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No Change Order Infrastructure

If the idea of change orders or cost overruns is preventing your local municipality from making critical infrastructure investments, consider a change in the procurement approach to kick start the process and keep costs manageable.

Steve Owen, PERC Water

Projects are more likely to succeed and come in under budget when the incentives for all parties are aligned to that goal.

An approach that is becoming more widely accepted is the Design-Build or DB approach. For many years, public agencies challenged with the need to upgrade or replace old infrastructure have used the more traditional project delivery method by first hiring a consultant to provide a design. The design is then put out to bid by the public agency. This structure is referred to as Design-Bid-Build or DBB. One of the hallmarks of this arrangement is that the Engineer and the Builder are likely to have a different opinion of the cost. The designer doesn't have any skin in the game and the contractor does.

I'm often surprised by the resistance that councils and elected officials have to this type of approach. Is it familiarity with the standard system or mistrust of the unknown that has slowed the acceptance of design build and similar offers? When a firm offers a design build contract, they are putting a lot more on the line than either a designer or a builder would separately. A design builder accepts all project responsibility; finger pointing that typically occurs between separate parties is completely avoided. Most importantly, the true costs of a project will be known at that time. Triggers for change order have been eliminated by putting one party in charge of the design and construction.

Another component that can be used to put appropriate project structure in place is a Public-Private Partnership (PPP). A PPP allows a public agency to transfer financial and performance risks associated with infrastructure projects to a private sector entity. The parties share their skills and assets as true partners and delivery a service or solution for use by the public sectors constituency.
The private sector brings strengths such as capital resources, skilled management, new technologies, personnel, project management skills and workplace efficiencies. The public agency provides legal authority, protection of procurement requirements, capital resources, personnel, public liaison and ability to serve the public needs. Notice, the public agency does not bring a blank check. Here's why.

In addition to the sharing of resources, the private sector entity will mitigate risks and insulate the public agency partner. The contractual agreement then allows the public agency to share proportionately in the rewards due to cost saving from a more efficient design or operations by the private sector partner. In the PPP model the private sector entity assumes the risk and provides the value by way of certainty for the long term of 30 years.

By utilizing PPPs in conjunction with available alternative project delivery methods, a public agency can provide certainty and transfer risks associated with developing infrastructure projects. The full slate of alternative project delivery methods include design/build (DB), design/build/operate (DBO), design/build/operate and design/build/operate/finance (DBOF) all of which can be incorporated as part of the PPP.

A change truly is in order. PPPs and alternative delivery methods are both great ideas and it is up to the public agencies and private sectors to utilize them as a means for successfully delivering infrastructure projects. Ignoring these approaches increases the risk borne by a municipality and puts the success of projects in jeopardy. As Thomas Edison once stated, "*The value of an idea lies in the using of it…*"

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