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We have reviewed the bid prices and indirect cost estimates for the Richmond Hill Centre Pedestrian Bridge contract and offer the following comments.

Kiewit Ellis Don (KED) has competitively tendered the main elements of the Richmond Hill Centre Pedestrian Bridge contract. As required under the Design Build (DB) contract, KED must tender any project where the value is greater than $100,000. KED prepared 17 different tender packages including elements such as structural steel, civil work, steel H pile foundations, electrical, mechanical glazing, masonry, roofing, exterior cladding, doors & frames, ceramics, painting, landscaping, etc. For some of the elements there were no bids or single bids received; however, most of the higher value items did receive multiple bids. No bids were received for Mechanical and since then KED has continued to solicit quotes and has identified Black and MacDonald as a low bidder.

A number of factors contributed to the increase in the tendered cost over the estimate provided in March of 2006. Among these is the significant fact that no allowance was made to reflect possible interference with work operations resulting from the need to use Home Depot lands for primary access to the work site. In addition a significant retaining wall was added to the scope to eliminate a property issue with Home Depot. The cost of the civil work package is higher than originally budgeted, in large measure because the work operations are such that the sub-contractor would need to mobilize and demobilize several times in order to complete this work, resulting in additional costs and reduced efficiencies, both of which are reflected in the costs as tendered.

The prices quoted are reasonable and indicative of the heated market in the construction industry today. The prices are higher than estimated earlier last year but reflect the current market conditions. We see no reason to suggest that the bid prices should be rejected and re-tendered.

In addition to the direct construction cost, we have also reviewed the actual and estimated indirect costs prepared by KED for this project.

The design costs including the contractual mark-up fee of 10% applied by KED is high for a project of this scope; however, is reasonable considering the circumstances. During the preliminary design and early design stage there were several iterations of the design including the type of structure, finishings, architectural details, elevators, location of structures & walkways, roof coverings and enclosures which evolved through the many discussions with stakeholders, including GO Transit and YRT. In large part, the number of design iterations resulted in the higher design cost. It is noted that these costs have already been invoiced, approved and paid for by York Region.

It is noted that while it is unusual in a traditional design-bid-build contract to include a design mark-up fee, in this DB contract the mark-up fee reflects KED's responsibility to provide project management services. On a traditional project delivery model, this fee would be offset by internal project management and administrative staffing costs.

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Some of the Construction indirect costs have already been expended at this time, while others are estimates to be included as part of a GMP contract with KED. The items already spent include the costs associated with the review of the documents, last minute changes, generating schedules, the preparation of tender packages (17), meeting and negotiating with stakeholders (Metrus), securing building permits and undertaking pre-construction surveys. Although the cost of $113,100 is somewhat high for this activity it is not unreasonable considering that this project was tendered twice and with GO Transit's concurrence was put on hold for a number of months prior to re-tendering. A re-evaluation of the decision to proceed was also undertaken during this time.

A review of the other activities associated with the contractor's indirect cost appear reasonable for this type of project. These costs include items for staffing, construction site office, office expenses, transportation, insurance, bonding, quality control, demobilization and contingency. It is noted that had the contract been awarded last year there would have been an opportunity to reduce the staffing costs by sharing some of the resources assigned to the Phase I Quick Start Project. Staff assigned to the project now will be dedicated to this project and as a result will attract 100% of the associated costs.

Included in the construction indirect costs is a mark-up fee of 11.5% (of construction costs) which is part of the DB contract. The amount of the fee was established by the Expert Panel as part of the cost confidence review during the contract negotiation process. In a DB contract this mark-up fee is intended to cover the responsibility and risk assumed by the contractor in delivering a completed project on time and within the GMP.

For comparison purposes, it has been our experience that the soft costs (indirect design & construction costs) associated with large Design Build projects are generally about 35% of the total project cost and could be as high as 40%. The indirect cost on this project is 34% of the total cost, which is within an acceptable range.

Overall and considering the events noted herein the direct and indirect costs may appear to be somewhat higher than would normally be expected as reasonable, given the market conditions and the lengthy review process that existed. While it may seem unusual (compared to a traditional design-bid-build delivery model) to include additional mark-up fees, under this DB contract these fees reflect the fact that KED is fully responsible for all project management services and accepting the risks associated with completing the project on schedule and at a Guaranteed Maximum Price (GMP).

Yours very truly,

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