



U.S. Department of State, OBO IAP

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**Cost management in a changing
construction marketplace:**

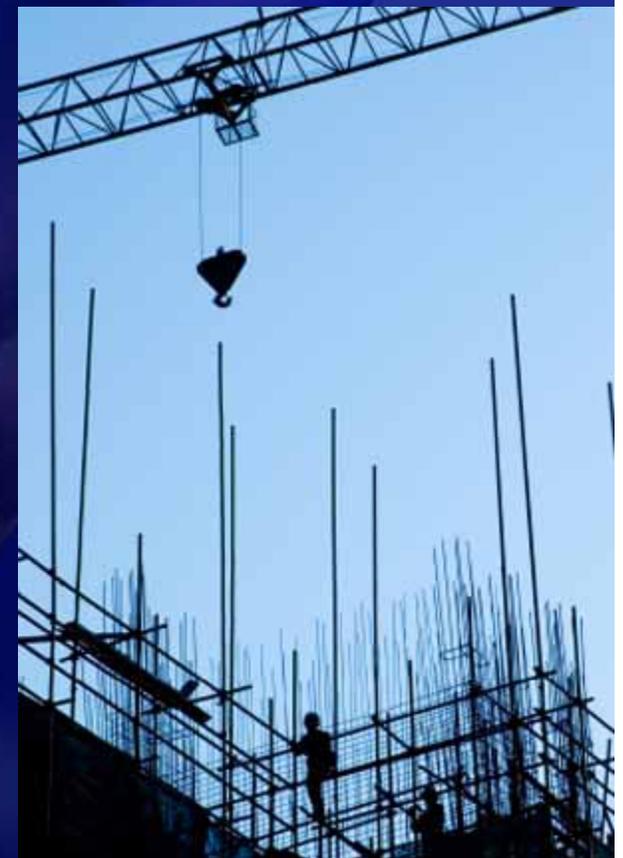
*How are the public and private sectors
dealing with ever-changing global dynamics?*

Detailed questions

1. Material Costs: Given the fluctuation for cost on basic materials such as steel, copper, cement, etc., how are you able to manage cost escalation on projects?
2. Fuel Costs: How are you able to manage rise in fuel costs?
3. Currency Fluctuation: How do you manage project costs and pricing based upon foreign currency exchange?
4. General Conditions Costs: How do you structure your general conditions cost fluctuations in regard to materials, labor, currencies, fuel & travel costs, insurance, etc.?
5. Cost Control and Budget Forecasting: How do you control cost over long term projects?
6. Pre-Purchased Agreements: Do you use pre-purchased agreements? If yes, how and to what extent are these agreements implemented?
7. Security: How are security costs factored into the project?

Material Costs

- Where practical, materials and equipment are contracted for or pre-purchased at prevailing market prices. For long term projects, materials are stored until needed.



Fuel Costs

- Consumable items that are subject to market fluctuation are generally a project reimbursable item that is passed on to the Owner.



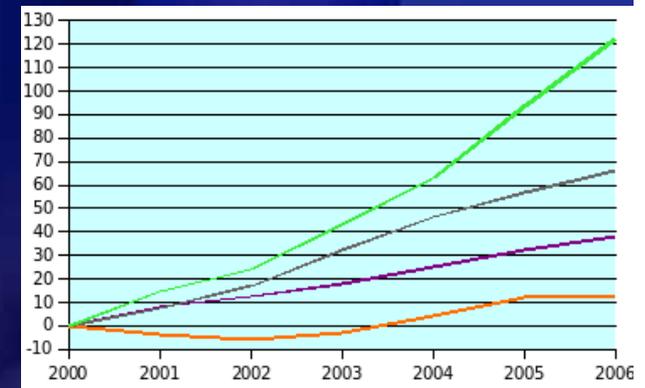
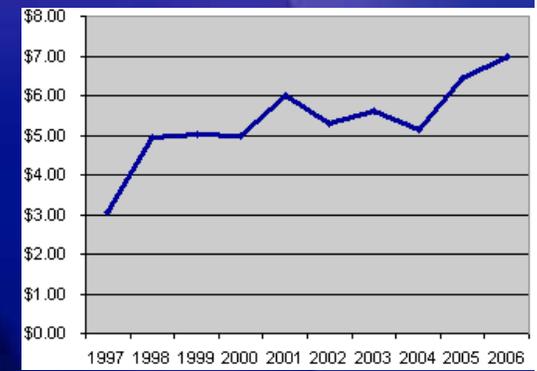
Currency Fluctuation

- Contract terms can be agreed to which would allow price or cost adjustments based upon currency fluctuations when funds are actually expended. Alternatively, currency futures can be purchased to protect downside fluctuation.



General Conditions Costs

- Generally, general conditions costs are treated as a reimbursable item passed onto the Owner. We work with the Owner to help minimize the effect of price escalation by pre-purchase agreements and careful planning and scheduling of project expenditures.



Cost Control / Budgeting Forecasts

A). By implementing stringent construction management and cost reporting and controls.

B). Through partnering with all team members and the inclusion of early project completion incentives.

C). Through strategic planning and scheduling for purchasing of long lead items and locking in costs for equipment and materials.

Pre-Purchase Agreements

Pre-purchased agreements are used to purchase materials and equipment as follows:

Procurement of long lead items such as power generation equipment, mechanical / HVAC equipment, etc.

Pre-purchased agreements are also made with material suppliers well in advance of when they are needed so that suppliers can benefit from bulk procurement and pre-determined scope of supply.

Security

- Security costs are treated as reimbursable items and passed onto the Owner.





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