TOP 3 Referendum Mistakes

from the construction manager's perspective

by Curt Wiebelhaus

IN THIS ISSUE, we examine the **top 3 referendum mistakes** from the construction manager's perspective:

1 - Failing to plan.

2 - Allowing "scope creep" in the project.

3 - Failing to manage soft costs.

School district boards, superintendents, business directors and facility directors have limited opportunities to be part of a successful capital referendum. When a school district has one of these opportunities, it is important to manage the referendum at the highest level. School districts typically partner with professional firms to assist with the details of planning and managing a referendum. Wisconsin is fortunate to have excellent architecture, construction management and owner's representative firms specializing in capital referendums.

Building Solutions, an owner's representative firm in Wisconsin, often is approached by school districts seeking a construction/referendum expert to help efficiently and effectively navigate a capital referendum process. Building Solutions desires that any district considering a referendum learns and understands "what not to do" before the first step is taken toward a referendum.

This article is the second of three providing the perspectives of three key professionals intimately involved in school district referendum projects. The previous article in the May 2021 Wisconsin School News featured the architect perspective. This article features input from two of the state's leading K-12 construction management firms. The third article will feature an owner's representative perspective.

CG Schmidt and J.H. Findorff and Son, two prominent Wisconsin construction manager firms, have been involved in 85 combined referendum projects in the last 10 years. Their experience and perspective can help districts avoid making the same mistakes other districts have made.

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MISTAKE #1: Failing to plan

Many districts know they have needs that will require a referendum. However, they don't have the experience, knowledge or resources to execute a plan independently. At the same time, they may wonder if it is too premature to commit to partners for a referendum.

The early decisions and strategies are crucial to ensure an efficient and well-managed process. An effective approach for many districts during the early stages of a potential referendum is to make a minimal investment for a specific scope of work with one of the three key referendum partners to help develop an overall "road map" or plan. As the plan gets executed, the additional partners get added at the appropriate times. Two common approaches are:

A: Hire an architect to develop a facility or district master plan, not a referendum plan. This plan will allow the district to start planning from a high level before focusing on the specific needs for a potential referendum. The key to this approach is that the architect is hired clearly and specifically for the master plan, not for a referendum plan. As planning progresses toward referendum, the district may choose to issue a separate request for proposal, or RFP, to get competitive responses from architect firms to manage the referendum portion.

It is easy for districts to continue working with the architect who created the master plan without going to the request for proposal. However, districts are likely to get better proposals with a two-step process. The difference of a 0.5% architectural fee on a $50 million construction project is $250,000! It would not be unusual for the same firm to provide a 0.5% lower fee in a competitive response to an RFP versus a non-competitive response without an RFP. It takes a few extra weeks to go through the RFP process. However, the district can be confident they selected the best architect firm for the potential referendum project because they analyzed and compared the pros and cons of several firms.

B: Hire an owner's representative to help develop the district's overall strategy and the eventual RFPs for the architect and construction manager when the time is right. An owner's representative with experience in referendum projects will be invaluable in creating a solid strategy for the district based on specific needs. An owner's representative is a great way to use an expert to guide the referendum process without committing to the architect and construction manager partners too soon.

The famous phrase "failing to plan is planning to fail" could not be more accurate in a referendum situation. Occasionally, districts desire to fast-track a referendum. Some referendums have passed with minimal planning. However, it is much better for a more intentional and thorough pre-referendum planning process. The chances of passing the referendum will increase, and just as importantly, the additional planning will build trust in the community. This trust can only be developed by listening to the desires and concerns of the taxpayers and the community. By taking time to listen to the community, the referendum plan will be better, which will lead to more of the community supporting the plan.

The early decisions and strategies are crucial to ensure an efficient and well-managed process.

MISTAKE #2: Allowing "scope creep" in the project

Scope Creep /skōp krēp/. 1. continuous growth or change in the scope of a particular project beyond its original stated intent.

Why does "scope creep" happen? Below are common thoughts or comments as it relates to scope creep:

- "We won't be touching this building in another 20 years, let's just add this to the project now."
- "We have plenty of contingency left. Let's do this additional work while we are here."
- "My teaching staff is asking for this. I want to give it to them, so they feel valued."
- "It would look nicer to update this area as well."
- "Let's add this to the referendum project so my operational budget won't have to pay for it."
- "I am going to ignore common design standards to accommodate this current teacher's request in this area."

Every project has some level of add-ons. Regardless of why it happens, districts should understand the implications of scope creep to help manage it.

Design scope creep. The referendum plan is a high-level schematic plan that is used to communicate the intent of work and assign appropriate budgets. Once the referendum has passed, the design team will hire their engineers and other consultants. More detailed meetings will happen with staff in an attempt to capture all the priority needs.

It is tempting to add work beyond what was planned or budgeted for in the referendum with the many different opinions and ideas. The architect, construction manager and district have a responsibility to manage scope creep. The construction manager needs to understand the available budget they assigned to the referendum in detail. If the progress design indicates a significant change in the budget, the construction manager should speak up early to warn the district of the potential budget increase. The architect should be conscious of these budgets and alter their designs accordingly. The district should rely on expert guidance from the construction manager, the architect and/or the owner's representative, and pull back on scope increases when instructed.

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The typical process in a project is for the construction manager to provide detailed updated budgets as the design progresses. Typical milestones for the construction manager to update their budgets are at 25%, 50% and 75% design progress. These budgets allow the designer and district to customize the design to hit the targeted budget. The district will not know the project's actual cost until bids are received after the design. If the project is significantly over budget or significantly under budget, it is incredibly inefficient and costly to modify the project's scope at this time. A good strategy is to include "alternates" in the bid documents. An "alternate" instructs bidders to separate their pricing for specific items. This allows the district to decide after the bids are received to increase or decrease the overall project cost in an efficient manner.

Construction scope creep. Adding scope to a project after the sub-contractors have been awarded is costly and inefficient for the district and the construction manager. It is not unusual for scope additions in the form of a change order to have a premium of 25% to 45% from what it would have cost in a competitive bid environment. In addition to a cost increase, it can slow down the project while details are being figured out. This distraction can be difficult to measure in terms of cost and schedule. The compounding effect of excessive changes after contracts have been written can be significant.

When situations occur with additional scope being considered, it is good to ask yourself two questions.

QUESTION A: Can the request be efficiently done as a separate project after the referendum work is com-

plete? If the answer is yes, it will likely be better to do it as an independent project so the district won't have to pay the premium that often comes with a change order. When these types of scope requests come up, add them to a priority list. As the project is nearing completion, go back through the list and determine which additional requests to complete with any remaining funds. Use the district's typical capital project processes to manage this work.

QUESTION B: If the request can't easily be performed as a separate, district-managed project, then ask whether the pricing is reasonable for the change that is being requested. The district and/or owner's representative have the responsibility to check and validate pricing. Every major project has pricing errors. As the district or owner's representative finds errors, the contractors are less likely to make similar pricing errors in the future. The financial result is significant over the life of a project.

The bottom line is to be aware of the impact of scope creep and change orders. The district has control over the number of changes they request. Some scope creep can be avoided by the district team's consistent engagement during the design phase. Design adjustments should be made during the design, not after the plans have been bid out.

Dedicating time to be consistently engaged during design is challenging for many district teams because their regular jobs do not go away just because a referendum was passed. The many hours of design meetings can be challenging on district personnel as they already have a demanding job. In addition to attending and participating in design meetings, district personnel and/or the owner's representative should be reviewing the design progress plans in preparation for the next design meeting. This is the only way to fully understand what is being included in the design.

Many times, modifications to the design have no cost implications if it is caught in the design phase. If it is found after the work has started, the cost can be substantial. An owner's representative can help decrease the demands of the district personnel during this phase by assisting with design and plan reviews, which allows them to be more focused and impactful during the design process.

MISTAKE #3: Failing to manage soft costs

Soft cost /sôft kôst/ 1. Any costs that are not considered direct construction costs or "hard costs" as it relates to a construction project.

Soft costs frequently include design, geotechnical test, survey, furniture, audio/visual, information technology, consultants, hazardous material abatement, moving costs, builders risk insurance, equipment and appliances. A common misconception that school districts have is that the construction manager is responsible for managing the entire project. The

construction manager is only responsible for managing the construction portion of the project along with the associated budget. Districts that get in trouble from a financial perspective often fail to manage the soft cost of the project.

A key role of an owner's representative is to manage the soft costs as well as related vendors and suppliers on a project. Whether the district utilizes an owner's representative or manages the soft cost internally, the role is significant. Around 70% of a typical project will be allocated to the subcontractors that are hired to perform the actual construction work. The remaining 30% of the project consists of soft cost and the construction manager's supervision and oversight.

For example, on a $50 million project, 30% is $15 million. This is a significant portion of the project that needs to be managed proactively by someone other than the construction manager. If this 30% of the project is not managed by the district (or district's owner's representative), the project is likely to have issues at some level. Those issues may not be recognizable to the district, such as paying a significant premium for the work.

Some examples of more recognizable problems that could occur when

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soft costs are not managed well include the project ending up over budget, furniture missing when it's needed, teaching staff becoming excessively stressed because moves were not well coordinated and communicated, and A/V systems not being ready in teaching spaces.

The district or owner's representative should use the construction manager's budgets in order to update the overall project budget. The overall project budget should include all the soft costs with accurate projections for the final cost at completion. Each of these vendors needs to be managed and coordinated as the final construction project likely depends on the soft cost vendors performing their role on time. A high-performing construction manager who executes the construction portion of the project combined with a fully engaged district and owner's representative to manage the remaining aspects of the project will result in a successful project that the district and community can be proud of.

Avoiding these three common referendum mistakes will certainly improve Wisconsin school districts' chances of having more enjoyable and successful referendum experiences.

Significant value is added to a construction project when a school district either fully understands the intricate details of managing a referendum or supplements its existing resources with the expertise of an owner's representative. By minimizing mistakes and errors, more of the resources that are available to school districts can be used to improve the district. Improving students, staff and facilities are key components of a highly effective community. ■

Look for Part 3 *in the August issue of Wisconsin School News. Curt Wiebelhaus is the founder and owner's representative at Building Solutions.*

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