**Budget Questions and Requests for Information**

**2018-19 Recommended Budget**

**Question #12**

**QUESTION:** How can we evaluate the projected construction costs and potential cost savings strategies for the Municipal Services Center?

**RESPONDENT: Eric Schoenagel, AIA, LEED® AP; Little**

**RESPONSE:** I wanted to share some points for consideration in evaluating the projected construction costs and potential cost savings strategies for you to discuss with the Town Council.  First, it’s important to understand that when we create preliminary construction budgets we utilize a cost per square foot model to develop the budget.  As such, there are only 2 ways to effectively lower the costs. The first is to lower the anticipated costs per square foot (how much we pay) and the second is to reduce the amount of building area (how much we build).  I’ll further outline my thoughts on both approaches below.  I’ve also double checked with contacts in the construction market place and the currently budgeted amount of $350/SF does align with similar projects constructed in the Triangle.  If the final goal is to create savings of between $9M and $10M, I believe drastic measures will be required to achieve that kind of savings.

Cost Savings #1 – reduced construction costs (per sf)

* We believe that with careful consideration of the design of the building, and alignment of needs for the project with the budget, we can target a reduced cost of $300/sf potentially saving $3.6M.  Some enhancements, for example solar panels or full building emergency power, could not be included.  However, the building program and anticipated functionality would be preserved.  The whole team would have to challenge ourselves to stay focused on the needs rather than the wants and everyone involved in the project, including Boards and Commissions, would need to buy into this approach to help achieve this savings.
* By targeting a reduced cost/sf, we will need to lower the cost of the finishes used within the building.  To do this we may have to target specific areas to look at using more cost-effective materials for example linoleum tile in lieu of porcelain tile in the lobby.
* Due to the front-loaded costs with how the site is initially being developed, some savings could be achieved by reducing the amount of site infrastructure initially installed and/or by relocating the building to a flatter area of the site.  Further savings could be achieved by reducing the amount utilities and of storm water measures installed initially.
* It might be possible to further Value Engineer the building, but past a certain threshold (level noted above) the cuts become drastic and generally affect the maintenance and operations of the facility.  Typically, the results from this approach are increased operating (energy consumption) and maintenance costs.
* It might not be possible to save the anticipated $9M to $10M without drastic value engineering or further reductions to the site development or building area.

Cost Savings #2 – reduced building program area

* Reducing the building to 45,000 sf (cut 40%) a savings of $9M could achieved.  Careful consideration of the building program would be required to achieve such a drastic cut.
* The Town would need to determine which program areas would be cut.  Assuming the police program is not reduced, to achieve a 27,000-sf reduction at least 4 departments would have to be removed from the building in addition to a significant reduction in the shared/collaboration/meeting spaces.
* The reduction in area would reduce the site development area required by reducing parking.  The police function might still require the dual entrances and connecting roadways.
* At times, smaller buildings can be less cost effective to build.

As you probably know, the current construction market is very volatile and experiencing a 4% yearly escalation rate.  The costs/sf noted in option #1 are expected to work through our bidding in 2019.

If bidding were to be postponed past 2019 the 4% escalation should be included in any budgeting.  For the $25M construction budget (hard costs), this would equate to a $1.1M in escalated costs.  According to my contacts in construction market place, they do not see a reduction in escalation for the next 2-3 years.