.

He runs -- the Real Estate Division reports to him because there's so much involved in the front end master planning and project planning that he does before it's turned over to the -- when it becomes a viable real project as a result of his work, it's then turned over to Joe and his organization for the development of RFPs and coordination of the plan.

So with that, I'd like Jay just to give you an off-the-cuff couple of minutes on how he sees buttressed by his partner in the least bureaucratic crime over here, Jurg Hochuli, who does a lot of our work on the Hill explaining our budgets, our plans, and maintaining our organizational credibility with the people who give us the money because of his abilities in that area to make this whole thing understandable to both OMB and Hill committees.

So between the two of them, I hope that they'll be able to give you some synopsis of where they see our program going with all the knowledge that they have. None of this, of course, represents a written commitment that we can say what happened to your grandiose plans.

Well, we're subject to the whims of the Congress and the OMB and never more so than on the cusp of a new administration. No matter who wins the election, it will be a new administration and we have to work very hard to keep our program credible and in their mindset.

MS. BETHANY: And once they're finished, then we have two panel members that also have --

MR. SHINNICK: I know that. I just want to get a quick -- because it would be remiss if we talked about every other sector except OBO's plans.

So, Jay --

MR. HICKS: Sure.

MR. SHINNICK: -- a quick couple of minutes.

MR. HICKS: I sure will.

MR. SHINNICK: And then we'll go right to the panel.

MR. HICKS: Thank you, Dick.

Ken and Kathy obviously sitting shoulder to shoulder with still a rather challenging outlook for our industry. Well, you know, connect the dots. What does that mean for us?

You know, I would simply say no need to panic. As Dick indicated, obviously we appreciate all your interest in being here today. We appreciate your interest in the program whether you're a contractor or a sub. We want more interest. We want more competition, more bidding. So simply put, no need to panic.

Certainly the new embassy construction is one part of what we do. We do lease fit-outs, major rehabs, a variety of different types of projects, physical security upgrades, new embassy construction obviously representing the lion's share of the money we spend on the type of projects we do.

But some of you, I think most of you may know we have something of a cap in the program when cost sharing was set up. For our purposes, let's say there's $1.4 billion to build embassies per year. For our purposes, let's assume that's the case, although that changes somewhat.

Even with the shifting responsibilities going, as Dick indicated, I'll still have the long-range plan. And one of the most dynamic things about the plan is how many embassies we build, when we build them, where we build them. And it's process that changes the list regularly.

You know, you can do the math. It's like an algebraic formula. If you've got the amount of money you spend on the program fixed and each project is costing you more money, well, you may not build as many projects.

And that's simply the way it works until there's enough energy possibly around seeking legislative support and OMB support to do more than 1.4 billion, maybe something more than that, to keep the level of production up. But obviously numerous competing objectives across the government that we'd be competing with.

But I guess what I would say is simply the program is strong. The program is healthy, is the event in Sana’a this week. There's a certain inelasticity in that you need secure facilities overseas if we're going to be in the business of diplomacy.

And, you know, we would hope certainly that with an administration change that what we do here is nonpartisan. It's motherhood and apple pie sort of work that we do in that while we compete for funds like everybody else, there's going to be strong interest in this. So don't run out the door. Don't panic.

And one of the things Dick referenced to the Inman Program back in the late '80s, early '90s. One of the things that did that program in was that we didn't have sites. We couldn't deliver sites fast enough.

And I'm happy to say that we've gone from a point where we would bring the sites in. At the end of the fiscal year, we are making construction contract awards. That's when we'd be closing.

The real estate group has done a good job insofar as we've been able to identify the sites, tie them up, if not close on them, certainly have contracts in place where we can unilaterally close two years ahead of construction award so that site is informing the budget that's then going to be acted on two years later.

So I think, you know, there's been a lot of lessons learned from the Inman days in terms of how to keep this program viable and working.

And I just want all of you to leave with despite the fact that there's challenges, we're trying to tell you we understand the challenges. We're incorporating them into how we do business. It's a strong program. It's not going anywhere. You may see a few less buildings and that's kind of my take on this thing.

If anything, I'd like to see us augment this with more money and a lot of you might be helpful in that regard so that we're back to building exactly the same number of buildings we were before. But we'll ride this out. It's not the end of the world. The program is strong.

Thank you.

MR. SHINNICK: Kathy's champions, it's about time.

MS. BETHANY: Doug, are you ready to go?

MR. NOONAN: Yes, I am.

MR. SHINNICK: That was perfect. That's what they need to hear.

MR. NOONAN: This is my first IAP meeting.

MS. BETHANY: You need to push the mike so that the recorder can --

MR. NOONAN: This is my first IAP meeting. And let me start by saying thank you for the opportunity to participate.

I'm here representing CoreNet Global which I was the past president of the New England chapter. I'm currently on the board for the New England chapter. And I'm also the vice president and head of Global Corporate Real Estate for Adidas Group.

And can I have the next slide, please, Andrea. Adidas Group is made up of four major brands, Adidas tailor made for the golfers in the room, Rock, Port, and Reebok.

Next slide, please. We are -- my group is responsible for the management and expansion of a portfolio that includes 179 offices, 45 distribution centers, and we think about 900 real estate operations. We're not done counting yet. A very significant portfolio, though, of about 16 million square feet.

Of that 16 million square feet, roughly four million is either new or renewed, particularly in the distribution area, in the last two years.

Next slide, please, Andrea. My organization is very straightforward. I report to the chairman of the board and the CEO in Germany. We have divided our responsibilities into three major theaters, the Americas, Eurasia, and Asian-Pacific, with a special slot for project management and anticipated future slots for retail real estate management and facilities management.

We're supported in our global efforts by Jones Lang LaSalle, who was chosen as an outsourced service provider two years ago. And we have developed, I think, a very good working relationship with them in the areas of transaction management, project management, and specialty services as we need around the globe.

So next slide, please, Andrea. Current projects just to give you an a sense of where we are working at the moment. Toronto, Canada. We have a mix. Our typical mix is either regional office, a theater-wide office, or distributions centers.

We are a -- we have been traditionally a wholesaling company, although that's changing. We're becoming more of a direct retailer, but our supply chain and distribution operations are critical to the company's success.

So you see a lot of distribution projects up here, but we're in Canada, we're in Panama, we're in Brazil with a couple of projects, Amsterdam, our headquarters in Germany, Dubai, The Ukraine, Russia, and soon to be in New Delhi with a major project. So we have quite a bit going on in a lot of different markets.

Next slide, please. What I'm going to talk to you about is our approach as to how we try to manage risk as it affects us. Now, clearly we're not subject to the same constraints or the same issues to the same degree that you are in your program. But I'll share with you what we do.

Our number one goal is to provide quality facilities for the company in a timely manner and at the lowest cost achievable for a quality project. We take two approaches in how we go forward, one being free-hold projects where we will own the project outright. And we typically look -- we don't do it often, but we typically look for projects where we can make a long-term commitment.

The projects are strategic in nature and, you know, undeniably necessary for the long-term success of our business or we try to exploit situations where it may be in our best interest to own the project if we can achieve a cost benefit going forward or schedule benefits going forward.

We also have unique situations which I don't think you find often, but we have situations where an investment in property may be in our best interest. We're anticipating -- if we go to the next slide, I think I have some examples.

You know, our headquarters' properties are typically long-term commitments, so we own them. In Montreal, Canada, we exploited an opportunity to reduce costs and improve schedule by owning the project. Dubai was a straight we can do the project much cheaper than we could through a landlord. And in Shanghai, China, we're anticipating an investment because of profit repatriation issues in China. We are going to put some of the money that we made in China to use as an investment in real property.

Next slide, please. Our more typically chosen strategy is to lease a property. We prefer this approach when there's volatility in either our business plan or in the market in which we -- in the market in which we are locating where we have schedule and cost issues or where there are other risks in the marketplace that we want to try and manage.

We typically try to limit the risks as we go forward and we try to do that by manipulating our lease terms. We will limit them to small terms with multiple extension options which will help us reset our pricing in the marketplace as opposed to gambling on whether our lease rate is going to track favorably or negatively with the market.

We absolutely try to limit cash deposits in any way, particularly in volatile markets. We do that by offering very significant parent company guarantee. When we have to use cash, we take great pains to structure appropriate guarantees and controls over the cash.

And in markets like in eastern Europe and Russia and Kiev, we've been -- it's been difficult, but we've been able to do that in markets. In the retail marketing career, for example, it's impossible to limit your cash deposit.

We have very significant nine figures worth of deposits out in over 300 different landlords with very limited protection on that money, so -- but it's a situation if you want to have a retail site in Korea, you're going to put up cash to the landlord.

So we also try to limit our risk by using sites that are permitted already. It helps us to manage our schedule risk in these markets. And we design to market standards. We try not to come in and create such a customized building that it will not serve the market in general.

We find that this gives us the best circumstance. It gives us the lowest construction cost and it allows the contractors to use technologies that they are comfortable with and that are achievable in their markets.

You know, case in point, our typical warehouse design in a developed market is to use tilt-up or pre-cast concrete construction. In eastern Europe, that's really not possible. The market is not in a position where they have developed these technologies yet, so accordingly we stay away from them. Their weather, particularly in Russia, also doesn't lend itself to these techniques. So --

MR. SHINNICK: Right. That's an interesting point. Do we do that in -- I know we have much stricter parameters and we don't have the flexibility that you in private --

MR. NOONAN: Right.

MR. SHINNICK: -- industry have. So as I'm listening, I'm thinking, well, we can't do a lot of that. But some of that in a warehouse which is not a -- you know, doesn't have the security requirements of a building, can we look at that like what --

MR. TOUSSAINT: Different options?

MR. SHINNICK: Yeah.

MR. TOUSSAINT: Yes.

MR. SHINNICK: We do?

MR. TOUSSAINT: But they usually come out the same way.

MR. SHINNICK: Usually. Okay. Thank you.

MR. NOONAN: That's okay, because we look at them in many markets and it just can't be done.

You know, many years ago with a previous employer, we went into Mexico and we built the first tilt-up warehouse in Mexico. They hadn't -- it was a technology that we basically taught them, so -- but we looked to exploit what the contractors in given markets are good at as opposed to try and teach them --

MR. SHINNICK: Yeah. To be fair to my own guys, they are looking at all this geographic sensitivity on the type of systems, et cetera. And I just -- so they're not -- it's not that this is a new concept, but --

MR. NOONAN: Oh, no.

MR. SHINNICK: -- I hadn't heard it in relation to warehouses. So that's why I asked that.

MR. TOUSSAINT: If I --

MR. NOONAN: Sure, yeah.

MR. TOUSSAINT: Not to interrupt the flow, but just on this one point, we have even, and our partners in this are contractors --

MR. SHINNICK: Right.

MR. TOUSSAINT: -- tend not to be on -- want to be on the bleeding edge of this because we have a very -- as a mission as to move people into safe, secure facilities, we have compressed -- time is important to us. We have compressed schedules. And they don't want to try new technologies in certain locations.

So we've come up with some innovative ways of different types of curtain walls --

MR. SHINNICK: As I said --

MR. TOUSSAINT: -- and they say thank you very much. We'll let the other person do that first before we try it. They like to stay with basically the tried and true.

MR. SHINNICK: Well, good. That's what we're here for, to have this kind of exchange.

MR. NOONAN: We agree with that because we don't like to be on the bleeding edge either. It's high risk and it's oftentimes low rewards. So we allow others to break the new ground and once technologies are proven, we'll adopt them.

MR. SHINNICK: We saw your high risk

strategy.

MR. NOONAN: Well, in our business, it's not -- you know, this approach really helps us to keep it under control.

MR. SHINNICK: Right.

MR. NOONAN: And it gives us the flexibility. Everything we do is with an eye towards flexibility because while we are designing to a business plan and a forecast for sales, it's -- the forecast is often wrong. And if it's wrong and we're too small, we've provided too small a facility, that's a manageable circumstance.

But we have cases right now with markets changing, particularly in North America. The market is very soft in North America for our products, not only for us but for our competitors as well.

We're finishing two million square feet of distribution facilities in South Carolina right now that are conservatively about 750,000 square too many for the market as it now shapes up.

So, you know, we're constantly looking at how can we achieve maximum building flexibility as we go forward.

In Russia, for example, we've been much more cautious about how we planned our facility and we are building to a very tight standard, but with the ability to add another 25 percent to the project within 18 months if we require it, which is, I think, a good response to concern over the stability of the business plan.

We've also --

MR. SHINNICK: (Unintelligible.)

MR. NOONAN: That's true. So we -- our Treasury Department hedges our currency issues around the world. We conduct our business in euros and our performance management for projects is in euros, but we execute in local currency. And that can be a problem.

You know, in Russia, for example, we conduct our business in dollars. So, you know, we have to -- we're trying to hedge there a little bit to protect the downside.

We try to use when we can an open-book approach. We prefer that. We are active participants in the management of our projects around the world. And we feel we can help a contractor achieve his goals while achieving ours at the same time, so we play a very active role.

We do like open book, but we won't do open book without a guaranteed maximum price. You know, in the end, you know, an open -- a truly open and unlimited book is not in our best interest and we avoid it.

We do try to structure savings sharing situations around the world. And in some cases, it's easily done. In other cases, it's a concept that the market is not really ready for and contractors are not and developers are not prepared to do that.

The last item here is of particular interest because we've been able to successfully negotiate, and this would not apply to any of your projects unfortunately, we have been successful in negotiating a sharing of profit upon sale of the project.

But, I mean, Adidas Group brings very strong -- a very strong covenant to the markets that we go into when we lease a property. That creates tremendous value for developers. You know, the strength of our credit allows for very -- usually a very profitable sale of the project they've created for us. And we've been able to get agreement where we share in those profits beyond a reasonable development return. And that has worked very nicely for us.

One other item that we fold in here, this is part of our strategy, is on -- you had in your slide, Kathy, you know, owner or customer-purchased materials. We do that as well. We think that's very important for certain systems, particularly our IT systems and security systems that we employ. While our security needs are a little bit different than yours, they are still quite extensive and we typically design and procure and install those ourselves.

So we also -- you know, FF&E furniture, fixtures, equipment of that type that is used in personal property used in the conduct of the business and the facility we provide as well. And we manage the installation of those.

Can I have the next slide, please, Andrea. So in terms of risk management, you know, we're trying to cover the risks that are illustrated here. And these are the typical techniques that we try to employ going forward.

You know, the thing we're finding, as Ken pointed out and as Andrea has pointed out in her presentation, we're subject to the same rising costs that everybody is. Yields for landlords are rising and that's reflecting itself in higher rental rates. And, you know, while it hasn't gotten to a point where it's out of hand for us given the types of facilities that we're designing, it is clearly a trend and we are watching it very carefully.

So that's it. So --

MR. SHINNICK: Can I ask one question --

MR. NOONAN: Yes, you may.

MR. SHINNICK: -- that may display my ignorance? Open book, just give me a (unintelligible) open book.

MR. NOONAN: Open book as we define it, and I think, you know, as most define it, is a contracting condition where the contractor is sharing with you his bidding -- his subcontracting bidding process or the cost for his materials and they are available for us to review and discuss with him.

A case in point, when we built the World Headquarters for Reebok outside of Boston in 1999, we did an open-book, guaranteed maximum price approach where every subcontract that was awarded by our construction managers was approved by me before it went forward.

We weren't a party to the contract, but we got to select who was used. Now, in, you know, 90 cases out of 100, we selected the lowest bid for each of those subcontracts, but there were occasions where either our experience or the contractor's experience was such that we chose someone who was not the lowest bid.

So we knew at every step where the actual costs were and how the project was coming in. And as it turns out, there were no savings. But by the same token, there was no overrun either. We came out pretty much right on the nose. So --

MR. SHINNICK: Thank you.

MR. NOONAN: You're welcome.

MS. BETHANY: Interesting. Thank you.

MR. NOONAN: Other questions? No. Okay.

MS. BETHANY: Well, we'll also have a little bit of time at the end for questions on any of the panel members.

So I'm going to turn it over to Satch for his presentation.

MR. PECORI: Good morning. My name is Sergio Pecori. You've heard my name Satch. It's a nickname I picked up as an immigrant here as a young kid, but it's mainly --

MR. SHINNICK: (Unintelligible.)

MR. PECORI: Exactly. Exactly. That's what my mother calls me.

MR. SHINNICK: That's good.

MR. PECORI: I'm the president and CEO of an engineering architectural firm called Hanson Professional Services. We have about 450 people, 20 offices around the country, and we're headquartered in Abraham Lincoln's hometown of Springfield, Illinois.

My presentation today is basically going to just cover the seven questions that Kathy and I came up with, I guess about a week ago. And I put these questions out to some of our people and some of our industry members to try to get some answers on what they thought was important.

So I'm going to basically go through those and then I'll give you some examples of how some of our projects and maybe one or two other projects from some of our member companies fit into some of the questions.

First slide, please. Cost management in a changing construction marketplace. When I first saw this question, it kind of threw me. I thought, my God, we better come up with some ideas here. Otherwise, we're all going to go crazy trying to figure out exactly what that means or how broad it is.

Next slide. So we came up with seven questions, seven items. And these are the items that

Kathy covered. She covered one more and it was labor cost, Expat labor cost. But I'm going to go through each one of these questions and give you some ideas on what we think.

I am the AC/EC representative to the OBO just to let you know that.

Next slide. Material costs. We're practical. Material costs and equipment are contracted for or pre-purchased at prevailing market prices. You've heard that mentioned several times today. For long-term projects, materials are stored until needed. This has worked real well for us and it's given some of our clients and customers a real sense of security.

I can give you a couple examples here. We're the engineers for the broadcasters, and I heard Ken earlier talk about the new conversion from digital to

-- analog to digital. We're the firm that's designing the replacement of all the broadcast facilities, the transmitters and the new World Trade Center in New York.

And what we've done there is we know that the project will -- the actual schedule is going to be coming out here at the end of the month, but we approximated the -- our work to come into play in about five or more years. And in order for our client to feel comfortable, what we did was we arranged to pre-purchase all the copper cable because there's a lot of copper cable when you're dealing with broadcast facilities.

The HVAC equipment, all the stand-by generators, and there's ten megawatts of stand-by power to give you an idea how large a facility for stand-by power it takes to keep one of those up if the power goes off, all the associated switch gear at current prices.

We were able to lock in these costs and even with the additional cost of storing the equipment and the materials, it really gives our customers that sense that they're going to have the equipment, the equipment they want when they need it. They're going to want to broadcast as soon as possible when they can get into that facility. So that gives you an idea of what we've done over here.

In Kuwait on a large broadcast facility, we were part of a design build team. And during the proposal stage, we made arrangements, I should say, our contractor, European contractor made arrangements with suppliers to guarantee current prices for cement, reinforced steel, structural steel, and other materials.

They agreed to set aside the quantities and materials we needed and locked in a price and we paid a small premium. I should say the contractor paid a small premium, about five to ten percent over that current market rate.

So with the award, as soon as that award happened and they were confident that -- relatively confident that they were going to be successful, they -- those dollars were advanced to the contractor for the purchase of materials after the contract was signed.

So that's kind of a couple examples of material costs.

Fuel costs, how are you able to manage the rise of fuel costs. We took a look at this a little different than Kathy on looking at how do you transport containers and other equipment to a site. Typically the answer that we have up here is consumable items that are subject to market fluctuations are generally a project reimbursable item that is passed on to the owner. That's probably more true in industry than it is in government.

But to give you an example of the way we looked at this, we did a project in São Tomé off the west coast of Africa. It was a large broadcast, high-power broadcast facility that relied on five megawatts of site generated power 24/7. And there was no power on the island, just one small generator that worked infrequently.

We reconfigured the electrical system to allow for load shedding of the power plant to meet the station's loads as they vary throughout the day. The plant could operate on either five engine generators or one house generator depending on the transmitter broadcast schedule.

The design also incorporated a bulk fuel storage facility so that the government could purchase, deliver, and store up to 250,000 gallons of diesel fuel. And the benefit for the bulk purchase was the discounts and the reduced number of deliveries at the location.

So it was more of a power use it when you need it. You've got the fuel there and it worked and it's still working and it's working very fine actually.

Currency fluctuations, how do you manage project costs and pricing based upon foreign currency exchange? Contract terms can be agreed to which allow price or cost adjustments based on currency fluctuations when funds are actually expended. And alternately currency futures can be purchased to protect downside fluctuations.

Now, this is kind of a different approach. But on a design build project that we were involved in in Djibouti a couple years ago, we were teamed again with a European based contractor, manufacturer. And they purchased U.S. dollars on the future market to lock up the exchange rate from euros to dollars.

And the futures contract expiration date was within the period of the contract. And the contract was awarded to our team and the futures contract was exercised. And the team didn't suffer from any fluctuation on the dollar even though the dollar kept falling against the euro.

The small price of the currency option was more than worthwhile, the insurance on the currency fluctuation. I checked with our senior project manager that worked on that project. That was really tense because they did it only for three months. And I asked him, I said what was the cost for that and he said it was about three to five percent just to get a feel for what that was.

MR. SHINNICK: (Unintelligible.)

MR. PECORI: I think what they did was they were just trying to secure the rate that they --

MR. SHINNICK: Right.

MR. PECORI: -- that they went in. I don't know what the gain was.

MR. SHINNICK: What the actual rate was.

MR. PECORI: I don't know. I think what they -- they had a short option for that amount and they got the amount that they --

MR. SHINNICK: Right.

MR. PECORI: -- should basically. They didn't get a gain. They just got what they were planning.

MR. SHINNICK: Okay.

MR. PECORI: Under the general conditions, next slide, please, generally the general conditions, costs are treated as a reimbursable item passed on to the owner. We worked with the owner to minimize the effect of price escalation by pre-purchase agreements.

And you see that a lot in this. Pre-purchase agreements are pretty -- are -- seem to be a very -- a good way to go right now.

And careful and planning scheduling. And, again, this kind of falls in with what was just previously said about open book. Right now we're working on a project with a confidential client and we're partnering in -- partnering with this client so that the general conditions are accounted for in an open-book basis with a fixed fee so that the client can audit the fluctuations and the general condition cost items.

The open book really gives the client, and just like in your case, it gives the client the feeling that they see all the numbers. They see all the labor costs. They see all the subcontractor costs. And then they actually know what the profit is going to be from the team that's going to do the work because it's a fee on the overall cost of the project. So that's kind of an example that fits that.

Cost control and budgeting, kind of three different items here on the cost control. And, again, these are nothing out of the ordinary. The first one by implementing stringent construction management cost reporting and controls. That's always the main factor.

Through partnering with other team members and inclusion, early project completion incentives, we've seen that to be -- incentivizing people seems to make the projects come in on budget or under budget through strategic planning and scheduling for purchasing of long lead items and locking in costs for equipment and materials.

I guess the whole theme through all this is pre-purchase and locking up items that take a long time to purchase.

And we have an example here of a project that we did on the west coast of Africa where we were working with a client for a time completion bonus and the schedule was met and the client again was satisfied and the team shared in the bonus of early completion.

Pre-purchase agreements, the question was, do you pre-purchase -- do you use pre-purchase agreements. If yes, how and to what extent are these agreements implemented.

Pre-purchase agreements are used as follows: Procurement of long lead items such as power generation equipment, mechanical HVAC systems, that's typically what you see because I know working in -- on a power plant in our hometown of Springfield, the city pre-purchased equipment three years in advance. Some of the city fathers took a chance on doing that. Now they're looking like heroes because the lead time is so long and if you can even get it.

Following in Ken's remarks about how the power industry is really taking off, the equipment side is the same situation there.

Pre-purchase agreements are also made with material suppliers well in advance. Again, the things that we've talked about. Suppliers can benefit from bulk procurement and predetermined scope of supplies.

Again, the work that we're doing at the Freedom Tower is another example of that that I mentioned earlier about the pre-purchase.

And security, again, we looked at security a little differently than you did, Kathy, and it's probably because of some of the projects that we're working on are in areas that are not too safe just to be there without construction.

Our typical security costs are just treated as reimbursables if it's not a construction cost. If we're going in to take a look at a project, it might be more like Jay's planning part when you're doing some up-front planning and you need security costs, security assistance when you're going to a site. We typically pass those on to the owner.

A project in point, after the initial air strikes in Afghanistan, we performed some critical site surveys on the outskirts of Kabul on behalf of the U.S. and the Afghan government. And security was a major concern.

I mean, coming into Kabul from Islamabad on a U.S. airplane -- on a UN plane, a couple of our folks were met by our teams who provided security to go out to the site for the survey to see how we needed to come back with plans and specs to rehab a communications center.

So with cases like that, we have those as reimbursable items and it's a pass through to the owner. And this was a government agency, U.S. government agency.

And to give you an idea of the costs there because it was such a tough area at the beginning, the costs for reimbursement was 50 to 75 percent of the original cost of the work.

And that pretty much wraps up the comments that I have.

MS. BETHANY: Okay. Thank you. I guess we have a few minutes for some questions or comments from any of the other panel members.

MR. SHINNICK: Take some questions, but -- yeah. There's one thing I just wanted to go back, if

I could, to Doug for a minute.

When you were showing your organizational chart up there, I might have misheard you because my hearing is going along with everything else, you said that there were a couple of open slots.

MR. NOONAN: Uh-huh.

MR. SHINNICK: And one was for facilities.

MR. NOONAN: Yes.

MR. SHINNICK: And there was another one too.

MR. NOONAN: It was for retail, for our own retail program.

MR. SHINNICK: Okay. But on the facilities, the open slot indicated that just it was temporarily open?

MR. NOONAN: No. It's open for future. We're going to apply that in the future. We're building up our staff in a fairly measured way --

MR. SHINNICK: I see.

MR. NOONAN: -- and trying to digest high value operations first. And then facilities right now is handled in different ways. I'm actually responsible right now for facilities management for all Reebok facilities worldwide.

MR. SHINNICK: Right.

MR. NOONAN: But as the politics, the -- getting the alignment within the company, we've decided that that's for late next year or 2010.

MR. SHINNICK: Okay. We -- the reason I trigger that is that we made a change there with our facilities branch as I explained before.

MR. NOONAN: Yeah. We're moving in the same direction because when -- during my Reebok days, we were an integrated real estate design and construction and facilities operation which is in our experience the most effective way for us to go.

Adidas is not that way, but we are going to try over the next few years to bring it together.

MR. SHINNICK: Good. Very good. Thank you. We'll throw it open.

MS. BETHANY: (Unintelligible.)

MR. PECORI: Could I ask Ken a question? I'm sorry.

MS. BETHANY: Go ahead. That's okay.

MR. PECORI: Ken, you had numbers six to eight percent increase in material costs for 2009. What -- on your slide, I believe I saw that. What would be your guess or what's your thoughts on all the materials that are going to be needed in Texas, Louisiana? What do you think that's going to do with all the rebuilding? What do you think that's going to do to the price? Obviously it's going to go up. Do you have any feel for any metrics, what Katrina did or Rita?

MR. SIMONSON: Yeah. I think this is one of the most misunderstood areas that -- the U.S. economy is so large that even in an event as devastating as

Katrina did not have a lasting effect on materials cost.

The way in which hurricanes seem to affect costs other than a very quick hit to things like wallboard or lumber costs when you're trying to board up stuff or repair things that have gotten soaked, the major impact for the rest of the country is through supply interruptions.

And with Katrina and Rita combined, we lost 160 oil and gas producing platforms. The pipes under the Gulf were torn up. The 16 refineries were down for varying periods of time and gas processing plants, dozens of them were disrupted.

So the biggest impact was on the supply of diesel fuel, asphalt, and construction plastics like PVC and, of course, gasoline for consumers.

And with this event, I -- what I have heard so far, and I've been going back to web sites, places like Dow and Formosa Plastics, they say that their facilities are pretty much undamaged. They're having to phase in the restart because they need power. They need the raw material flows for refineries and transportation to deliver materials once they've produced it.

But it doesn't sound as if the actual production facilities will be off line for very long. So they may have declared force majeure meaning they're not guaranteeing deliveries of things that they had contractually agreed to do, but I don't think we're going to see a lasting impact.

And in terms of delivering stuff to the areas where there was damage, yes, it may affect some very specialized refinery equipment or something, but I don't think there will be general impact on the run of construction equipment.

I guess another example is with the hurricanes of '04 that went through Florida. I think there were five of them that year. I was told that elevator systems had been damaged and that there was a long backlog of elevator controls.

So you can get something where you need a very specific item, but the -- even though there was widespread damage to property and unlike Katrina, properties were still standing and largely re-inhabitable over time, there wasn't a lasting effect on materials costs.

In fact, gypsum prices started down -- well, gypsum prices did continue up, but I don't think it was largely from the hurricane repair. It was just the generally hot market that was continuing in housing and at the time, the nonresidential construction starting to pick up.

MR. BROWN: Bill Brown representing SAME.

As I sit here listening to the presentations, my take-away is that we're in a period of turbulence and that there are many things we can do, but I also yesterday as I got on the elevator in my building, I ran into the designer of the embassy in Yemen. And he said to me, have you heard the news. And I said yes. And he said with the loss of life, I'm pleased that my embassy, my embassy performed.

And I thought about that. And as I thought about that, it suddenly occurred to me that there needs to be a PR program that carries to the public, if you would, the message of the performance of your buildings. I mean, they are performing in very, very difficult situations doing a remarkable job.

And, you know, we talk about people in uniform being on point for the nation, but we rarely talk about State Department people being on point for the nation. And you are on point. You're out there and performing under very, very difficult situations.

And so I would say that anything we can do to carry the message about the performance of the buildings and under very dramatic circumstances would be a plus.

The other thing is I was thinking on the comment on foreign currency fluctuation which I think is a double-edged sword from my federal days because when it works in your favor, it's great. It's when it doesn't work in your favor.

MS. BETHANY: Yes.

MR. BROWN: And the concept of a part of money is great except when it comes budget time and that part is sitting out there. It seems to disappear.

And so the question I asked myself was that we're looking at the various materials and finishes and features and processes, but have we also looked at management flexibility? Is there something -- some authority that could be given to you that would help in this turbulent time?

And to give you an example, when I was a federal official, I asked each year if I could have program authority and not line item approval review.

Just let me handle the program and not have to come back with every item. I said it for many years. I never got the authority. But every year, that was my standard speech.

And so my question is --

MR. SHINNICK: Well, let -- could we -- not to break your train of thought, but there's a man who struggles with our authorities every day. I look -- he's smiling already.

Why don't you give Bill some idea of the difficulties we face there on getting those kind of program flexibilities?

Hooray for you. Great idea. We struggle with that all the time.

MR. HOCHULI: We actually go -- we go through a double process. We submit projects in a budget and then we have to go through a -- in essence a fin (phonetic) plan, a programming at the beginning of each year to once again explain the same projects in some cases. Sometimes they're different because of the do-ability nature, whether we've got a site or not.

There's other flexibilities I've had at previous jobs, for example, the ability to invest funds. So with the construction, you know, we fully fund projects up front. The opportunity to invest the money until we need it will allow me to -- give me, you know, additional funds coming in.

MR. BROWN: Excellent. Excellent. Great.

MR. SHINNICK: And, Bill, let me add one thing to that, what one of our problems is. You were mentioning flexibility in the program and not line item, but program flexibility.

We put a program, if you will, on the street. It's not on the street. It's up on the Hill and it's in various other oversight groups that control what we do.

And, unfortunately or -- we are in a very

dynamic environment. Sana'a illustrates exactly what the situation is. And without giving away any national security information, when something happens in Sana'a, you get concern about related groupings of posts in certain areas, et cetera, et cetera, depending on the
-- who you believe the perpetrators are.

Well, we -- and also external policy factors drive you to certain program requirements. For instance, we are right now -- I'm still at newspaper reader level. You see the situation in Pakistan is even more dynamic than it was in the past.

And we were in situation where one of the reasons for Inman was, you know, they destroyed -- we had the problem where our embassy was actually burnt down in Pakistan. And priorities shift and we need to build up in one area and build -- and not build up in another area.

So we put a plan on the street, Jay, et

cetera, and Jurg and our congressional guys. We put a program on the street and, okay, we get an approval for that and then conditions change. Conditions change. We can't get a site. Something happens.

And we go back and say, well, we need that program flexibility. And, yes, we'll get our program through. But on the way, we get roundly criticized for not knowing what we want.

Well, we want what we need at the day that we're up there and that can change very quickly in the foreign policy and the United States government business. And there's actually a technical term they use for it. They call it churn. Well, we're churning all the time.

And we don't need as much program flexibility. We can really get that. If we could only get program understanding that churn is a result of the environment we operate in and not as a result of poor planning.

I can turn around to Jay and say why didn't you anticipate what was going to happen in Pakistan. Well, I mean, give me a break. Who did at any level of government?

And the thing is we have an organization that's a combination of foreign policy people in the sense that Foreign Service officers are in the organization and we have repaired our connections to the building, as we call it, to the State Department so that we get more policy input into the kind of decisions we're making.

But, you know, you have put your finger on one of our big problems is we use program authority/flexibility and as we work with our -- I won't call them any pejorative term. I won't even use masses. But as we work with our interlocutors throughout the Executive and Legislative branches, you know. We're just one -- we think we're the most important program in the world, but we also had the realization we're one program, which leads me to your PR thing.

We had a meeting where Sana’a was breaking and we know that inside the organization, we realized that what we do is important. And Joe coined a term we have used now in one of our traveling demonstrations. We're sending our models around to other government agencies of embassies we built, the first one being the embassy in China which was a major achievement for you folks that were involved in that or heard about that, a major achievement. President cut the ribbon and we now have sent that model out to the Central Intelligence Agency as far as trying to develop the kind of PR program that you're talking about, at least at the government level.

But Joe Toussaint had a little catch phrase he -- we're using in that. He said it to me early on. He said at OBO, we're here because they're there, you know, and that kind of says a lot about, you know, how we view ourselves as an organization in a direct support sense, in the sense of the military framework that you operate in.

So we have to do -- and I'm going to ask Jonathan Blyth who is our -- the closest thing we have to a PR guy. He handles our press, handles the Hill, et cetera, et cetera. He's unfortunately sailing the ocean blue in what they now call a gray hoe. I just heard that other day. It's a new way to describe the Navy. But he's out there with the Navy in a gray hoe for these couple of weeks.

So we're without his -- him, but I'm going to ask him, Bill. You know, he's working on this in an abstract way, but I'm going to ask him, you stuck your head out, we're going to take you up on that and we'll come to you and see what kind of other ideas, you know, he might have as ways we can do that. So thank you.

MR. BROWN: Be more than happy to work on that.

MR. SHINNICK: Thank you.

MR. BROWN: My final comment would be, and maybe it's time that you need to look at a BRAC program, the State Department.

MR. SHINNICK: Ooh.

MR. BROWN: And I'm using the terminology in a broad sense, but the concept behind that kind of program.

Is there a compelling need that you have where you can make that argument and take it there and cope with the turbulence and make the argument that, you know, you need to buy now? And that would raise your 1.4 billion and also, you know, allow you to jumpstart, if you would.

MR. SHINNICK: Well, we have, again seated on my left, we have the kind of -- yeah. The BRAC program, that kind of concept is what we need. But because we are BRAC'ing in several directions right now, we're working with our chief financial officer and OMB trying to get a break-through on housing. We have massive housing requirements overseas and we have places in which construction of housing clearly makes sense.

We do a business case before we do build housing overseas and that's to the chagrin of many of our ambassadors who the first thing they get there and many of them from -- well, a number of them from the construction industry and from the real estate industry who made their bones or money, if you will, in, you know, in those industries.

And what do they get out there? The first thing they want to do is property development like any of you guys were made the ambassador to anywhere. You know, what do you do? You concentrate on what you know.

So the first thing you'd be doing is I want to build something and I want to do property development and I want to use asset manager and property utilization to get there. Sometimes we have to explain to them, albeit that they're businessmen, return on investment means, yes, great idea, but not your country. They're very unhappy when they hear that.

But you're absolutely right. We do need to BRAC. And the major area where we need to BRAC is in housing. That's the first thing that we need to BRAC.

And Jay has a program that's just kicking working with our chief financial officer who has been, you know, been -- realizing that our leasing costs are sky high and getting worse every year. They're getting worse every month in some places. You guys operate in some of these places.

Dubai, how would you like to send a construction executive from your -- from any one of your firms to Dubai and pay his rent or her rent for a year or two? You see the problem that we run up with and I have to approve lease waivers.

Every lease that -- for property we lease over $50,000 needs a personal chop by the director. And these things come up to me and say -- and these are based on not only cost standards, but they're based on size standards.

Well, our size standards were developed in conjunction with the Congress and at the time, I was in OBO for my first tour too many years ago. And the size standards came from what were we living in then was the idea. And this is 18 years ago.

Let's survey what we're living in in Reston and Alexandria or in Gaithersburg. What do FSOs when they're home live in? And they don't live in palaces obviously because they couldn't afford it. So that baseline data provided us with the space standards that we apply overseas. Great.

Unfortunately, many of the places in the world where we're in, there's no middle -- there is no

Gaithersburg. There is no -- you know, there may be a -- there is a Fairfax County, but it's the high end of the Fairfax. It's the -- what they build out there for their people who work at our levels are mega mansions.

Well, the answer is it's a mega mansion or you're under a bridge. You know, there's no middle-class housing available and the limit is 50,000. So I spend a lot of my time, you know, dealing with this.

And so my drive is to get these things off my desk and at the -- you know, for a selfish motive and to reduce our lease costs is exactly what you said. We need a BRAC and the place we need the BRAC is housing.

And I'm proud to be able to say to you that we have the kind of talented staff that I don't just have to say, oh, that's a good idea, we'll look at that.

Jay, you want to say a quick word on the

BRAC'ing of the housing, you know?

MR. HICKS: Well, just as it relates to housing, we do some of the risk management that you were talking, Doug. And, you know, we lease housing and we look for opportunities where we can get a good return on investment and we buy. It's how we sort of hedge our risk in the housing market out there.

And I'm happy to say we've had good OMB and Hill support. And, you know, we used to beg and borrow for sale proceeds every year we sell property, take what money we couldn't buy housing.

In the '10 budget, we've got $25 million set aside as appropriated monies, not asset management monies. Hoping I can keep the asset management money too. But, yeah, we're trying to be savvy as you are in the marketplace and take some of those best practices that we've seen elsewhere in government and industry and apply them to what we're doing.

MR. SHINNICK: And this kind of a group

helps us because it arms us with the insights that you provide and it also gives the ability to cite, if you will, the kind of testimony that you give, you know. It's a shameless exploitation, but new transparency on OBO is -- your testimony is the kind of stuff we need to bolster our arguments and we get new insights every time we meet.

Unfortunately, we're going to meet again. We have to cut this meeting short. We'll meet again this afternoon. But the logistics of lunch today require a little more discipline.

And as un-American as it seems to say this, I'd ask if the members of the panel could leave first because we're going to put you in the bus. And everybody else just sit one minute till they get out of here because we want to take them as a group because they have to hand in their ID cards and all of that rigmarole to merely get back in the building.

So everybody else, we got a juggler coming in that's going to amuse the rest of you in your seats. So just give them one minute to get out.

MS. BETHANY: And obviously we can continue the discussion over lunch.

(Whereupon, there was a luncheon recess.)

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A F T E R N O O N S E S S I O N

MR. SHINNICK: I think we're ready to proceed with the afternoon program. And I'm looking for Will Colston, I think, who's running the first session, I believe.

MR. TOUSSAINT: No. Rob McKinnie is.

MR. SHINNICK: Rob McKinnie. Where is Rob McKinnie?

MR. MCKINNIE: Here.

MR. SHINNICK: All right. As you see, I'm flipping through the program here trying to catch up, but Rob won't take any umbrage.

And Dan Hogan, where's Dan?

VOICE: Dan is over working on the revamped (unintelligible).

MR. SHINNICK: Dan is working on the realignment stuff. Brings warmth to my heart.

MR. MCKINNIE: Absolutely. He's got a deadline that he's working on, so he's diligently working on that so that he won't be in trouble.

MR. SHINNICK: Good deal.

MR. MCKINNIE: Good afternoon, everyone. The topic for the afternoon is partnering and the topic two, if you haven't read it, what partnering principles can be incorporated into the contract documents and how they can be best implemented by the partnering teams.

My name is Robert McKinnie for those who don't remember as the director introduced me earlier managing for construction commissioning and maintenance.

And I have three partners who are working with me, Dr. Chris Smith here on this side and I have

Bill Brown, the SAME representative is here, and I have Kristine over on that side. And they will also be talking briefly.

I will go through a few slides and give you a sense of what our experience with OBO's partnering is on a number of projects that I've been working on. And after that, we will move to Bill and to Chris and then to Kristine. And they will discuss partnering from their perspective.

The next slide. I've looked around as Kristine and I were talking earlier. Previously there was not a lot of information about partnering. In the past few recent terms -- times, there are goo-gobs of information, research books, papers, pamphlets, documents about partnering. And every organization seems to have its own definition.

And one of the more simplistic definitions that I found was a definition from the Department of Transportation's program on partnering. And it goes, as you can read, a process of collaborative teamwork to achieve measurable results through agreements and productive working relationships.

Some organizations do a good job of partnering. Some don't. And some don't do it at all.

On the next slide, we talk about OBO's partnering experience. And the idea behind these slides is simply to give you a sense of what OBO has done in the past on partnering. And I will talk about three experiences that I've been involved in on the next slide.

We've got three slides there and these are the three experiences, the three projects that I've been involved in.

The very first one in the early 1990s on partnering was a project for an embassy in South America. And in the mid 1990s, we took a project and we did partnering on it in south Asia. And in the late '90s, a project in Africa, an embassy in Africa that we did partnering on.

And I've done and listed the items or the activities, the tasks associated with each as a comparison. On the first project, we had an American contractor, the second one, a local contractor, and the last one, American contractor.

The different levels of participation from OBO. On the first one, we had an office director involved. On the next one, we had a step down to division director. And on the last project in Africa, we had a -- the head of the agency, the head of OBO participate in our partnering. And the difference was drastic.

From the contractor's perspective, the highest level on the first project was a company vice president. On the middle one, the local company, the actual company director participated. Vice president on the one in Africa participated.

The very first project back in the 1990s was a project in South America where we all met as a group for the partnering meeting. There were 53 people that showed up for the first partnering session, so you can imagine the expense that we -- that was involved in bringing all of us together for that first partnering event.

The next one took place in south Asia. Only 14 people participated and the contractor had very, very little knowledge of partnering and what to do as a team member for the partnering concept, but he actually was agreeable to participating in that, in the partnering effort.

And on the second one, we had 33 people that actually showed up at the site to participate in the partnering meeting.

So the locations actually make a difference in how successful, I think, in the partnering effort.

In all three cases, the customer, which is in our case the embassy post for the -- where the location was actually being built, those -- they had staff members that actually participated as members of the partnering team.

In two situations, the first and the last, which had the two American contractors, we had facilitators -- a facilitator. In the middle case, in south Asia, we did not have a facilitator.

In all three cases, we used the project definition rating index as a tool to measure the success or what was anticipated to be the success of the project.

Again, in the first and the last, we actually had formal partnering agreements that the team members signed. In the middle one, in south Asia, we did not have a partnering agreement that we all signed, but it was understood that we were doing partnering and the contractor and all of the team members signed up to it informally, unofficially.

And the results, the first and the last were success in our terms that we got our facilities built relatively reasonable time frame within the time, within the budget anticipated. In the middle one, it was marginally successful and the contractor was new to the program and didn't quite grasp concepts of our RFP and our contract documents, but we ultimately completed the project.

On the next slide, the three things that transcend or go through all of the projects were from the OBO team members' perspective that everybody was very much interested in having everyone else's trust, commitment, and they all wanted to be a part of a team and have excellent working relationship, positive working relationship.

The second thing that came through is everybody wanted to solve problems. Everybody wanted to make sure that their issues were addressed and helping reach the goals established by the project team. Everyone wanted some feedback. Everyone wanted to be able to improve the process and to measure the success of it. Those were the things that I saw as recurring at all three partnering efforts.

On the next slide, the general principle of trust, commitment, teamwork, and relationship, our mandate by the Congress is to move our staff into safe, secure, functional facilities. Everybody thought that was an important thing to have. Everyone on the team was committed to do that.

In recent times, we've actually changed -- our numbers of contractors have gone down, so everyone in the team was always working to stay in the pool. So there was a commitment from that vantage point.

It was also understood by everyone on the team that if the contractor failed, then everyone on the team failed or the mission failed. The motto was we were in this together. Just a sense of the first principle.

On this next slide, as I said earlier, issue resolution. Everyone was concerned about making certain that they got responses to their queries and questions. The IDR process, what we call our integrated design review process and resolution meetings, those were introduced into our orders of business that we have. The order of precedence was also introduced into the way we do business.

And the next thing unofficially, the next slide shows how we tackled problems and we tried to tackle it from the lowest level possible, meaning that the person closest to the matter, that's closest to the issue will work to resolve the problem without elevating it.

And you can see that we start with the designers on the site and the designers will work with the technical teams. And if it's not resolved at that level, we take it up one to the AE, project manager, the OBO's design manager. If it didn't, then we would keep going to the construction phase.

We will have resolved -- hopefully will have resolved everything, but we take it into the field. Ultimately if it's not resolved, it ends up in a claim, which is what we didn't want.

On the next slide, we talk about the next principle. Everyone looked for feedback and continue with improvement. This is an important aspect of partnering, particularly for the OBO team members that were involved.

Some of the things that we looked at or we worked with in terms of feedback, making certain that our contractors got feedback and that our contractors gave us feedback.

Believe it or not, our contractor gives us feedback, but it's usually in the form of memos and letters back to use for the project director on site. So we got feedback.

We give our contractors feedback through an annual evaluation and also in a final evaluation. So there's an opportunity for us to give feedback.

And we get feedback from the industry in forums such as this and the IAP as well as meetings that we have quarterly with the AGC. We have dialogue with the AGC quarterly. So that's an opportunity for us to have feedback.

Believe it or not, bidder prequalification is an opportunity for feedback. If the contractor has not received successful ratings, that's an opportunity for feedback. They will know that.

Customer service satisfaction surveys, we send those out at the project -- from the project directors and our staff to get feedback from the recipients or the customers at the embassy. That's an opportunity for us to get feedback.

One of the most important ones is lessons learned. We are always interested in lessons learned. And thanks to our design engineering group, which has -- is responsible for the lessons learned, Brian

Schmuecker and Bill Miner's group, we actually have a point of contact from our construction group that is a strong participant in the lessons learned group. So that's an opportunity for us.

But the biggest and most recent change that we've got feedback on is our RFP. So we're in the process of revamping our RFP, having a strong look at that particular aspect of our operations.

And the next slide shows the bottom line. It's all about attitude. It's all about relationship. If there's not a positive attitude, good working relationship, you're going to have a marginally successful project at the end of the day. You've got to have a commitment from everyone that's participating on the team, working to keep everybody working towards the same goal of moving people into safe and secure facilities at the end.

But contractors are very much concerned as is our U.S. government staff about quick and rapid, efficient conflict resolution and that's what we've got to work with our -- within our IDR process. That's one of the things that helps us, and that we are a learning and results organization that really, really is interested in improvement. That's good for us to get feedback.

One of the interesting things to note about all of this is we've had those presentations of those partnering sessions back in the '90s and we've not had any since. So just to give you a sense of what we've got in the partnering world.

And I will turn it over at this point and Bill Brown can share his experiences on partnering with the group.

MR. BROWN: Thank you, Rob.

MR. MCKINNIE: Indeed.

MR. BROWN: I'm representing a Society of American Military Engineers. And just a one bite commercial. We're comprised of engineers from the

Defense Department as well as from the Coast Guard and from Public Health. So we've got a pretty good cross-section.

And I went out and I posed this question to our membership and I got a lot of feedback. And I think it boils down to three issues. And I have boiled it down. If we could go -- and I think the three issues are, one, they said we need to make sure partnering is embedded in the contracts. We need to see if we can solicit a no secret pledge from all the participants and then we need to be able to measure whether or not we've been successful.

Now, I sort of grabbed that here and I know it's a little difficult to read. And I've just got a couple of slides here. But let me talk about the essence of what is up here on this first slide.

When we're talking about embedding it in the contract, the bottom line was membership told me that contracts that place risk, and we talked about risk earlier today, unfairly or unpredictably are likely to be barriers to partnering.

For example, contracts -- if a contractor has the sole risk for price escalation, it's going to be hard to partner at the end of the day as opposed to if this is shared among the parties.

And so we're talking about not only sharing the opportunities that might arise out of there or, if you would, the increasing cost, but also sharing the opposite end, that if prices should go down, the partnering should allow for that to accrue back to the government.

So that's the essence here of this statement here. You can -- any way you look at it, you can read the words and the music up there. But what we're talking about is the government and the contractor sharing risk and not just being the responsibility of one party and having that stated in the contract itself.

The second item that they talked about was a no secrets pledge. And the bottom line, the best way to explain this is bad news doesn't get any better in time, okay, with time. It just doesn't happen that way.

And so there needs to be a commitment among all the parties that if there is some bad news, then you bring it up immediately and get it resolved then. Do not wait. Everybody just needs to just fess up, say what it's all about, and then that will get it resolved. So they found that to be an item they were very much concerned with.

And the third item was developing metrics. They felt that at the end of the day, we've got to be able to measure. If we really believe in partnering, we got to really be able to measure that. And I think this goes to a couple of the issues that Rob brought up.

And, for example, the example that was given to me was if you deliver a fully functional and aesthetically acceptable building, that may be efficient. But if you deliver that within budget and schedule, it's effective. And so you've got to be able to measure that.

At the -- on the other hand, you ought to also be able to measure the number of claims. We know how many claims we get on particular projects and that should be part of the partnering. If the partnering has occurred and it's been very, very effective, then the claims should be down. So it's a matter of just measuring the number of claims on it.

So the three items embedded into the contract itself, a no secrets pledge and be able to measure it. And those were the three items.

Now, just one caveat. They also found among the membership there was concern about partnering. And those that had partnered were in favor of it and those that had not partnered, they had various comments from, one, I don't know what it is to some saying it's lost its time and its place and it needs to be reenergized.

And so they're all over the spectrum on the issue of partnering itself. And so those who have partnered had good comments or they -- well, they're all good comments, but they had a little bit more to say as opposed to those who had not partnered. They were sort of out there into never-never land.

But that was my feedback that I got.

MR. SHINNICK: That's very useful because when I first started in this job and I was -- at one of the first meetings I had, public meetings was with the AGC. And we heard -- you know, I heard the term partnering, you know, and it, you know, it sounds trite. And I said, oh, yeah, we want to partner.

And then I constantly was asking everybody I came into -- ran into what is partnering, what does that mean, you know. And you got various answers.

But it's good to see the experience there. It was easy to draw some lessons from that.

No formal agreement, marginal success. You know, no high level buy-in, marginal success. I mean, it's pretty obvious from that chart that you threw up. So it's definitely something that we want to explore.

But let me be clear on a couple of things in the transparency and the honesty of this group is that we at the State Department, it's larger than OBO, we're in no position to go to cost plus contracting. I think, you know, I mean, just look around the room and that's not the best news that folks want to hear that are in the business that we can't go to cost plus contracting.

I had a little experience and ran a big contract which -- with Northrop Grumman when I was in M for a major multi hundreds of millions of dollars of IT solution called Smart which continues today as an in-house program because the contractor failed. And a big contractor, Northrop Grumman, and they failed.

Fortunately, through the use of a working group, we had a very good contract for the first time with the government. It was kind of very surprising to Northrop Grumman how good the contract turned out to be. But that's not -- that's to say we know a little bit about this. We can't go to cost plus.

And when I hear your demonstration, two of the things, number two and number three are applicable to our organization. We want metrics and we want no secrets. We want to say, hey, this is a problem and let's keep it a small screw-up rather than keep it secret for five or six weeks and have it be a major screw-up.

So I'd buy two of them. But I have to turn, and will turn after this because this is not the end of the discussion, I have to turn to the people in the contracting. I look at Walter Cate as I say that. And I have to look at the people who are going to be writing RFPs in the future who are going to work to do that development work under Joe.

And then I have to look over at the man who has the money sitting over here. And I have to say how does that concept of shared risk in the writing of contracts, how does that comply with the FAR and the federal acquisition regulations that we live under.

So, Bill, I can't --

MR. BROWN: I understand.

MR. SHINNICK: -- give you a response in any intelligent way. Two of them are obvious to me, you know. That's what we want in any organization that any of us are running, the other two.

But we owe our partners and in a real sense the industry sitting along the walls, our partners, perhaps more so than some of the experts we have at the table, so we owe our partners. We have to get a firmer understanding of the contracting aspects of partnering. And we are going -- we will be posturing ourselves after October 1st in a more open and receptive manner to new approaches just because it will be a new alignment in the organization. So just because it's new, they're going to be more willing to listen to new things than they were even when they were perhaps sitting in the same chair but working in a different alignment. The new combinations of people will stimulate new ideas of looking -- ways of looking at this.

So, you know, I know there's another champion, but as a quick response to you, let me say total buy-in on two and three.

Let me figure out -- now I know more about partnering than when I started some months ago, but let me sit down with the people who really understand federal contracting and find out how we turn that from Dick Shinnick latitudes into some kind of a real adjustment in the contracting world.

So thank you, Bill.

MR. BROWN: Thank you.

MR. MCKINNIE: I'd like to throw one additional piece of information out there. The first experience with partnering involved a 60-day early completion bonus, $450,000 for early completion. So that made partnering a bit more challenging as it got close to the end.

MR. SHINNICK: Whoa. I'll say. How many days was that?

MR. MCKINNIE: Sixty-day earlier completion.

VOICE: From when?

MR. SHINNICK: I can hear that partnering discussion, right? When did that clock start? I don't know.

MR. BROWN: Absolutely.

MR. MCKINNIE: Joe and I had a conversation about it actually.

MR. TOUSSAINT: A clarification just so everybody knows. We were directed in the Inman legislation to have -- and, Walter, you can correct me if I'm wrong -- to have a bonus and penalty clause --

VOICE: Right.

MR. TOUSSAINT: -- in our contracts.

VOICE: Right.

MR. TOUSSAINT: So it's not something we dreamed up and said, well, why don't we --

MR. BROWN: Absolutely.

MR. TOUSSAINT: -- do a bonus. So there was a parallel or an opposing penalty for a late delivery --

MR. SHINNICK: Right.

MR. TOUSSAINT: -- that went with that.

MR. SHINNICK: Right.

MR. TOUSSAINT: And that's what made the completion date really exciting.

MR. MCKINNIE: Really exciting for some of us.

MR. SHINNICK: Well, they're more exciting now even in the sense that we now have more realistic finishing dates --

MR. TOUSSAINT: Right.

MR. SHINNICK: -- that you're aware of and the other thing about saying that they were finished when they weren't. So we are making some progress.

And we do owe everybody in the industry who works with us or wants to some response on what's possible for us in this first element of partnering. No secrets we can all pledge to. Metrics are great. You need metrics to figure out what the reward/punishment system is too. And the clearer they are, the better off that you are, you know.

They have to be metrics that are objective instead of subjective because, you know, our metrics are we don't have to pay the bonus. Your metrics would be we get the bonus every time. Why? Because -- so everybody in the room is a human being, you know, and we all have conflicting goals and we work for conflicting organizations.

So how do we make that true partnering to get that -- that's if -- we're going to look to some experts in the first place to look at -- and we'll look at -- we'll put this in this new oversight group that we have looking at this. It's going to give us a formal mechanism to follow-up on these things and it's going to be drawn from the new alignments in the organization.

And we'll have the right -- all I can tell you is I can pledge we will have the right arena to examine this and we will examine it. And we do owe you an answer and that will be part of the response when we get together again over the -- as the holidays approach. We may not be finished with it.

As I said, we bought two and three already, but we'll tell you what, if any, progress we've made about looking at the elements of partnering that we can include in the contracts because with a new RFP process under changed parameters, we're going to have the opportunity to discuss new ways of doing business that weren't present in the past.

So thank you, thank you, and --

MR. MCKINNIE: Dr. Smith.

MR. SHINNICK: I think -- are you up next?

VOICE: Go ahead.

MR. SHINNICK: I don't know. Who's up? I'm sorry. Kristine, are you up? We -- I know you put a lot of law school learned research into this project, because --

MS. COOK-LINDSEY: I did.

MR. SHINNICK: -- we joked about that at lunch.

MS. COOK-LINDSEY: I did do some research before I came today.

MR. SHINNICK: Yeah.

MS. COOK-LINDSEY: I did. It's a habit that does not die easily after you've gone through the educational process that I have.

My name is Kristine Cook-Lindsey and I represent WCOE on the panel. WCOE stands for Women Construction Owners and Executives, USA.

We're a diverse group of people in the sense that we cover all industry segments. We have members that are architects. We have members that are owners of businesses, that are GCs, subcontractors. We have executives from owners of facilities that are involved in our organization as well.

Our commonality is obviously being women, being in the construction business, and either being an owner or an executive level management. So we -- when I ask or pose the questions that are presented to the panel to my group, I get some varied responses.

I'd like to start, through, first by just saying that there were three things that struck me when I was preparing to come today and reviewing what I was able to find on the subject. And the first one, Rob McKinnie also mentioned, is the sheer volume of writings on the subject of partnering.

As a nuance to that, I found it interesting that the writings seemed to be involved around the time period of the mid 1990s and then there seems to be some silence until you get to the mid 2000s.

The second observation or the second thing that struck me was that in my day job as a roofing contractor, I had never had any personal experience with partnering. I think after finishing my research, I understood why. I think I would advocate that it should be different.

But my third observation kind of struck me on the plane actually on my way here was just how many similarities there were between the content of the readings on partnering and my pre-schooler's topic of caring and sharing that she had this week.

And I don't mean that as any criticism of the concept of partnering, but rather as an observation about the fact that the construction industry in one way or another last decade and in this decade has realized that we needed some sort of mechanism to remind us of the fundamental fairness or how we were taught to be fundamentally fair to others when we were children and how we seem to have misplaced or forgotten this along the way, especially in the very adverse -- adverse -- that word is just not going to come out right --

VOICE: We got it though.

MS. COOK-LINDSEY: In the high energy arena of construction, we are more frequently adversaries than we are partners. So --

MR. SHINNICK: Could I tell you something funny that I heard? Joe --

MS. COOK-LINDSEY: Sure.

MR. SHINNICK: -- and I were dealing with a --

MS. COOK-LINDSEY: Absolutely.

MR. SHINNICK: -- major construction executive one time in an office. We had a meeting with him and he just made that point about, you know, you said fighting, he said -- we said, well, you know, there's a lot of contention in this construction industry says I. And he said, yeah. Have you ever heard the expression that the construction industry is for people who like to fight and like to get paid for it. So it bolsters your contention.

MS. COOK-LINDSEY: Yes. That would --

MR. SHINNICK: You know, there are a lot of fighters in this industry, good fighters.

MS. COOK-LINDSEY: There are. There are. And that comes from a person who's educated as an attorney.

MR. SHINNICK: Right.

MS. COOK-LINDSEY: Ultimately I think my -- the results of all of my reading and review is that I -- I came to the conclusion that in answering the first part of the question posed, which is what partnering principles can be incorporated into the contract documents. To me, there's a pretty simply answer to that. It's one paragraph. It says we're going to engage in partnering in this contract and how is the cost sharing going to be achieved on that.

There are some partnering programs that I ran across that said that the owner pays 50 percent of the cost of the partnering session. The session that Rob was talking where you had 53 people, there's obviously a cost to that.

So in my mind answering that and what you do with your contract was really pretty simple, although I agree very much with the fact that the contract needs to come from a basis of fairly shared risk.

The second half of the question, how best can they be implemented by the project teams, is really where all the work is in my mind if you want to do partnering. It's about the State Department and

OBO coming up with what its partnering program is.

And fundamentally what that's about is how you do business. It's about laying out how you're going to go about your day-to-day business of building and maintaining your facilities worldwide.

What you think about when you're going into that process, it's like -- Douglas was saying in the first part that they -- that, and I'm going to say it Adidas because I can never get it out properly, but, you know, they have an open-book policy. And that's part of their business model.

And to a certain extent, I think that that does pick up on some of the elements of partnering without the formality of it. So to me, that was how I answered the question.

And so the discussion, I guess, really moves to what your partnering model would look like. And in my research, I found varying levels of it. Some of the DOTs, like the Ohio DOT, has a very extensive handbook that you can print off on line. And they have sample agendas for the partnering meeting. They have all sorts of documentation to guide you through the process. They put a lot of time and effort into the development of their programs so that then you're simply running the program itself.

Now, their program, it gets probably a little touchy-feely. There are sections of it, and I have them with me if anybody would like to see them, but they actually talk about how you should phrase your criticism in dealing with your partners. I mean, some of them have gotten that specific.

Others, I went out and I did some -- I read some other information about the Navy Facilities Command also has a partnering program.

An interesting component of theirs is that they have a structure on what type of partnering, how much partnering activity is going to go on. And by that, I mean the formality of the opening session, whether it's an outside facilitator or an in-house facilitator or whether there's going to be any formalness to the process at all and that's based on the size and complexity of the project and other specific issues.

And it's done a project-by-project basis and it's an assigned basically, a partnering level commitment, you know, how much -- how many resources are we going to spend basically on the getting together for the partnering.

The state of Arizona's DOT, they commissioned a university to put together their program on partnering.

So I guess fundamentally it came to down to me -- came down to for me what is OBO's commitment to the process and it's really, I think, about OBO internally needing to sit down and decide if that's part of their business model or not.

I think there are distinct advantages to it.

If you create it from the get-go, at the beginning of the project and a lot of the stuff I read included some of the things that you're doing here that aren't partnering, but it's like getting the facilities people involved earlier in the process and all the stuff that we talked about back in June. It's coming together. It's about preplanning and having open discourse, no secrets. And these things you can incorporate without doing a formal structure if the formal structure doesn't work for you.

But that said, I did get some feedback from some of our members that said that if you're going to do it, then you should -- if you're building -- if you're engaged in building projects that are worth multiple millions of dollars, what's a couple thousand or ten thousand to preplan it and get it all on the right track at the beginning.

And the recommendation was, and I think you may have found that, Rob, in your presentation and your experience, is that when you had a formal facilitator that you should spend the time and do that.

MR. SHINNICK: Well, let me say that it's interesting when you said the open book and if anybody that remembers what we said this morning, remember, that was the one question that I threw at Doug right away, what does that open book mean, you know, because that was a fascinating thing to me, too, without realizing it was related to partnering until you made the connection.

MS. COOK-LINDSEY: Well, in -- it's to me if partnering is going to work everybody who comes to the table is going to have to be willing to say I did this right, but I did this wrong.

MR. SHINNICK: Right.

MS. COOK-LINDSEY: And that's a very contrary position for people in the construction industry to say.

MR. MCKINNIE: Absolutely. It was in our --

MS. COOK-LINDSEY: It is.

MR. MCKINNIE: -- partnering sessions, in all three of them.

MS. COOK-LINDSEY: Absolutely. It feels totally bizarre to go in and open it up and say, hey, this is where I made my mistake. But if you don't and you end up keeping the secret that you made a mistake, you end up with claims and it doesn't get any better.

MR. SHINNICK: Right.

MS. COOK-LINDSEY: But it is, it's a very contrarian position to take. And getting together and knowing people so that you have a trust there, because you have a relationship or you know who they are, I think it makes it easier to do that. And I think that's why -- that's the reason for getting together with a facilitator and getting to know each other.

MR. SHINNICK: Right.

MS. COOK-LINDSEY: Just a final point. When

I was talking to one of the members before I came in last night, she asked me if I knew the history of partnering and I said that I didn't. She said that it was developed by, and I'll probably screw up the -- whether he was a colonel or what. He was with the Army Corps of Engineers. And he was having problems getting his projects timely and within budget.

And he decided something needed to change and he -- ultimately the reason why he came up with the idea of partnering is because he felt it was harder to say nasty things about and get upset with somebody you knew as opposed to somebody you don't.

MR. SHINNICK: You got to overcome that. You're right. No. You're right.

Joe, were you going to say something on that about that the colonel triggered something?

MR. TOUSSAINT: No. I'll let Chris.

MR. SHINNICK: Chris, your turn.

MS. COOK-LINDSEY: Thank you.

MR. SHINNICK: You're welcome.

DR. SMITH: Director Shinnick and members of OBO and all attendees, first let me introduce myself and just express my sincere appreciation and what an honor it is to be asked to participate in whatever way I can, hopefully in a helpful way.

I think you'll find -- I hope that I come across as candid, objective, and very much a hybrid in this industry. I've spent -- I spent ten years as an owner's rep, five years as a construction claims consultant, two years as a home improvement contractor, and the last two years as a graduate student at the University of Maryland. Having graduated in May, I'm now a professor at the University of Maryland College Park in the project management program.

I want to mention AGC, Associated General Contractors of America. I am representing them on this panel, nominated by them. It's a great honor to serve on behalf of them. And I realize there's a long relationship with this -- with the Department of State and AGC.

I'm doing my best to respect that by reading up on all the -- in the Navy, we would say message traffic, but the memorandums and the paperwork and minutes of many meetings and very extensive efforts on a lot of subjects beyond partnering, cost, risk and schedule and scope. And I'm happy to be a small part of that.

Before I talk about partnering, though, I would like to talk about metrics and I think that if you'll allow me to, I'll write my mission statement for myself. I see one metric that might describe what I'm here to do and that is the number of bidders that are bidding Department of State projects.

And if we're talking about -- we could invent all sorts of metrics and track all sorts of metrics and talk about a lot of issues. And I certainly am delighted that this panel is here to do exactly that.

In a sense, I believe -- I consider this partnering and I'll talk about partnering in greater depth, of course. But I feel it necessary that I will need to go back and speak with AGC and bring to them from this panel piece -- results, discussions, and developments that will buffer up that metric in itself. The number of bidders bidding your jobs, I think of -- there are many other metrics out there that everyone wants to perhaps see improved or we always want to improve and reach efficiencies. But I see that as perhaps my charge. I understand the number of bidders is low, lower than desired.

And I spoke with Joe during lunch. I even have an academic egghead paper that perhaps confirms the obvious, that the more bidders you have, the more -- the better your price is. And it's from a Cornell professor, written in the last two years, and published under the American Society of Civil Engineers. I'll certainly share that with you because I think it's a quantitative subject.

It is perhaps through quantum that we have a meeting of the minds, that we describe what issues are important to us, and it's almost unfortunate that that commonality, the currency or the language that we use is money because time is money, scope is money, money is money.

Many of the issues, I think, we're all -- I think -- and the FAR is a book that must be respected, of course, in all procurements. And through all these things, it is unfortunate, but these discussions are -- follow a monetary value.

To transition to partnering, though, I think that there -- I'd like to share with you as I introduce myself my experience with partnering. I spent my -- I spent 15 years in the Navy up until 2000 on active duty. The last ten of it was as a naval officer and naval facilities engineering command. The first four were at the Naval Academy where I was a midshipman.

During my time in the Navy, I took care of facilities as a facilities manager of a 300-bed naval hospital. I was an assistant resident officer in charge of construction at Camp Lejeune, North Carolina. I was a CB. I was -- I went worldwide to build projects and arrive with everything that was going to be left.

I'm trying to use these experiences to try to understand your mission as best I can because I haven't had the honor to work on a State Department facility, but I did serve with CBs who were welcomed at embassies and spoke very kindly of how much --

MR. SHINNICK: Integral part of the embassy.

DR. SMITH: Yes.

MR. SHINNICK: CB Program was an integral part of the embassy program.

DR. SMITH: And they felt loved and they loved their tours.

MR. SHINNICK: They were respected and honored because of the expertise they brought to the program.

DR. SMITH: Yeah.

MR. SHINNICK: I mean, that's without any smile or any --

DR. SMITH: Yes.

MR. SHINNICK: -- sense of throwing it. We absolutely were honored and they were great.

DR. SMITH: And that was my first impression in the state -- of the Department of State was to hear these CBs come back from their tours and talk about -- glowingly about their experiences overseas in embassies building things or doing whatever --

MR. SHINNICK: Right.

DR. SMITH: -- whatever they were asked to do. No different than what CBs do in the jungles of

Belize and what my unit did whether constructing a highway through Port-AU-Prince in the mid 1990s when it wasn't that, let's say, convenient or safe to be there, tours and missions in Honduras after Hurricane Mitch in 1998, Korea, and Okinawa and points in the far east. These are all things I want to contribute as we go.

My final tour in the Navy was a resident officer in charge of construction. I would say owner's rep, but I really thought myself as the owner in that capacity at the Naval Academy in charge of the Bancroft Hall renovation, the largest dormitory, college dormitory in the world.

And I walked through that time line because partnering plays into that very heavily, at least in my personal experience. I certainly -- I don't speak for NAVFAC and I want to be very clear about that. I'm a former naval officer, but old habits die hard.

I came back from doing, let's say, great things or our unit did great things in the CBs where we were asked -- we were given tremendous responsibilities, perhaps no different than what OBO expects of its project managers overseas.

I was able to say at 32 years old, and I was no different than any other Navy lieutenant standing in ranks, I was directly in charge of a project that was $250 million. That was a lot of money back then.

But I think that's no different than what you ask your OBO project managers. They're in remote locations. They're overseas. All these -- and they were asked to do tremendous things with as much support as you can practically provide.

But still, there are moments of loneliness out there and there's leadership that factors into this as well.

So I entered my last tour in the Navy where it began, at Annapolis on the shores of the Severn River, renovating and taking a crowbar to my college dormitory which was very cathartic, but bringing it back on my own terms or our own terms. And that was neat to see.

But I was asked when I came back from my CB tour and showed up at Bancroft Hall that we would be partnering. And I was really aghast about what partnering was. I thought that we didn't -- partnering wasn't necessary. We were NAVFAC. We were naval officers. We had been leaders and still were. And it was our responsibility to get things done and never say ouch, never say you needed help.

And I think one of the challenges -- I'm delighted to see that partnering is on the table as a topic of discussion. I want to talk through perhaps some points that perhaps come from my own experiences, perhaps from the ground up, not top down, but bottom up because I was asked to implement partnering on a feature project of the U.S. Navy in the late 1990s.

In the first part of my career, partnering didn't exist. I think the history conversation -- discussion that Kristine mentioned is consistent with my experiences late 1980s, early 1990s. Army Corps of Engineers implemented partnering. I think -- as much as I begrudgingly say NAVFAC was behind the curve on that, but we implemented it.

And I think the question that's before us now is what partnering principles can be incorporated into the contract documents and how best can they be implemented by the project teams.

Partnering principles as far as I'm concerned, the teaching of those principles and the detailed discussion of those principles, I think, are best left to the partnering professionals. We hired a partnering professional. It's a discipline and a field unto itself.

And I think the challenge for us on our project was not so much defining the principles and seeing how our project related. It was simply showing up to a partnering conference within 21 days of award and having a professional facilitator come in, come in off site, and talk about what partnering was and answer that question because I think it is different for every project.

The partnering facilitator comes in with an understanding of the individual project. And all projects are different. All project teams are different. But also the partnering concept itself integrates those things and essentially teaches for a day or -- typically a day is most common.

I've often asked myself if continuing education credits could be provided at the end of a partnering retreat for engineers and architects and any other credential professional requiring those things because I think it's -- it would be a give me or a nice easy further justification for the process itself.

But in terms of the concept of partnering and what is partnering, as an old sailor, I have an old sea bag and I dug up my old script which I was given from the handbook back in the 1990s. And I'll read it. It's the only thing I'll read, but just because I think it ends in a very neat discussion which relates to open book.

This is in order to most effectively accomplish the contract, the government plans to form a cohesive partnership with contractor and its subcontractors. The partnership will strive to draw on the strengths of each organization in an effort to achieve a quality project done right the first time within budget, on schedule, and with the contractor making a fair profit.

And this is --

MR. SHINNICK: That's religion.

DR. SMITH: It is religion.

MR. SHINNICK: That's the way we've expressed it as far as the contracting. We have said that consistently at all of these sessions that we understand. We're not communists. We're capitalists and we understand they have to make money.

DR. SMITH: Certainly. And exactly. And I think one of the most earth shattering or earth moving events I ever experienced at a partnering retreat was at a Bancroft Hall partnering retreat. I watched and listened as one of our project members from the owner's -- from my team, our team, actually didn't think that it was okay for a contractor to make profit.

And it speaks -- I was -- and so it speaks to a point that I think that we will convene as a panel and will talk things through, but we are now -- I'm already ten to fifteen years beyond learning these concepts. And it's very easy to underestimate what we know that our -- those that we're being asked to lead do not.

So as program managers, we know the stuff that's gospel. But to under -- but it's dangerous perhaps to underestimate what even the best project managers don't know and haven't learned yet.

And 22 hours ago, I was standing in a lecture hall at College Park, Maryland talking about the big three in project management, scope, time, and cost. And this is the fourth class of the semester.

And about ten minutes into the class, one of the students, and these are third and fourth year engineering students at the Clark School, asked me -- I asked if there were any questions and she shyly put up her hand and said, Professor Smith, what is scope?

And the students had the benefit of reading the Project Management Institute Project Management Body of Knowledge and other textbooks. And I'm remiss. I underestimated how much the basics must be taught and spoken of because just as -- at a young age, I guess, and it's -- it was no different than any other junior officers in the Navy, I was given a tremendous level of experience. I was young.

And I look at the dollar values associated with the assignments that project managers are being given, whether contractor, subcontractor, or owner's representative or owner's project managers. Those numbers are staggering. And it's fed by the escalation in the industry that we've seen and -- but industry forces.

But the responsibilities that I believe that we're giving younger and younger professionals in this industry are increasing exponentially. And so if nothing else, in my mind, partnering paid for itself just because I -- for me, I could see as a program -- as a leader what perhaps some of my people were seeing and thinking. And that in itself was enough for me to become a believer.

So I just wanted to mention that. I do have some quite specific things, though, recognizing that the concept of partnering, I think, can be left to the professional partnering facilitator. And that is a lecture and a series of discussions in and of themselves.

But I think that this -- I would say overall, it's finding the right balance in partnering. I believe that recognizing that the partnering facilitator will talk about the concept. I think we can talk about just the steppingstones to getting through the partnering process.

I think it starts with contract language and -- that reflects certain thing -- certain -- the partnering requirements. Contractors will do all the heavy lifting. I think that that's consistent with all the contract specs I've seen, that contractors will -- are to include in their bid partnering retreats typically on a quarterly basis varying levels of partnering based on the project size.

I think most of the projects we're talking about are large enough to merit what, I think -- what

NAVFAC calls a level A partnering every quarter, conducted by an outside facilitator.

But I realize that the logistics are very different for the Department of State perhaps than, let's say, domestic construction. People have to travel, that these things cost, cost for transportation, meals, and lodging and whether these partnering retreats can be conducted in Washington, D.C. or in the domestic United States or overseas.

I would suggest it's not an absolute that these have to be conducted on site, particularly -- and that it certainly depends on the makeup of the team and who must come.

In terms of who must come, attendees, I've always thought of those in four groups, government, prime contractors and subcontractors, the customers themselves, your customers, the tenants of the building and the occupants of the building, and the designer.

I think one of the most encouraging things I saw on a recent partnering retreat in -- on a 200 -- roughly $200 million MILCON project, and this is a NAVFAC setting, ten years after the implementation was -- I think two project managers, the lead project manager for the owner and a lead project manager for the general contractor, actually had gotten together before. And this became obvious because they had obviously identified what are fair things to talk about and what are not.

And I think that as a program manager witnessing that, I think -- I'm relieved because I know that they're talking about things. They're not going to let the partnering retreat which in this case had 50 to 60 people, multiple users, everyone and their uncle showing up perhaps under a big-top circus tent because the partnering retreats can quickly get out of control, it's not a venue to talk about project requirements, change orders that various clients want, pet issues.

So the partnering facilitator, I think, has to stay on top of those things. In terms of frequency and duration and levels, I think quarterly is most often what's commonplace. Duration is one day.

What I've -- the location itself, we talked -- I mentioned briefly about whether it should be -- whether it necessarily has to be on site. I think one major requirement, though, is that the folks can leave their work space and be free of the -- free of distractions.

I realize that's -- that can be difficult depending on the type of project and the logistics and the facilities in place and whether there's even a local hotel conference facility at all or whether we're -- whether we don't have those luxuries.

But I think I -- just to conclude, I would say that I know that I've done my best to speak with the members of AGC and other -- and my experience from other contractors as well is they're more than happy to do heavy lifting. They're more than happy to execute all forms of partnering in terms of -- and just basically allowing the owner to show up.

And that's in terms -- and so that's, I guess, what I have to say on partnering. I think it's a -- it's worth the risk and we talked about risk as well.

MR. SHINNICK: Let me respond, Professor. And let me use that title in the sense that I say that because if a professor came to this room straight from the campus of the University of Maryland, he would get the respect that you get based on your experience outside of the academic world. But I think everybody in this room can relate to you as a member of this club above and beyond your present incumbency of a professorship at the University of Maryland.

We'd like to exploit that in the sense that we realize that your membership on this committee does not entitle us to large chunks of your time. But we'd like to, given your credibility as having straddled both of these worlds, we could pick some kind of an arrangement because I have folks here with academic backgrounds.

I talked today about General McKinnie not in a laughing manner, but in another side of hemisphere of his brain, he's Dr. McKinnie. And the other -- his deputy is Dr. Hogan. So we're blessed in this organization with having people that can build buildings and also understand all of the theoretical concepts of bringing people together and making teams and the philosophy of construction, if you will.

I look over at our head of design there, you know, Bill Miner from MIT, and I look at Joe Toussaint from Columbia, guys who have superb academic credentials in addition to their being hard-nosed OBO construction people.

And, in fact, one of the things that I've thrust aside because I don't have time is an initiative that they brought up to me. We called ourselves a results-based organization until I got here. And I was always asking where -- what's the results. What does that mean results-based organization. I was told it's a political, it's an administrative term, results-based organization.

And in one of my meetings, I said, well, what -- okay. We're a results-based. What should we be. And the answer was, we should be a learning organization was thrown at me. We should be learning from our mistakes. We should be reaching out to all aspects of the industry and academia and create a learning organization.

Another guy in a completely separate conversation said to me, and these -- I don't mind embarrassing them, they're all in the room -- said, you know, I've always thought that we should have some organization internal to OBO and we should call it

OBO-U.

And here they are. These are hard-nosed construction guys, Bill Miner, Joe Toussaint. And so I'm not throwing out corny things to respond to the learned professor. But what I am saying is that's the kind of thinking and expansion and things that we want to do at OBO.

And this morning, you saw a guy who was not qualified to lead that effort and that's a good thing that I'm odd interim because the young guys who work for me are qualified to lead that effort and all qualified to bring this organization to the next step.

And what I'm qualified to do I'm doing for them. I'm giving them a clear -- we had Bob Ivy from the Design Build Institute was in. We had a day and a half with Bob while we put this group together. And he was there talking about design build concepts and he -- metrics management.

I sat in for one morning one session and it was metric management. There's the way we did it at NASA. This is the cross-connections of the teams. Down this line, you have the stovepipe and over here, you have the functional and how it all came together on the metrics.

And I had to get out of it. I had to go to another meeting and I realize, oh, my God, I can't handle what this will produce, you know. So I said, Mr. Ivy, let me before I leave, let me just sum up one thing. My role is I just want coherent stovepipes.

DR. SMITH: Yes.

MR. SHINNICK: And that's what I'm doing here. So I make no -- I have nothing to say. But in my time, I'm trying to get the stovepipes aligned and coherent with the right people in the stovepipes. And from that, we can go to the next level of the project management and the metrics and the cross-functional teams.

And a little bit we're doing with that is now with the two I said, the project director and the project coordinator joint reporting. We're moving into those directions. And we will be exploring this in the ways that I promised, you know, because you said the contracting to me is the first step.

DR. SMITH: Uh-huh.

MR. SHINNICK: And the facilitator, great. I'm glad. We could use a facilitator because, you know, we -- that's what we would need. But we got to get the contracting right first.

And just to respond to you, I'm just surprised that one thing through your whole presentation, an ex CB missed every opportunity to throw the CB model on the table. How he could have missed that opportunity as a salesman not to use that line?

DR. SMITH: And my birthday is the same as the CBs as well, March 5th, a couple years later.

MR. SHINNICK: There you go. Can do.

So let me respond to the CB in you. We can do this. We can do it. And we will do it. But we -- the FAR is unfortunately probably going to turn out to be a limiting factor on it.

And our respect for the Corps of Engineers and the fact that they've used it, partnering, its core principle, and NAVFAC has used it is enough for us to say we have to fully explore this and we have to figure if NAVFAC and the Corps have found a way to do this within their regulatory environment, we'll be able to find a way to do it, too, to a greater or lesser degree, because our respect for NAVFAC extends to the fact that one of the driving forces in putting together one of the stovepipes, which was to put the facility managers with the construction engineers, was NAVFAC inspired in the sense that that's the way you went through your career.

DR. SMITH: Uh-huh.

MR. SHINNICK: You were facility manager at one assignment and then you also were a construction engineer and built on another assignment.

DR. SMITH: Yes.

MR. SHINNICK: And so that's the kind of a thing. Now, we're not there because our facility managers, we have a lot of great guys, great legacy facility managers. They were wonderful in the program in its first 17 years. And when you look at the credentials, licensed plumbers, master electricians, great, really. But now we are building -- we have 38 high tech necks out there and we have to take this to the next level.

DR. SMITH: Yes.

MR. SHINNICK: So we just put the educational requirements and the professional standards out on the street in our first advertisement for the next generation of facility managers since I got here. And that's going to require much tougher requirements to get into our facility manager program because I'm looking at the NAVFAC model. And, you know, great guys, a master electrician, but he couldn't fit into that NAVFAC model of going from facilities to build a building.

So these are the things that I'm not mentioning here, but that we're doing organizationally too. And some of that was -- I said do we have to do that, you know, and having no educational credentials of my own, I felt a little bad shutting the door to guys who learned things the hard way.

And one of my young bright engineers, VMI, Corps of Engineers, the people that we're able to attract to do this work stuns me every time I talk to one of them. Where did you go to school? VMI. What did you do before? I was in the Corps of Engineers. What do you do -- and we built the project and now you're going off to a hell hole. You're going off to Djibouti to try to build an embassy? My wife's a doctor. Where did we get these people? How do we keep them to make these kinds of sacrifices? You know what that family life is like. Well, you're going to Djibouti to build what, you know? And we have them.

So this is a tremendous organization with the most gifted, talented, and dedicated people in the whole government. And now we're going to give them the organization that they deserve and the freedom to grow.

But I want you to be part of that because you can walk into the room and have the credibility with our people and we'll have to figure out how we do that in OBO, you guys that are all sitting with me, how do we use Chris Smith to advance our programming. You saw the respect we have for Will sitting over there who comes from a similar background as your own.

DR. SMITH: Yes.

MR. SHINNICK: So that's where we're trying to go. Partnering is going to play an important role there and we will go the next level within the limits of what we can do and help us to do it.

DR. SMITH: Yes, sir.

MR. SHINNICK: So thank you.

MR. HOCHULI: Dick, if I could make a pitch to your students. If they want a job working for the government, if you could, you know, talk to them about OBO and we'll send people to talk to them.

MR. SHINNICK: Send us some interns.

DR. SMITH: I would love to. I have --

MR. SHINNICK: We'll figure a way to pay them.

DR. SMITH: I have 95 juniors and seniors who ask me -- one of them asks me every day what I should do. Should I stay in school? Should I enter the construction industry? And I would love to be a part of that? It's an honor to be associated with this.

MR. SHINNICK: And that's a great -- Jurg, that's a fantastic thought because we're trying to figure out why can't we get some interns like that.

Jurg is the -- this is the money man. When the money man is inspired enough to say send me people, interns, you know the message is sinking in.

DR. SMITH: Because if I said that --

MR. HOCHULI: They're a little bit cheaper, Dick.

MR. SHINNICK: You know, most money men would say --

MR. HOCHULI: Students are cheaper.

MR. SHINNICK: They're also cheaper. As I said, we're going to exploit you and now --

DR. SMITH: Yes.

MR. SHINNICK: -- we're going to new depths. We're going to exploit your students too. Shameless. Absolutely shameless.

DR. SMITH: Exploit away. And I can tell you right now if anyone has an interest of being guest lecturer to a group of juniors and seniors, it's --

just call me.

MR. SHINNICK: We have the people that can help with that. We'd love to partner with you and the University of Maryland. Who could we better partner with right there at College Park? If you were from UC at Irvine with all respect to Rebekah, we'd find it difficult because you have to jump on a plane. But you're right in the neighborhood.

DR. SMITH: I tell our students that in terms of the study of project management and creating, I think a -- what I think is a ground swell in the project management realm within academia because I think it has been really a stepchild of operations research.

And academia has not been able to understand how to relate completely, at least in the construction industry, again and again successfully with industry. I see that as my challenge, but I think it's an exciting time at school as well because these students are just wondering what to do and where to go.

MR. SHINNICK: Well, we have -- you're a professor over there.

DR. SMITH: Yes.

MR. SHINNICK: So maybe in the academic world, we haven't -- we have a full call of failed academics building buildings for us. But they have Ph.D.s and so they'd be very credible to be introduced to your students. And we have them. And it will be a joint thing. We can have our Ph.D.s over there speaking to them with the same kind of hard-knuckle experience that you brought to it. This is exciting. You know, it's a thing.

Rebekah, you had one thing you wanted to add.

MS. GLADSON: Yeah. I just wanted to mention not as DBIA -- speaking for DBIA, but really as an owner that's probably as highly regulated as you guys are and your first question or issue that you brought up was the cost plus and how do you do that when you're in a very regulated environment with state contract codes or federal.

And our experience has been that in the design build, it has allowed us more latitude to have transparency because the transparency is earlier and it's tied to performance specifications so that when one area starts to have difficulty, you still have opportunities to recover costs in another area.

So I think that's one thing you might want to consider as you look at contracting and revising your contracts to look at design build.

Another point might be that partnering is often kind of looked a skewed at by some of the public sector. Why is our money being spent on partnering? Whether the contractor, design build team, or whatever team is sharing that cost or not, you're ultimately paying all of it because you're writing a contract to them.

MR. SHINNICK: Of course.

MS. GLADSON: So one of the things we've done to isolate that criticism is to actually specify an allowance in the contract appropriate to the size project and complexity of this is how much we're going to spend on partnering. And we just acknowledge up front we're paying for all of it.

MR. SHINNICK: Right.

MS. GLADSON: And then we can take the latitude to structure it how we think it ought to be structured. And I think the transparency --

MR. SHINNICK: Is that Bill Brown's no secrets clause, we're admitting that up front?

MS. GLADSON: Yeah. I think that's part of it. And the transparency of, you know, what is the cost and who's getting into trouble on a project because there's just so many unknowns that are encountered. And I'll talk a little bit about that, about risk.

One thing I didn't hear mentioned, and I think because it's always a little bit, gosh, we don't want to talk about how relationships develop, but when you develop a team relationship, I've found it to always be good to have activities that foster building those relationships.

So now I will share with you some of the rather absurd activities that we've engaged in. And this is, you know, again, with some level of scrutiny.

I've participated in everything from bowling together, you know, and I agree with everything my colleagues have talked about. You take care of business and all the partnerships and the charters, but the building of a relationship is critical if partnering is going to be successful.

So we've done everything from bowling together to teams to having race car, you know, go-cart races to, you know, all kinds of, you know, rope events or whatever to actually build that team that will then solve their problems at the lowest level.

And I'd have to say for 15 years, we haven't had any litigation and we haven't had cost overruns. And it's because of the partnering to a large degree. So I just want to affirm that although it can be criticized, I think it is so worth the value.

MR. SHINNICK: Right. Well, we're open to it and you -- I might say that you've been invited already. We're sending you that letter which will allow the university to fly you here because we want to hear -- we're going to exploit you too.

So you're not alone, Dr. Smith. Any time we see a good idea, we steal it, you know, no question about it.

But we're going to do this and we're going to -- we'll report in December where we are on partnering. And the key -- as I said, I have to go back to the grass roots though. The key of the partnering is going to be the FAR.

But if NAVFAC and the Corps can tell me that partnering works for them, we do it all the time, Jeff tells me and everybody finds it works, we -- the new OBO can do it too. And we have the people who can do it.

Now, when I say December, this will be -- could very well be very close to the end of the odd interim reign. But we have the people coming up here that can carry this thing on to the next level. And we'll do the ground work, get you guys going, get the other old patriarchs sitting over there with the appropriate beard and we'll figure out what the limits are and how we should go forward.

And in December, we'll tell you that and then you can get it going forward in a way that the new director will be stunned and amazed at how far it's advanced and how good it looks and you'll be off and running. And maybe even we'll get a spin-off of OBO-U from this somehow as part of the partnering with the University of Maryland.

So this is all good stuff. I was going to go somewhere else, but I can't leave this. You were going to go somewhere else and we can't leave this because it's too good. And so if we're finished with the partnering session --

MR. MCKINNIE: We are indeed and thank you very much.

MR. SHINNICK: Thank you.

MR. MCKINNIE: Let's move on to topic three.

MR. SHINNICK: The next one is appropriate because what does it say? How do we best manage risk in developing design build contracts?

And as we look at this risk factors, you've heard that several times this morning in different elements of the discussions, how do we design risk between us and the contractors too. It's a bit of a subplot here.

MR. MCKINNIE: Thank you.

MR. SHINNICK: These are two of the guys who will inherit this place. And let me introduce Will Colston and Brian Schmuecker on lessons learned. And they're both from Joe's -- Joe's new organization has the benefit of having both of these guys in it.

So go ahead.

MR. COLSTON: I'd be remiss if I didn't mention Semper Paratus. Always ready, the Coast Guard motto. I figure, you know, if we're going to have the CB motto out here, we might as well have the Coast Guard motto too.

It's my pleasure to be here today with Brian Schmuecker. I think as you all see, the topic that we with our partners in industry, with Rebekah Gladson, Barb Nadel, and Rosemarie Schmidt have before us is addressing something that we've all been knocking around today.

You see some themes forming here. Clearly risk, that's out there, whether it be market risk or whether it be management risk. The other side of the coin is contracts. So I think you've seen both of those common themes that we've threaded through the discussion today.

The contract, of course, is that document that defines the business relationship between the owner and the contractor or in this case the government and the contractor.

So to us, the contract has really become a critical element of our introspective looking in looking back at OBO. Granted, we have had a lot of success with delivering facilities, 50 plus facilities, over 20,000 or almost 20,000 people.

But we want to continue that success, so the question really becomes, how do we carry this to the next level? And so we've really started looking hard at ourselves, looking hard at our processes to figure out how can we move ourselves to that next level and be better.

You've heard some issues with regard to our bidding pool. It's declined. It's gone down. And we're really concerned about that because, as Chris said, the larger our pool, the more opportunity we have to get better pricing as well as to address some of these market factors that we're really confronting today.

So that's one of the things that I'd highlight to start off with. I think one of the things -- I mean, the nature of our business, in fact, the nature, I think, of all of our lives day in and day out is to manage risk. It's decisions that we make.

Looking at risk, you know, I'm -- I have these flashbacks to Defense Acquisition University courses and other courses I took in college that talk about risk and say, you know, risk really is a metric or measuring it or looking at it. What you're thinking about is, number one, what's the likelihood of that risk occurring and, two is, is what's the severity of that risk?

And so that's something that as we confront these issues, and, of course, clearly we know the likelihood of market factors going up and affecting us is pretty much a hundred percent at this point, and so the question is, is what's the severity?

Well, I think the first group did a fantastic job of discussing what the severity of that is. So we need to take a step back and look at our contract documents.

You heard at the very beginning in the introduction our contract documents themselves represent a risk to us. The reason being is, is we have a document or a set of documents that equates to almost 6,500 pages. Again, I haven't actually gone out and counted the pages either. But it's up there. It's well over 6,000.

And so those documents in and of themselves are really complex. They introduce the possibility of conflicts, conflicts that we've seen materialize both in the field as well as through the administration of the contract.

And so this is something that we have over the last several weeks with the guidance of Walter Cate taken, and the participation of many members of the staff, taken a hard look at. And we're looking at opportunities to, number one, improve our process to, number two, improve our documents themselves and then, three, this project management effort.

How do we incorporate project management effectively into our organization such that we can assure that some of the issues we've had in the past with communication and with coordination can be overcome so that we can be effective in how we deliver these projects?

Now, drilling down a little bit and looking specifically at our topic, when we look at the question of how do we manage risk within the design build contract, some things that immediately jump to mind, and I'll turn it over to Brian to expand on these, is questions related to things such as balancing prescriptive versus performance specifications just as Rebekah said, and I know Rebekah has a presentation that she's going to be putting some information up on the screen to discuss risk, but that's something that we confront, particularly in our nature of our business because we have security requirements that are immutable, that have to be in our contract documents, and we have to assure that we receive the product we expect because of the nature of our business.

Having said that, we certainly want to leverage the innovation of our design build contractors. And so that creates an interesting challenge. Other questions involved things such as bridging documents.

So having said all that, hopefully I haven't stolen all of Brian's thunder, but I'll turn it over to Brian to expand on some of the specific issues.

MR. SCHMUECKER: Thanks, Will.

The government normally exaggerates, but this time not too much. We did do a page count, 6,493 on one particular project for one FY '08 project. That number fluctuates a little bit on a project specific basis.

In all fairness, about 2,600 of those are specifications. So I don't necessarily want to poke us all in the eye because we're trying to provide some degree of definition in a design build world. But that leaves a lot left for us to review.

As Will mentioned and Director Shinnick mentioned earlier, we are doing a scrub of it, looking for opportunities to de-conflict, remove redundancy, do all those things that would make the RFP something that's digestible, more easily understood and at the same time address the risk issue.

Obviously what we can do to make the RFP clearer is a benefit to both parties and reducing risk because there's a greater understanding, a better chance of understanding in the same way what different people understand when they read the document and try to interpret it and apply it to producing a facility.

Performance based specs versus prescriptive, how can we get not necessarily more get better with less, how can we take the criteria we're putting together in a manner that protects the government's interest, the taxpayers' dollars interest, but in a way that doesn't handcuff the design build contractor and gives them some flexibility to produce the best product they have the ability to do.

Similarly, the other issue I wanted to touch on was the construction documents themselves. In a design build, they become an intermediate step that we use to review the contractor's intent as a matter of due diligence to make sure it complies with the codes, but also make sure it's in conformance with the contract.

But since it is an intermediate step, we feel to some degree we may be at risk because when the facility is actually constructed in the field, there are opportunities both because of vendor availability, material availability, but also the potential for interest in taking a modest economic advantage in the process by backing off or changing conditions between when the construction documents are issued and we actually get a facility completed.

So those are the two big issues -- I think, Rebekah, you probably have some others to speak to -- that we see as areas where we could get some feedback. We'd appreciate it.

MR. COLSTON: Of course, I'll take this moment to also mention that when you mentioned bowling, all I could think of was if we have two people who are fighting, I don't think I want heavy objects anywhere near them.

MS. GLADSON: Good point.

MR. COLSTON: Or go-carts.

MR. SHINNICK: Bowling for dollars.

MR. COLSTON: There you go.

MS. GLADSON: Bowling for dollars, there you go.

So I'm going to start with, I guess the screen is coming up, I'm going to start with sort of -- I think everyone realizes that there's risk. Probably the first slide is that risk cost money and someone is going to own it and someone is going to pay for it. And your best shot is to manage it and define it.

And even in a design build, definition and who own risk, who owns the risk is a part of that determination. And that becomes part of how do you want to quantify in your contracts and in your documents how are you evaluating risk and how are you weighing that in. So I think that clarity is extremely important.

Next. So if risk exists, why run from it? From my perspective is the more you can define the risk, the better you can manage it and you make a determination, can I manage this better or can the industry manage it better.

And so some of the things I look at, you know, quality. That's always an issue. You know, how do you want to specify your quality. Do you want to do a mockup that clearly identifies it? Do you want the industry to do the mockup? But quality is an area that you need to make your determination, how are you going to weigh and benchmark that.

Unknown conditions, you know, the university struggled with this for decades and finally we were able to prevail, those of us in the industry actually building these buildings, is that if it's unknown, the owner ought to owe it -- own it because how can we expect somebody who doesn't even know what's there to own what you can't see, have any information.

And, actually, the benchmarking that was done within UC is that when we did not own it, so underground conditions, bad soil, contamination, you name it, when we did not specify it, the cost went way up compared to we will own it, manage it, and pay for it so that at least there was not that fear factor being built into the bids.

MR. SHINNICK: Rebekah, just let me say --

MS. GLADSON: Uh-huh.

MR. SHINNICK: -- that we heard from various sources that were looking at us, GAO among them, that the fear factor drives our cost up.

MS. GLADSON: Very much.

MR. SHINNICK: And just to say that we've actually been told that.

MS. GLADSON: Yeah.

MR. SHINNICK: The unknown quality and the unknown risk in the way we do our work.

MS. GLADSON: The more you can take that fear factor out, the lower your costs are going to be and the more bidders you're going to have. They actually perceive you because you in reality are fairer with them. And that's what the industry is looking for.

Program changes, and I think this is something that you need to quantify and I'll touch a little bit on it in more detail later, but program changes are all those things that come as you're developing the documents or, you know, as more information becomes available.

And if that's clearly communicated that you're not going to take it out of the hide of, you know the industry, they certainly are not going to build that into their bid on day one.

Market conditions, we've talked about that.

One of the things that we do is we carry allowances. Like you, we often have to submit a finalized budget. We can't do a cost plus, but what we can do is hold an allowance for a certain commodity, so whether it's steel or whether it's security, to handle it that way so you're not asking the industry to actually carry that in their bid.

Regulatory agencies and entitlements. What's inside and outside the budget? I think a lot of risk is the clarity of the definition and spending the time to actually tell them what you will own and what you expect them to carry for you.

So that really is, you know, the State Department saying what risk do I want to own, what risk do I want to transfer, and what's reasonable, and then looking at the contracting tools, whether you have allowances or whether you have alternates, whether you use unit cost.

There's a lot of different legal state and federal contracting tools in the FARs and so forth that you know far better than I do of how you can do that, but the process can be worked through.

Next. So common pitfalls, and I'm going to speak to design build because that's really where you geared this. In design build, one of the common pitfalls is the interpretation of what you defined. So you go out with concept drawings, maybe even bridging documents, but there's still going to be a whole raft of stuff that just is not defined there.

And the industry, that interpretation is a skill. So you might want to consider who you're pre-qualifying or qualifying to work on that team with you and what's their skill level. It's an interpretation.

And some industries -- I found that the MEP probably does this better than some of the other industries. They're more familiar with design build, at least in hospitals and biomedical and research kind of labs.

But I think you also need to carry some kind of interface and allowance that allows you to deal with these interfaces or these program changes or as I become aware of it, I need to make some modifications.

And working with researchers and doctors, I can't imagine that they're too much better than working with, you know -- I guess I shouldn't say that. But I'm sure they're equally challenging to your customer client group. So I think you need to have some set-asides to deal with that.

MR. SHINNICK: You just drew a direct parallel.

MS. GLADSON: Yes.

MR. SHINNICK: I mean, who is so -- feels more powerful than a surgeon, right? I mean --

MS. GLADSON: Dr. Famous, he shows up every month.

MR. SHINNICK: -- God-like, right, God-like creatures?

MS. GLADSON: Yes.

MR. SHINNICK: You could ask me that question. I would tell you the answer.

MS. GLADSON: Doctors.

MR. SHINNICK: The American ambassador to any country in the world. Now --

MS. GLADSON: Okay. I'm going to tell my doctors that.

MR. SHINNICK: Which in some places is okay. Some places, you know, you sit down with the American ambassador to London, Paris, or Frankfurt, and you go, Mr. Ambassador, this and that and there's thousands of people. John's going to grin at me in the back. It's a little tough when you get out to the Swazi lands of this world.

MS. GLADSON: There you go.

MR. SHINNICK: And you say, and how big is your direct hire American staff, Mr. Ambassador? Well, I have five, five Americans that work for me, but we have a lot of Peace Corps volunteers. So I'm just telling you we understand completely.

MS. GLADSON: Good. Okay.

MR. SHINNICK: There's nothing that is equally as difficult as doctors.

MS. GLADSON: So you put my statement in context. I appreciate that.

MR. SHINNICK: Absolutely. We understand it completely.

MS. GLADSON: One of the tools that has been very beneficial for us, and we just completed a large hospital design build, which people normally would say don't ever do this, but we did finish it four months ahead of schedule and spent 3.2 percent on change orders, and hospitals generally run in the 15 plus kind of range and certainly more than that in California with Oshkosh, is that we required a financial agreement at the end of every month, every pay application.

We wanted to know were there any outstanding conditions with either the prime contract or the non-primary contract, so the subcontractors. It gave them an opportunity to voice immediately what is the issue and we knew what we had to deal with, sort of that transparency, nothing in hiding, immediately knowing where you're at.

And it takes a lot of work to get that done, but it was well worth it because we finished with no claims. And my sister campus up the road has got about claims in excess of umpteen hundred million.

So I think -- next slide -- a part of making sure that this works for us was to pre-qualify the team that we work with. The company and team experience dealing with design build, the staff experience because there is that -- you don't have a completed set of drawings. You know, you might have 6,500 pages of documents, but they're not all drawings. And in design builds, you're going to have a whole lot less.

So the ability to have a prequalification and then the ability to retain the staff on the project depending on the duration. Those that are at the front end, make sure that they're available at the back end because then they don't come up to disputing the history of decisions that were made early. And in design builds, that is one of the issues. You get to the end. You're ready to move in and nobody has the history of why were the decisions made that were made.

Next slide. Clearly being able to define what your other components of interface or contracts are going to be. For us, it's often security, low voltage, specialized equipment. Often in design build, it's hard to specify those things up front because you don't have all the information.

So if you can handle those separately and set aside contracts and allowances for that, that actually allows you to make those decisions later in the project when you do have adequate information. When you're building ORs and the latest technology is always next week or next year, you want to delay those decisions so you might want to think about how you handle those kinds of contracts.

And you heard a lot about pre-purchasing and pre-purchase agreements. Those often help a great deal in the design build arena.

The other part that I think is so helpful from that is because those vendors once they're pre-selected can actually help you with the development of those drawings. And so that will give you a lot of time and savings costs.

Next slide. Contract clarity, this is always a tough issue. We already talked about the Dr. Famous and the famous ambassador. But getting that buy-in from the user group, and I have a slide that just shows you -- maybe I didn't put it in -- how we actually get that early buy-in and setting expectations early on.

And in a design build, that's critical what those design expectations are because they're not going to mull over 300 sheets of drawings of floor plans, elevations, sections, materials. So how do you manage those expectations becomes critical.

And then clearly defining your role versus the industry role, defining the time for your decisions. You know, I made a decision that we would turn answers around in five days just because in design build, it's fast and you've got to turn things around.

And then define your dispute resolution process. I think that's critically important that they know how that's going to be handled and how fast are you going to process paper and payments.

I would build all those into your contract which is what we did. We said you'll have your pay-out in 30 days. You'll get your answer in five days so that staff in the field was legally held to it.

And then the last slide, clarity, define again how you're going to measure quality, specify contingencies, what contingency you're going to hold. I've even had in my contracts a set-aside allowance that the contractor carries for my contingency.

So multiple ways of identifying allowances and mockups and change orders, et cetera. So just in summary, those are some of the tools we've used and, like I said, we've had great success.

MR. SHINNICK: And we hope that you'll stay in this with us.

MS. GLADSON: I will be happy to. Thank you.

MR. SHINNICK: We would invite you and we're going to hold you to that, so it's great.

I just -- we had a very academic afternoon here. I don't want to let Dr. Schmidt escape from putting her nickel on the table because we haven't put her on the spot.

Barbara, we're going to let you off because you're going to work with us next week on Thursday with a panel.

MS. NADEL: I would like to make a few comments.

MR. SHINNICK: That's great. Okay. I was going to let you escape, but I'll hold you to that. But I'm not forgetting about Dr. Schmidt over there.

MS. NADEL: I'm Barbara Nadel. (unintelligible) -- I'm sorry -- 83,000 members from the American Institute of Architects.

I tell people in advance that I felt this question was really not one that AIA members would be able to weigh in on, on a short time. But also as architects, we have another priority and that would be design.

So I'd like to just throw out some ideas. And I've been speaking with Bill Miner and Patrick

Collins who have been so fantastic and I'm sure we'll continue an ongoing dialogue. But I'd like to just throw out a couple of ideas.

The new embassy in Berlin and the new one in Beijing are wonderful buildings. And you have an opportunity as you move forward on the new embassies, the new facilities that are being planned and with the new administration, whoever it is, and I'm hearing about changes, reorganization and what have you, restructuring, whatever it is.

It's really a great opportunity to leverage architecture as a tool of public diplomacy and to provide design leadership in the U.S. and internationally about --

MR. SHINNICK: I have to -- I do this to everybody, so I'm going to do it to you, too, Barbara. And you're from New York, so you'll understand. Just when you get to leveraging design and using design, et cetera, et cetera, one of the goals that we have is to return OBO to a design culture.

MS. NADEL: Thank you.

MR. SHINNICK: And Bill (unintelligible). And I would point out that the hard bitten Mr. Toussaint sitting over here on my right who drives so many of our tough things to the ground and has to really be there where the rubber meets the road is an architect. So there's an artistic side there now that we are returning. We're returning.

Am I fair to say that we are returning architectural considerations to the stuff that we do on design build and everything we do?

MR. TOUSSAINT: You'll notice that Barbara didn't mention our lively discussion at lunch today.

MS. NADEL: I didn't get there.

MR. SHINNICK: Barbara, go ahead. I had to get that known that we're receptive to this.

MS. NADEL: Okay. This is very good news. And so I think especially with the new facilities that have recently gone on line and whatever is planned down the road, it really is a fantastic opportunity. You know, a lot of pieces are coming together.

And there's a lot of different ways to approach what comes next and, you know, whatever process it's part of design build, design bid build, you know, however that shakes out, a building is still a building. And that's where good design can play an important role not only for your mission in serving the Foreign Service people but representing the face of America overseas.

And I did have a very lively discussion with Joe. And we talked about a couple of things. But something came to mind in the last week or so and that is when I was serving on the national board of directors for AIA, I attended a symposium, a design symposium and I think it was about security. That was the main topic. It was in November or early December of 2000. I don't know how many people in this room attended. I see him shaking his head.

And it was really a wonderful symposium. It was co-sponsored with the State Department and AIA and I believe GSA was a partner as well. And a lot of things that came out of that were very memorable. And I know colleagues of mine, I mean, I put together panels and industry events all the time, and colleagues of mine still quote some of the people and some of the things that were said.

Senator Moynahan was present and he was really a champion. He was the design ambassador in Congress. And we don't have that right now. We could. There are some people we've been talking to. There are some potential people out there, but there is nobody of Senator Moynahan's stature going out there in Congress waving the flag for design and the role that it can play. And --

MR. SHINNICK: I beg to differ. We have had instructions. I turn it over to -- we have had instructions from the Hill and in legislative language that we are to pay particular attention in the future in the program to having appropriate -- is there some architectural term -- but culturally aligned, Joe. You said this and, Rob, Dr. McKinnie and Joe. What the language is basically saying that in the future, we're to pay attention to the cultural environment that we're building the buildings in and -- save me here. Don't just sit there and go ah-ah-ah.

MS. NADEL: I guess my point is that --

MR. MCKINNIE: (Unintelligible) --

MR. SHINNICK: Yeah.

MR. MCKINNIE: -- the language.

MR. TOUSSAINT: Yeah.

MR. SHINNICK: Ah-ha-ha-ha.

MR. TOUSSAINT: Among the designers, there's another issue here that Barbara is working on. And what I think we've got is -- she's halfway through her presentation here on -- but planting the seed that we revisit some of the things that we looked at --

MS. NADEL: Right.

MR. TOUSSAINT: -- eight years ago. And one of these --

MS. NADEL: Ten years later perhaps.

MR. TOUSSAINT: And maybe look at what has happened in those ten years. What has GSA, what has other federal facilities folks done with that. What have we done with that. I gave Barbara a particular challenge which I won't enter into the record --

MS. NADEL: Thank you.

MR. TOUSSAINT: -- and we'll save for later. But I think there are opportunities for us to revisit this in today's environment keeping in mind the mission that we have in front of us which remains the same. It's to move our people into safe, secure facilities as quickly as we can.

And so your colleague on your left, you'll want to talk with Chris --

MS. NADEL: That's you.

MR. TOUSSAINT: -- so he can take back to his membership, the AGC, such notions as how does design excellence fit into a delivery process in a design build program.

And after they gather their breath and say what, we're doing that, we can have some good ideas, I think, and maybe December we put this on the plate so see how we can get that into the program because that's the nut we have to crack here. And I think we're going to have a lot of mechanisms in place coming from the realignment that we're talking about that --

MS. NADEL: Right.

MR. TOUSSAINT: -- (unintelligible) with Walter.

MS. NADEL: And I think there's so much potential to provide design leadership and utilize that with your diplomatic efforts. And AIA and some of the groups around this table, I think, could do that. And perhaps the idea of another -- a second symposium in 2010. You'll have a few more things on line.

You know, just going back, we had Senator Moynahan. We had Justice Briar. We had representatives, high-ranking officials from the various federal agencies. And we had very -- a very good audience.

And so I think it could serve a lot of purposes. I mean, in one sense, you're looking for new bidders and new people to get involved. It could be --

MR. SHINNICK: We have -- Jurg and I worked last week on a response to the Hill in response to that language. And that --

MR. HOCHULI: Senator Gregg.

MR. SHINNICK: Senator Gregg.

MR. HOCHULI: Senator Gregg and Lahey.

MR. SHINNICK: Senator Gregg put the language in and we got a direct question from Senator Gregg's staff in follow-up. And we sent him an answer on what we are doing.

MS. NADEL: Okay. What I was --

MR. SHINNICK: This is very timely is all I'm saying.

MS. NADEL: Good.

MR. SHINNICK: I'm not saying don't worry about that, Barbara. We have it. What I'm saying is your intervention is timely.

MS. NADEL: Good.

MR. SHINNICK: And this is the right time to do it and it coincides with our returning OBO to a design culture. Somebody talked about the fact that eight years ago and then nothing happened. Now, they were the dark ages as far as the design culture was concerned. And we're going back.

Bill, you know, Bill will be the UN

interlocutor a week from Thursday and let's put that on the agenda. We'll come out and try to explain what part we -- we'll only take two agenda items at our holiday meeting, but let the director direct, that the two agenda items will be a report on what we found out about partnering and we'll say the design culture at OBO. All right? That will be the second agenda item. And the people you cite, Patrick and Bill Miner, will be --

MS. NADEL: Great.

MR. SHINNICK: -- will be sitting over in the hot seat and you'll be -- you'll decide who the champions will be over on your side.

MS. NADEL: And whatever AIA can do on the Hill or, you know, whatever efforts you need from AIA, I'm sure we can get that going.

MR. SHINNICK: So everybody agrees, all that panel, that would be two useful things to go. The guy, he -- there's a businessman over there, more or less. There's a bottom line guy right there, design culture.

MS. NADEL: Great. Thank you.

MR. SHINNICK: I say that affectionately because we have a lot of commonality we found out at lunch in certain -- the way we approach problems or a certain cultural standpoint.

So, anyway, we're going to do it.

MS. NADEL: This is very good news. Thank you.

MR. SHINNICK: Yeah. So that's great. And, Dr. Schmidt, you have to grace us with a couple words.

MS. SCHMIDT: I'll take us out. And I know some folks here have planes to catch, so I'll be relatively short-winded.

I represent the Associated Owners and Developers as some of you know. Specifically I'm an attorney at Marriott Ritz Carlton. And in that role, I head up the legal services for our architecture and construction division which is approximately 400 professionals. We have architects, engineers of all variety, site folks, purchasing, design, estimating, all the different disciplines you might expect to find.

So I have the privilege to work with them on the design, the development, the renovation, et cetera. So a number of these issues are near and dear to my heart as well because I deal with them every day with trying to help our folks carry out our mission of fabulous hotels.

I have to tell you that my comments are mainly as a Marriott attorney and my experiences with Marriott on this issue of design build. And I have to tell you my prejudice which is we don't tend to like design build for ground up hotels.

And the reason we don't has been touched on here a little bit and not to say it can't be overcome, but it's a challenge that we usually prefer to not engage in. And that is, you don't have the luxury of working through designs to such a degree that we like.

And some of that is our own fault. Probably if we had a design builder, and we do use design build often in our large renovation projects, but if we allowed the design builder more freedom, then I think the process -- the delivery method would work.

However, because we have folks inside, we have designers inside, we have architects inside who want to contribute creatively to it, it tends not to work so well for us.

And I don't know how you're structured. But if you have folks, architects and ID folks who have a lot -- who like to have a lot of input, I think you're going to have a challenge there and it may make partnering very, very important because you're going to have to be working together like this the whole way.

The other reason we find it very challenging is because --

MR. SHINNICK: Can I just say something?

MS. SCHMIDT: Yes.

MR. SHINNICK: I have to say --

MS. SCHMIDT: No, please.

MR. SHINNICK: -- if you weren't at lunch with me, I would have thought you were at lunch with a bunch of OBO architects, honest to God, because --

MS. SCHMIDT: It's the truth.

MR. SHINNICK: -- somebody got the design engineering message to you. I don't know who it is.

MS. SCHMIDT: I'll expect the cash.

MR. SHINNICK: You've been selected.

MS. SCHMIDT: I'll expect the cash later.

MR. SHINNICK: You know, there you are. I've heard that message. I get that one in the elevators.

MS. SCHMIDT: Well, there you go.

MR. SHINNICK: So, okay. I don't mean to

interrupt your flow.

MS. SCHMIDT: And they didn't even prime me for it.

MR. SHINNICK: But I had to get that in there.

MS. SCHMIDT: The other reason we find it challenging is because we don't have a set of construction drawings. We don't even have 70 percent drawings. And so it's hard for us to get to what we like and we still are very traditional in many ways and like to have a lump sum contract because we know, you know, we know that's what we're going to spend. We know our pro formas work with it, et cetera. And so that's a challenge for us.

Now, to address both those issues, some of the things we do when we are going to use that as a delivery method is, number one, it's just so important that you understand as the owner or the folks building it for a constituency what your ultimate vision is, what your goal is, what your vision is, and what those expectations are.

So in my world, it means, okay, if we're building in Georgia, what do we want that property to look like. Do we want it to reflect more of that eastern European flavor. What kind of look. What kind of feel. What kind of aesthetics.

And then we need to know what sort of program we're going to have, how many conference rooms are we going to need, how secure, because although we don't have quite the same demands for security you do, we have to make a large effort nowadays to harden our targets because we have that big red American Marriott M on our properties and have unfortunately been the target of some bombings and whatnot.

So it's going to be key, I think, for you to agree as you're putting out your proposals and you're sitting down and going over those bids and working with your design builder to know what your vision is, what your -- you know, you have a goal. You have a mission. But do you want that to look like where you're going to be.

I think that's going to be helpful in finding the right partner and also having delivered a product that meets what expectations you might -- you have, especially if you're going to now be focusing more and more on design and you're not going to be, you know, putting together those boxes that are all so attractive.

Just an editorial comment. I'm not an architect.

MR. SHINNICK: Look at that. She's (unintelligible).

MS. SCHMIDT: Something Rebekah said --

MR. SHINNICK: But, you know, interestingly enough, I don't mean to --

MS. SCHMIDT: No, please.

MR. SHINNICK: -- counter it, especially not with a trained attorney, but we have gotten some -- we have on the other hand gotten some very clear compliments on some of the things that we've been able to do lately.

So, Joe --

MR. TOUSSAINT: RIG said that.

MR. SHINNICK: RIG said that it was -- and it wasn't that RIG had a high appreciation for architecturally great work, believe me, but they had done --

MR. TOUSSAINT: Watch it, Barbara.

MR. SHINNICK: -- they had done -- they had gone out with questionnaires and talked to people who had new embassies and they said they were surprised with the amount that we had been able to do locally to adapt to local environment and cultures within the parameter -- the financial parameters that we operate in because someone mentioned the words. These are public diplomacy statements --

MS. SCHMIDT: Right.

MR. SHINNICK: -- for us, too, everything that we've described, but they're iconic public diplomacy statements.

MR. TOUSSAINT: Picking up on your earlier statement, Dick, I think many of these -- some of these are actually, believe it or not, Fairmounts. Is that the right -- Fairmount, is that the -- Fairchild, Fair -- what is that?

MS. SCHMIDT: Fairfield Inn?

MR. TOUSSAINT: Fairfields.

MS. SCHMIDT: Yes.

MR. TOUSSAINT: We have Fairfields, we have Court Yards and then we have the --

MS. SCHMIDT: Ritz Carlton.

MR. TOUSSAINT: -- Ritz Carltons.

MR. SHINNICK: Right.

MR. TOUSSAINT: We always think that every one is a Ritz Carlton. That's the expectation. But the reality is where we operate, a Fairfield would do just fine.

MS. SCHMIDT: I think that's a very good point, I mean, both from a budgetary standpoint and a functionality standpoint. And I do appreciate that.

And, again, that goes to what is your vision --

MR. TOUSSAINT: Right.

MS. SCHMIDT: -- what do you want, you know. Presumably your Paris embassy is going to look different than your embassy in a develop -- a more developed part of the world.

MR. SHINNICK: Right.

MS. SCHMIDT: One of the things that Rebekah touched on that we have found as a way to help address some of our concerns when we're using design build is the whole concept of allowances.

So many times at the beginning of the day when you're trying to get to that, in my case, a lump sum or even GNP, but a lump sum number, you don't have a clue on a lot of things, especially when you're going to be -- if you're doing renovations or you're taking and rehabbing old buildings. You don't know what's behind the walls. Maybe you don't know what the costs are going to be even on a new build with the accelerating product.

We build in allowances and then as we work through our design with our design builder, as they work through the design and move forward into construction, we then harden those numbers.

So if we have a, you know, $10 million allowance for HVAC, for example, when we get -- we have our design builder work that number, demonstrate, even on a lump sum where we don't usually want a lot of detail on what their underlying bids are, we want them to document for us what goes into that allowance.

We then harden the allowance and increase the lump sum accordingly through what we call --

rather than a change order, we do it as a separate construction agreement that becomes appended with the new lump sum.

And we find that workable so long as you've done a good job of anticipating what sorts of things you need allowances for. And we oftentimes will work with our design builders to try and figure out what the unknowns are that we have to think about.

So that's one thing that's very, I think -- Rebekah mentioned it a few times, I know, and that's one thing that's very important to us and at the same time, we make sure we carry both the design and a construction contingency. We do both. And that way, we sort of hedged our bets because it's always nice to come in under budget and it's really hard to explain to Mr. Marriott why you're over budget.

And so we have those same pressures.

MR. SHINNICK: I can appreciate that. We have -- we don't have Mr. Marriott, but we have --

MS. SCHMIDT: You could probably get somebody worse.

So those are a few things. Another thing that I think Will touched on either directly or indirectly, he made the point that you really need to choose your team. Everything comes down to how well you and your design builder and their team are going to work together. So you're going to have to have a lot of faith and confidence.

So it's not -- you're not going to have your architect out there mining the store for you when you're not there. You're going to have to have a lot -- a high level of trust for the integrity and the competency of your design builder. And that may -- I know for us in some places in the world, that's more difficult to do than in other places.

MR. SHINNICK: Right.

MS. SCHMIDT: Perhaps they have different building techniques, expectations, et cetera. Their idea of quality workmanship might be different than ours as Americans and so forth. But that's going to be a key thing.

Again, we do the same thing, I think, that Rebekah mentioned and that is pull out the FF&E, the IT, those sorts of things into separate contracts so we know what those numbers are. We can control them. We can get them locked in early on.

And if we have them locked in and we have our -- the contractors who are going to be working on that, we can feed those into -- we don't call it partnering so much, but we do have a teamwork approach at Marriott. So we can pull all those folks together from early on so that they're working in harmony and work is much better.

And then finally, the final thing I'll mention is we make sure we have a site rep, an owner's site rep on site for any project we do design build.

MR. SHINNICK: We have them there too.

MS. SCHMIDT: And that, I mean, is -- that guy or gal usually is the one who is going to see problems as they come up, who's going to be able to know, in our case, what the touch points for Marriott Ritz Carlton are, for you what your touch points are, and be able to head off a lot of problems.

And so those are the things -- in the interest of time -- but those are the things that we find and the ways we try and meet what we see as a very challenging delivery method on a ground up, a new build.

MR. SHINNICK: Right. Well, listen, thank you very much. I think you understand why we have this very challenging method and why --

MS. SCHMIDT: Absolute -- no, absolutely.

MR. SHINNICK: -- because our mission of the --

MS. SCHMIDT: It brings speed to market. Definitely does that.

MR. SHINNICK: And we have to -- the whole purpose of the money that we've been given, a billion plus, is security construction as quickly as we can get our people safe. It's working for us --

MS. SCHMIDT: Yes.

MR. SHINNICK: -- thank the Lord so far, and that we haven't been hit where we didn't want to get hit.

As we wrap up, I know you all have planes, so let me just say one thing, that this day is what we in OBO were working toward as far as the interaction and the participation and the contribution to the mission that we would get from our IAPs.

And that is no reflection on the former members of our IAPs, but you remember when we were trying to get to this saying, hey, we didn't come here to show you slides and tell you how great we are. We came here to find out what we can do better. And I think we're getting to -- we are at that stage as exhibited by what happened today and how much feedback there was and how much information we were able to get.

So I think it's fair to say that. And so a very important thing you guys are part of is our process is lessons learned as a man that runs it for us. Why did you put the door in sideways, you know.

Brian is not called upon to answer that. He's just called to make sure it never happens again. And he's --

MR. SCHMUECKER: The door was right. The wall was wrong.

MR. SHINNICK: That's right. There he is. So as I said, we have the talent to do the job. There they are.

Thank you very much. We'll see you all close to the holidays and we'll look forward to the two items that I put out being on the agenda and also the tour that we mentioned and eating together again.

No such luck for you, Chris. We'll be back to you, Dr. Smith, well before that.

So thank you.

(Whereupon, at 3:35 p.m., the above-entitled panel was concluded.)

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CERTIFICATE OF NOTARY

I, GEOFFREY L. HUNT, CVR-CM, the officer before whom the foregoing testimony was taken, do hereby certify that the testimony of said parties was taken by me by stenomask means and thereafter reduced to typewriting by me or under my direction; that said testimony is a true record of the testimony given by said parties; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this testimony is taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of the action.

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