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P R O C E E D I N G S

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MS. PINZINO: Good morning, everyone. Welcome to our Industry Advisory Panel meeting, the first one for 2004. I kindly ask that you turn off your cell phones or pagers, if you have them. We have staff outside our doors who can escort you to use the facilities here.

For those of you who this is the first time that you're here with us we normally break for lunch around 12:30. Our panel members and managing directors will be accompanying the Director and our Chief of Staff to the luncheon upstairs in the executive dining room.

And for all other outside guests we will be escorting you to our fine cafeteria facility at the State Department. So welcome and thank you for joining us.

GEN. WILLIAMS: Good morning. Thank you, Gina for the administrative comments. And let me first of all welcome the panel and of course also any visitors who might be here for the first, second, third or fourth time.

It’s always a pleasure to see the panel return. We have a couple of people who are en route but in deference to your time and ours we’re going to continue.

I do want to, before we get into some of the purpose and the like I do want to say that this is one panel that has received a lot of attention, attention from the standpoint of the fact that it appeared that we were approaching the panel business in the right way. So I do want to commend the panel members for their dedication and sticking with it and helping us with this very difficult program.

I will be telling you a little bit later on, sort of a little state of OBO, as to how we have done and how the government, we believe, has benefitted from all of the effort.

Before we do that I do want to introduce two additional new members. As you know, this is a rotational arrangement here for the panel and two of our charter members rotated off. And we have now two additional members. Actually, three. I'm going to formally introduce Craig Unger, who is in absentia, and just tell him he was appropriately

introduced as from the Design-Build Institute.

And also George Papadopoulos, representing the American Council of Civil Engineering Companies. George is right in front of me. Welcome, George.

Mary Ann Lewis, who is directly to my left front, is the president of Lewis and Zimmerman Associates and she represents the value engineering world.

We are delighted to have all of these members joining us and I know you will integrate yourself quite well. Just watch the old hands when we get started and you will pick it up very quickly.

Just for the sake of the new members, my senior staff today we have some sitting in for principals because the beginning of the year we just have a lot of travel. So I have a couple of people on travel but we have representation here who can deal with each one of the functional areas.

With that I'm going to move directly into the state of OBO. Is there any way to kind of dim these a little bit? Perfect, perfect. If you would now focus to the screen I'm going to take you through a series of charts which will tell us kind

of where we are.

This first chart is where we get the traction and guidance from, and quite frankly, where we are today and my whole being here and all that is a function of Secretary Powell and his approach to management. As you can see he was very clear on this business of buildings, and it was from that challenge that we drew the vision.

This next slide talks about our mission. It is a varied mission. We have adopted a results-based operation. You have heard us talk a lot about that and we have some critical best practices that we will be touching on throughout the day. But this is the bread and butter, if you will, of our organization.

This is just a collage of representation of what we do. It’s not just building new facilities. We have the whole property management function that we are concerned about.

This next one will give you some idea of how dispersed we are. We have roughly over a thousand staff and we are in 260 cities and 176 countries around the world.

We serve 57,000 of our own people. We house over 60,000 of U.S. government types and we provide support in a number of areas. And what is depicted here is just an example of some of the services.

Our facilities accommodate 166 embassies and 85 consulate/missions around the world. We have an annual program of about a $1.5 billion. You will see some numbers later on that's slightly higher than that and I will explain it.

We have actually today over $4 billion under management, and of course our portfolio for property is about $12 billion plus. And you can see the rest of the information that is listed there, but we are big business by any measure.

This next slide, thanks to something that came out of one of our early panel discussions where we had a comparison about what we own and have to maintain versus what the International Facilities Management Association reports.

Our facilities, as you can see, are twice as old as the rest of the U.S.-type facilities around the world. That makes our problem even more

difficult. This was very alarming when I presented this to the Secretary and others in management because there was an explanation as to why we may have had some deteriorating facilities. Useful life, as you know, in most buildings is about 40 years and we had surpassed that in many cases.

This slide here is a depiction of the backlog of maintenance and repair. That's what M and R means. It has nothing to do with new construction but it has a lot to do with those ankle-biters out there that bothers our 260 ambassadors and consular generals around the world. These are the things that are wrong. This does not work. The air-conditioning is not balanced. The roof is slightly leaking, et cetera, et cetera.

I have close to $700 million of that type of work. This had not been depicted and presented before our stakeholders in past years. We laid this out for the first time a couple of years ago with some alarm because it was somewhat of a shock because it was that area that was just sort of there and now we've got some order and discipline around it.

So when we ask for money each year we remind the stakeholders that there is a $700-million backlog out there that we need some help with.

The next slide talks about really the problem. We had some horrible situations as we know six years ago, seven years ago that occurred in East Africa, killed people and injured others.

And it was from that event that our government realized that we had to do something different. We have a lot of people out there and a lot of different government agencies, 35 or so, and what we discovered or what was discovered in 1998 is that most of the existing inventory of embassies and consuls did not meet security standards.

This next slide then lays out the problem, that which did not meet was about 160 plus. We have completed some and now we're down to about 150 new embassies and consulate compounds left to do for a total estimated capital of about $15 billion funded over the next twelve years at an annual clip of about $1.5.

So if you're asking whether or not State is going to be in the building business for a while

this is your answer. I use this for our Industry Days, for our industry that may be looking for opportunities to do work for us.

This is what's on our plate. We have 15,000 properties approximately. That's an up or down type of number but 15 is good enough at those 263 locations. That's a big management piece.

We have 27 new embassy annex complexes under construction today, about $2.5 billion. We have 11 that we awarded this year. A lot of rehabs and of course you see the rest. The long and short of it we have a lot on our plate.

Now, the new embassy compound, which we call an NEC. You've heard us talk a lot about that here because we're not today building just a building. In the old days we built an embassy. Today we're building a compound or I like to say a mini-campus. That's what it relates a lot to. There's a main office building which in the State Department vernacular we call a chancery.

We have a general service support building which is just what it is. There may be buildings, like in Beijing for an example, it is buildings.

Marine security guard house. This is a fancy, stately house with special -- well, not a house. It's more like a fraternity house on a campus. It is more akin to that. And then we have a perimeter security system as well that we enclose this in.

We try to go for a ten-acre site, a buildable site not just a site, but a ten-acre site and make this site basically self-contained. We do our utilities from the beginning and this becomes a state of art type of facility going forward.

That is when we talk about having to do 150, when we talk about having delivered something and when we talk about having 27 somethings under construction these are the somethings, not just a building.

Moving to the next slide what I want to do now is to take you through and show you, since you pay taxes like everyone else, this is a precursor to my stewardship report which will be coming out in the next few weeks where we will tell everyone who is interested what we have done over the past time frame.

This first chart shows a recently

completed facility in Doha. That's in the Emirates and I think you know the pivotal role that that country played in our most recent war efforts, both wars. We got this embassy opened just about in time. It's a wonderful place and our people are enjoying it quite well. Next slide.

And I'm showing you sort of the rendering before and then, of course, what the final product looks like. This is a rather large annex down in Lima, Peru for our USAID element. We have just commissioned that. I guess I was out about four or five months ago and officially dedicated that building.

The next slide shows our completed facility in Tunisia. This was completed about nine months ago. It's open. It's operating. It's on a ten-acre site. We're just showing you sort of the chancery building but there are other ancillary facilities that would be on that ten-acre campus.

This next slide shows Dar es Salaam in Tanzania. This was one of the locations where that horrible situation occurred. The upper left-hand corner is sort of what where we're headed and the

bottom part shows the actually-completed facility.

This is a wonderful facility. The palm trees now -- I was out eight or nine months ago -- are really accenting the place very nicely. And what we saw in Tunisia, I would say, this building probably is at or near the top of what's there.

This is our USAID building on the same campus. You can see it's a rather large building. We built these facilities simultaneously, with the same contractor, and our USAID people are enjoying a modern facility.

In fact, the USAID director said to me that for 30 years in USAID this was the most functional building that he had ever served in. That's with circulation, with the interior and all of that.

This is Nairobi, Kenya, 200 or 300 kilometers up the coast, a little bit inward but still in East Africa. Nairobi, like Dar, is complete, open and that's operating. You see just the front part. There's a huge facility.

Istanbul, Turkey, and about the best I can say there is we built this one in time because you

know that the horrible incident that occurred to our British friends was in the area where we once were occupying.

And there was an article in several pieces of media about the difficulty of trying to penetrate this particular facility. But again, a wonderful facility overlooking the river, a lot of height. It's open and operating.

In Croatia, Zagreb, this was a cornfield when we first purchased this property. Now, we have -- we built and they came. All around this beautiful structure now we have housing; we have all kind of modern stuff going in.

McDonald's got there just before we opened. And so this has really been a shot in the arm for our people. You have to understand all this has been completed on this watch. Next slide.

This is Sao Paolo, Brazil. This was a reconstruct of a Swiss office building that was about 23 years old. It sits on 15 plus acres. It was already a ready-made campus so we went in and remade, reworked an existing facility in a year and just opened that facility. Next slide.

In the Emirates, again, I'll be out in about a month to dedicate this facility. It's done. And this will be the most modern facility in that part of the world and, quite frankly, get our people out of a series of residential buildings that's been connected together.

It's a wonderful facility. As you know the environmental conditions are very harsh in the Emirates because of a combination of sand and water and it just creates a real problem for us. But we think we have a fine facility.

East Timor, in Dili we are in the process of putting in place a small -- of course the mission out there is very small -- and what you see in the center of the upper left-hand chart is the old mansion. We're putting a renovation package in that mansion and that will be used for our ambassador. And then of course we're building an embassy.

In Yerevan in Armenia, another NEC, a campus type of arrangement I talked about, you can see the large building. We're only showcasing what will be the embassy.

This next one is in Sofia, Bulgaria,

another NEC, ten-acre site, et cetera. You can see for those who do construction like Joel and others we are topped out. So that's good news. We're out of the ground and we're topped out. So it's downhill from here. So this is a wonderful way to do it. You can get some clue as to how it will eventually look up in the left corner.

In Abijan, in C'ote d'Ivoire, you know we had a war in that country, but the good thing about that we managed risk and we did not stop work. Our host country employees wanted to continue to work. And so we got a little schedule adjustment but we didn't demobilize. It's going to be a very big operation there.

Kabul in Afghanistan we preserved the existing building. It was structurally fine and we're building an identical second building. And we're building housing; we're building practically everything on those 14 acres. It's a big package. That's ongoing.

Abuja, Nigeria you can see where we're headed and sort of where we are now. We're out of the ground basically and so we're ready to move

forward.

Luanda, Angola, another new embassy compound. You can see what the building looks like on the left and kind of where we are. And we're topped out there as well.

Dushanbe in Tajikistan, another NEC, much the same. Moving ahead. Moving next to Tashkent in -- this is all in the Stans -- this is in Uzbekistan, another campus type of arrangement. We just popped out of the ground there as well.

This is in Cape Town, South Africa. One of our new entrants into the building force has this job and this shows them getting ready to come out of the ground. Not coming out quite as fast as we like.

Tbilisi, Georgia, you know they just had an election there and the former president of the country attended the ground-breaking with us when we did that. It's another campus effect arrangement.

Yaounde in Cameroon, West Africa. Much the same. Just started at the site and work is moving along.

Phnom Penh in Cambodia, much the same.

The site is a little smaller but that’s where we’re heading in the upper left-hand corner. As you can see most of the foundation work is in.

Conakry, Guinea, back to West Africa. Just getting the basic foundational work done.

Bridgetown, Barbados, we're taking -- now this is a very interesting project. This building was started by a private sector firm. And apparently -- I don't know what happened but it was a very good building from the standpoint of structure and we are going in to add to it and reconfigure and make ourselves an embassy.

And that’s ongoing. And the arrangements for this building is a little bit different because the private sector owner is building this for us.

Frankfurt, Germany, this is the old hospital that is being reconfigured and will become the largest consulate and will be the European regional center for the State Department. We had got a fairly hefty package going in there over, totally over $100 million there of work.

This is in Beijing. As you know, we’re moving ahead with China. Our design is done; team’s

on site and we'll be breaking ground in about two weeks in China.

Now, we have had a lot of discussion about build-to-lease housing and I mentioned to you at our last meeting that we had a complex going in Nairobi, Kenya. This shows where the private entrepreneur is with that now. It's about 75 percent complete, 60 units. This shows sort of the apartment. There are separate housing and all. This is a gated community. This chart sort of rolls it up, at 1.7 that we obligated last year. I told you that we wanted to be steady-state around 1.5 but we exceeded that this past year.

This next slide just talks a little bit about performance. Those obligations in FY '03 was the highest in the history of the State Department. We saved enough money out of that program to build another embassy so our stakeholders were pleased with that. And as we sat around the people here a lot of input from you helped us get to those points.

Our participating contractor pool is healthy. We have 14 forces in now. We have moved from about $.7 billion total when the Secretary got

started to over $4 billion today. So you can see the swing over the last two-and-a-half years in terms of money.

This next slide lays it out a little bit better; .74 so the swing has been $3.3 billion since ‘81. These were the awards we made in ‘83, the location, all around the world.

We say to people that if you just like one part of the world you’re going to be in trouble if you come to work for us. But if you’re flexible I’m sure we can get you about in any corner you want to go. This is where we’re headed in FY ‘04 for awards. And that is coming along very nicely.

Just to give some idea of what we have in planning, remember we have got 150 of these to do so you can look across and see what we have there. We have individually over 500 projects, not all new projects. You can see the new ones there about 93 and a lot of rehabs and so on but a lot of work.

This next slide, a little bit about the management focus and moving to the next one we are a results-based organization. We have talked about that. Next.

This is what that sort of means, is that it's about accountability and performance. And we have a monthly performance review where we literally examine every single project that we are working on. We have a system for that.

And to help us police the operational and functional aspect of our business we have an internal review process that is ongoing. We have an integrated design review concept and everybody has clearly published performance measures.

Now, these are best practices and this is what we have been recognized for in a lot of different external arenas. You notice this panel is on the top. We've gotten high marks for getting out front and putting this panel in place and having you participate as you have and the way we have conducted this.

We've got an interagency facilities council. You can see all the rest there. We have excellent relationships with GAO and our Inspector General. In fact, they are all here today in some form. And I would only mention that because they are listed here. But this is an excellent

arrangement.

And how about that? Just to show that we do capture you and we tried to make certain that nobody was asleep. The Secretary likes this picture.

This is our standard embassy design sort of a shot at it. We have a small, we have a medium and a large. An advantage we have there is that we've got some control elements. We take all the mystery out of things. It’s a box and you just get in it and do what you need to do. Next slide.

We’re very proud of this. In spite of being all around the world this is our safety record. And I can’t say enough about the contractors and our guys that are supervising this work. They keep us safe. I mean, real safe.

Most of you know I travel a lot because we have to do that in order to make certain that we keep things moving. We have a new initiative that we have talked a lot about, the design-build concept. I showed you a little piece of it.

This is an area that we really want to expand particularly for what we call the low-end

type facilities, our warehouses, small annexes, housing and the like. We think this is an excellent way to do it.

We have had a little recognition. We were one of the winners of the Golden Shears award for reducing, making savings. We were finalists for the good business solutions. And of course, the Gallup or GSA cited this panel as one of the top best practices in government.

So that's where we are and that’s sort of the state of OBO and I thought to begin with this morning it would be useful, since we’re starting the beginning of the year, to have that before you.

Now, are there any questions about any of that? Clarification? Okay, no questions. Let's see if we can't get to work. You have had a format of what we're going to talk about today for several weeks, I believe. And I just want to dive right into one of the thorny areas that we have because the larger our portfolio is the more challenges we have.

If you look at Number 8 in your booklet it has to do with construction procurement. And I need

to hear from you, the private sector, what aspect of the U.S. law regarding federal regulation should be changed such that it might create an advantage for the government to have a lower price.

Don’t be concerned about what's there now and just tell me what you think would be helpful because we want to look for every possible opportunity where we can get even a lower price.

So if there’s something that is existent in the procurement process that could be improved we would like to know about it because we are actively looking for methods and means to do this even better. Any ideas?

MR. UNGER: I guess I’ll throw one out from -- this is Craig Unger from DBI -- from a design-build perspective some of the agencies that I have talked to talk about the payment and the performance bonds that those projects you do decide to go design-build requiring the design-builder to write both those bonds months in advance, particularly if you’re going to go through a design phase and that you could save some money for the government if we didn’t ask for the performance bond

until we were ready to start that construction aspect.

GEN. WILLIAMS: In other words make representation that you are prepared to issue it and just do not issue them until that time?

MR. UNGER: Correct.

GEN. WILLIAMS: Because it ties into --

MR. UNGER: It's tying up -- bonding's been an issue of late in the markets and staggering that may --

GEN. WILLIAMS: Any other views on Craig's idea? What do you think, Joel?

MR. ZINGESER: Well, I think where work is phased it's very important to put in place a bonding program that recognizes the phases. I can give you an example of a project, not one of your projects but a project from another agency here in the government, in Washington, where the project was a major, major follow-on construction activity to an ongoing large project.

And it was clear that it was going to be a multiyear phase two, if you will. And the requirement would have been to tie up about $100

million worth of bonding at a point in time when you would not be able to do any work for six or eight months. So that's an issue.

But I'm not so sure if it's a cost issue as much as it is the whole issue of bond and bonding availability. I mean, that is another part of the world we live in. But definitely, where you have phased design and construction or large phases of a project if you can segregate them and deal with them financially, independently, that I think helps somewhat but I'm not sure that that's a law or procurement regulation type issue.

Part of the problem that you have is that every one of the laws and regulations has a history as to why it's there. It's hard to take a rifle shot and find one or two things that if they change -- I think throughout government and throughout OBO in general, or in particular I should say, I think there has been more and more movement to finding a variety of ways to do business that allows true partnering, more negotiated situations, if you will, to come to the fore in spite of perhaps some of the long legacy of federal regulations. I think

government is doing a better job in general.

GEN. WILLIAMS: Well, that’s the foundation for the question. Procurement just looked like it was an umbrella to place it but the real issue, the real issue we are after is that we want to continue because our stakeholders have been very good about providing funds. And I know that it has been done because we have worked exceedingly hard to save every dime that we could.

So we want to keep that going. So we want to examine everything. So if there is something in that world, like this financial requirement that might be associated with the procurement and acquisition, where we could save some money we would want to try to advance this into the arenas where it could be dealt with.

Because we don’t want -- I’ve said this many times, the Secretary has given us this flexibility, we don't want to just be stuck down one rut. As long as it is good government we are open to looking at an alternative to that as we are doing with housing and some other things.

Talk about build-to-lease housing seven,

eight years ago here it would have been, you know, a strange thing to talk about. But it's another way of getting it done. Are there other views about this? Yes, Derish.

MR. WOLFF: One thing that might be useful is theaterwide waivers, in other words, getting some clearinghouse where you find out -- in a lot of areas now we have six or seven different government agencies each of them addressing problems and they're getting waivers, anecdotally.

When OBO or someone else goes to bid many of the contractors I'm familiar with the waivers. So you don't get advantage in the pricing. Once they get on site they start talking to other sister agencies and then they get advantage of it.

So I'm afraid that OBO doesn't get the benefit of what other government agencies are doing, and other agencies don't also, because there's not some central clearing agency where if a waiver pattern is developing like a waiver on buy American on waiver on Americans with Disabilities, we don't all know it until we're on site and then the contractor finds out and comes to you and says, DoD

or Pentagon has got this waiver; why don’t we.

So if we could find some way of looking at these waivers it might really help everyone including OBO. And they could be standardized into the RFPs.

GEN. WILLIAMS: That’s excellent. Yes.

MR. ZINGESER: One other thought, actually, it's a question. At the last meeting there was some discussion and then there was a follow-up to that regarding Division I and the fact that over time Division I has become encumbered with layers and layers of requirements that may or may not be applicable.

There was a meeting, I believe, that occurred. Can you give us a sense of where that might be going because the reason behind that was to lower cost?

GEN. WILLIAMS: Yes. Bill, do you want to --

MR. MINER: I can start off.

GEN. WILLIAMS: That’s Bill Miner our design and engineering director.

MR. MINER: Good morning. I was at that

meeting with you. Very, very enlightening. The impressions you had about Division I, which we sort of sensed, we had a roundtable, if you recall, in the summer and we brought in many of the design-builders. And this issue of perhaps success requirements in Division I came up.

As a result of that we did a side-by-side comparison of our generic scope of work, our A and E design guidelines, our building codes and the Division I and found that there was a lot of duplication and in some cases conflict.

And we used a tiger team in the last quarter to try to align all of those documents and try to minimize the impact as much as possible. But you're quite right. Whenever we do a cost analysis on our projects we find that those Division I elements are much higher than we would expect and proportionally much higher than is customary in industry.

GEN. WILLIAMS: Do you want to add something to that?

MR. TOUSSAINT: Emile, do you know anything, have anything to add to the instructions?

MR. CORNEILLE: Yes. Good morning. Emile Corneille from Construction and Commissioning. We have -- we viewed our Division I and I believe there was some idea that came from the graduate panel to group them into general condition, administrative and proposals. And we have been working towards that.

And for the FY ‘04 program you will see that Division I will be more geared towards that when you go to a Division I you're going to see exactly what the proposals are and what are the general conditions and what are the administrative issues that need to be addressed. So we are working towards cleaning it up and we are getting there.

MR. TOUSSAINT: I think the only thing I’d add is that because of some problems we had on another project General Williams tasked us in the execution office to take a look at the whole RFP process. And so that put in place sort of a body, a group of process and procedure to deal with these things.

And of course Division I falls out of that type of process. So we now have in place an ongoing

process to review these sorts of issues. So ‘04 will recognize the first payback of this study specifically focused on Division I.

But we will continue to revisit that so we will want to go back, find out what lessons we could learn from ‘04, what lessons we're learning from ‘03 and continue to plow that field and improve it.

I think what we’re trying to do is we’re trying to really shake stuff out that we don't need. That's the objective. And, of course, add clarity to it. And with this first effort we will certainly make some progress but there will undoubtedly be more to do. And that’s what we’ll do.

GEN. WILLIAMS: Good.

MR. ZINGESER: General?

GEN. WILLIAMS: Yes, please.

MR. ZINGESER: One other area, and I’m going to put this out and then I’m going to stop because I’ll get myself in trouble really fast. This is overarching and your question talks about government and not OBO specifically.

We need to do a better job of putting in place a true, small, disadvantaged business program

that meets what I would suggest are the real goals and that is to build businesses, build quality businesses. We now have a program in place that meets some social, political agenda but I'm not sure that it delivers more companies to do better work. And that's all I'll say.

GEN. WILLIAMS: Well, that clearly follows in the area that we're looking at. We're looking at ways to save. So I don't want to just take that off the table because you know you can be totally open here on anything that you want to put on the table. I'm just wondering whether there are any other views about the subject that Joel brought up.

MS. BROOKER: Being a representative of women business owners in the construction industry it becomes a very complex issue when you're starting to talk about offshore construction projects.

The only thought I had was you're looking at ways of working more economically and the solution or one of the suggested solutions are that the general contractor take a bigger lead at providing certain of the infrastructure needed in that kind of an environment but I don't know that

that’s something that you can put from your perspective and the OBO perspective into that formula.

Looking at trying to develop and help the small and small disadvantaged business community to broaden their horizons and their involvement around the world it becomes a question of whether or not they can infrastructurally support that kind of an effort, you know, housing, materials shipping, getting equipment in and out of countries. We've had some members of our organization who had done a project in a foreign country and then couldn’t get their equipment back again.

It's those kind of infrastructural issues that make doing some business for organizations like the OBO unattractive because they just don't have the big business resources that are required to do that kind of work.

But I don't know that in the question of cost savings that that is the issue exactly. I think it's a different element of the process. And there has been some talk about some of the current contracts being let by some of the other departments

of the government, especially with rebuilding in some of the areas of the world.

And just one of the suggestions I made to some of the big participants in that is that the most cost-effective manner is to combine support. If you make every single company provide all their own storage, shipping, those kind of things, it becomes very costly.

But if the contractors could take the lead on being the material shipper or being the warehousing element or being the housing element for all the workers on a particular project they might find cost-effective ways of doing business and open the doors to a lot more and smaller companies that could then learn and grow in that experience.

GEN. WILLIAMS: All right. I think you have -- and I appreciate that -- you have given us some things to think about. We have written them all down. And as we begin to noodle and come to closure around something that we might think will be useful, your inputs have been helpful.

MR. UNGER: General, can I add one to that topic before we move off?

GEN. WILLIAMS: Yes.

MR. UNGER: And I'll put it in the wish list category. It seems like procurement reform we've come a long way over the years. I wouldn't have believed we'd be actually selecting contractors on best value ten years ago and using past performance and performance-based statements of work and some of the other -- negotiating, actually being able to talk to each other during the phase. So we've come a long way.

Perhaps again on our wish list is we want the best value. Some agencies, in particular the Corps of Engineers, have expressed an interest in being able to do as the private sector's best practices and in some states, Arizona in particular, of being able to select their design-builders on the qualification-based selection, QBS.

Those times where you need to fast-track and you need to have some urgent and compelling reason that you could select your design construction team based on qualifications so you could sit down immediately with the program requirements and typical to the Brooks Act we did

previously that is ongoing and again some of the state environment and certainly the private sector.

And where that savings drops out is those people that are bidding on projects will tell you how much they spend. The stipend kind of covers some of their costs but there is a cost of the bidders and then, of course, your team, someone going through, developing design criteria then a protracted procurement and a selection phase.

And I'm not advocating that that's the solution but it seems to me that tool would be helpful to the State Department where you need to move swiftly, fast-track, and right now, quite frankly, it's my understanding you don't have that tool to be able to select your design-build team on QBS.

So that might be something if there is an effort for future procurement reform that that would be an option that you would have.

GEN. WILLIAMS: I wouldn't say we don't have it. We may not be using it.

MR. UNGER: Or you perhaps have to go through a whole bunch of hurdles to get a waiver or

justification.

GEN. WILLIAMS: But we hear you. Let's move on to Number 5. How can OBO or anyone encourage more contractors to generate VE proposals? Remember, I'm still on this savings issue.

MS. LEWIS: General?

GEN. WILLIAMS: Yes.

MS. LEWIS: Value engineering is something close to my heart here. I have had a lot to do with this recently with a couple of major corporations who have been so frustrated by VECPs.

And what we've decided over the last couple of years is that education is the key to this, that contracting officers may deal with one VECP in their whole career. And so what they need is education. They need training in what it is, how to deal with it. They need to understand the process to develop it. And they need a time frame. They need to know how to do this in a quick way.

One company we knew, the people who had submitted a VECP for a couple of million dollars -- it was significant to them -- had a two-year lag before it was approved. They'd already built the

thing but hadn’t been reimbursed for their share of the savings.

And it was so frustrating. These people were told that their jobs were on the line because of this. And it was really because the contracting officer didn't like the idea that they were getting extra money. It really boiled down to that.

It was the first VECP the contracting officer had dealt with. He didn’t want to learn about it. He didn’t want to do it and he didn’t like the fact that this company was going to get a 50 percent share of the savings.

GEN. WILLIAMS: The contracting officer?

MS. LEWIS: It wasn't the State Department. Don't worry. (Laughter.)

GEN. WILLIAMS: I know that. (Laughter.)

MS. LEWIS: But it comes down to that in many cases. And when one company deals with this, you know, they have one experience like this they will never, ever consider contributing a VECP idea again, anywhere.

I know the Department of Defense is trying to do a few online training courses right now for

value engineering and then next, I think, for value engineering change proposals.

But from everything that these several companies that I've talked with over the last couple of years training of the contracting officers is a key element so that they understand it and they are ready to deal with it and know from above that it's something that should be encouraged.

GEN. WILLIAMS: Thanks, Mary Ann. Any other comments on this subject, value engineering?

MR. ZINGESER: General?

GEN. WILLIAMS: Yes.

MR. ZINGESER: Again, maybe it's a question more than a comment. In my way of thinking there's value engineering and then there's value engineering. Value engineering in a design-build mode, and I mean true design-build without bridging documents, is one thing versus value engineering in a design-bid-build mode. They're very, very different.

Given that OBO is in the mode of operation it is, I'm not sure where you are with value engineering. We've talked about this before and so

I sort of have a question really as to where are we because I thought you guys had a pretty good handle on where you were going with that.

GEN. WILLIAMS: Well, we do, and remember now, any of these questions we have here doesn't suggest that the horse is out of the barn for us. What we're trying to do here, we're just simply trying to get better.

I agree with you, we are very proud of our value engineering program but we don't want to just sit and rest on our laurels. We want to continue to build. So we want to do a little brain picking and see if there's something else that we are not picking up on.

I think what Mary Ann raised is a flag for me as a manager to watch for and make certain that because one of the key things here is whatever you're going to do if you're partnering with someone and savings are associated with it, timing is very important because if you cannot reap the savings it serves no purpose to go through the effort of trying to put them on the table. So she flagged a very interesting one. Bill, do you want to brag about

our program?

MR. MINER: Sure. I raised that issue when I spoke at DBI meeting, I guess maybe a year or so ago. And I place the problem at the feet of the Design Build Institute because, as Mr. Zingeser pointed out, I think the two are fundamentally contradictory.

The legislation that now has us using value engineering was really based upon design-bid-build contracting. Design-build, fixed-price approach I think most design-builders would say that the value engineering is integrated in their competitive pricing.

We have a two-part problem here. We continue to do value engineering on design-build projects just like they were design-bid-build projects and we continue to find savings.

Cashing in on those savings is very difficult because the price is based on a not completely defined set of requirements. So when you find a saving, a change or a reduction in scope, a design-build contractor can say well, I always planned to reduce that. That was part of my price

philosophy.

So it becomes very difficult to really quantify the value, how much is back, how much was originally planned for because there is no definitive description of that requirement and of the relevant cost.

So I think it's not something for State Department, certainly not just for government to resolve. It’s something that I think associations that have constituents that can benefit and help their customers benefit from this really need to take on it. And I think individual committees dedicated to this could help us all.

GEN. WILLIAMS: Craig, what would be the DBI's take on it?

MR. UNGER: Well, I mean, value engineering obviously as described, particularly in a bridging situation, and I’ll pick on generators or something, emergency backup, if the requirement’s there and there’s three generators and some technological breakthrough or through value engineering it can be done with one or two and perhaps save space, I mean, I would see the

similarities there into a hard bid environment because you have priced it out.

Certainly, the creative innovativeness that the philosophy of integrated service does, in my opinion, make it fuzzy. I'm taking mental notes and we have a board meeting in a couple of weeks. The gentleman to my left, Harold, is on that board. You'll also raise a flag for us to examine it. But I would like to actually turn to Harold and see -- do you have comments?

MR. ADAMS: Well, I think especially in the design-build environment that one has to assume that you're getting value engineering. It doesn't mean that there are not still, as Craig says, opportunities for innovation and innovative solutions.

But I think that overall your requirements are pretty well established and you need those requirements. In the private sector value engineering has more with the normal design-build, bid-build process. There is more opportunity for savings.

But in each case the owner is agreeing to

some change, to the reduction and it’s not necessarily reduction in quality but to the change. Your standards as they are established are a pretty tight straitjacket that we live within.

GEN. WILLIAMS: Excellent point. Any other comments? Yes, Todd.

MR. RITTENHOUSE: There are two or three things, and the earlier comment about education there’s two parts to the education because I’ve seen some value engineering sessions where people get very defensive about well, we did it this and just because another team comes in and tries to assess with fresh eyes the initial team, which is both from the owner’s side sometimes as well as the architect, engineer and contractor get dug in.

We designed this. We’ve been working on this for a year and of course we have it right. And there needs to be an education that these are fresh ideas and not meant to be disparaging toward the designers.

And the first thing I thought of, of course, was the cost but also we've had a couple of issues and I have another government, not OBO, issue

right now where we got to the design and it was over budget and they decided after value engineering it could be done in steel instead of concrete and save the government $3.5 million.

And they were making the designers do it at their own cost to redesign the building because they should have seen this before even though they went through all the design phases.

And so there needs to be a cost recognition that we're saving $3 million, $3.5 million on this idea and maybe there is a half-million dollars of cost and/or time associated for everybody to win. There has to be recognition of time and cost to go back and do it over; it can't be a one-sided win.

So there’s that education that was mentioned before by the contracting officer scenario, and I'm not sure who was the person on the government side holding the people’s feet to the fire but these are big issues that it's not value engineering to save one person money, it’s to better the team and better the product.

And so we need to educate everyone that

there is a kinship to doing this and everyone needs to work together. Everyone needs to share in the rewards as well as the pain, just a little.

Pain to the owner, of course, is, okay, so I don’t get my $3.5 million; I only get a $3-million savings. Gee, that’s too bad.

Or it takes an extra three weeks or months to get it online. There has to be some flexibility and that would be the pain on the owner’s side. So education, recognition.

GEN. WILLIAMS: Todd touched on the partnering issue and you know what exactly is big on our agenda is the only way to make any of this work there has to be a mutual trusting environment that nobody is out trying to do anybody in.

What we're trying to do is just advance the ball for the common goal, and if we find a way that we save money through bright ideas there ought to be a sharing arrangement and a timely disbursement and adjudication on that.

So I think we’re okay with the way it should go; we just want to hear what you're saying because this is very important. As you know our

tilt because of where we're going is we look on at design-build and as Bill said, it's fuzzy as to how to deal with that.

When we know that there are opportunities then without having a construct where everybody kind of understands the rules it makes it a little difficult. So we are treading very, very softly there as we get more traction and more information. And as soon as our friends in DBIA break the code for us we will be ready to move ahead. Joel?

MR. ZINGESER: There is a part of this that goes back to the first question about procurement. In a design-bid-build world in value engineering we sort of have a history and a sense of where that fits and how it plays.

In a design-build world where, let's go the far extreme, where you have a pure performance type of procurement, you know, we need to produce so many widgets a day. Build us a facility that does that. That's another extreme.

Most of what we're talking about is a world with some sort of bridging documents or prescriptive documents combined with performance

documents.

The procurement issue that comes into play for the design-builders is if I deviate from the prescriptive parts of the procurement package is the procurement going to hold? What happens to me if I qualify my day?

What happens if I present an idea that isn’t in the prescriptive requirements? Am I going to be thrown out because a lawyer says you've got to compare apples to apples? This is a very serious costly part of the game.

Now, what the answer is, of course, is, as always, it depends, and we don't know, and all of that. But that to me is the reality of the problem when you talk about value engineering in this design-build environment. How is it going to be -- how is any new bright idea going to be looked at in the bidding stage?

GEN. WILLIAMS: That’s excellent. Yes, Mary Ann.

MS. LEWIS: Thinking of that, value engineering is very different in a design-build situation than in a design-bid-build. There’s no

doubt about it, whether it’s a VECP or a traditional value engineering study.

In an ideal world you would perform a traditional value engineering study on the RFP documents before they go out to bid and then hopefully perform a second value engineering study during the design-build process.

Now, the reason to do it during the design-build process is not -- is, let me say it this way, is from a lifecycle cost perspective. Because from the way I can view this design-build you are performing to a performance specification and the whole driving -- most of the driving force is the initial construction cost.

So from the owner’s perspective it's probably wise to do a value engineering study or to encourage the design-build contractor to offer VECPs that talk to lifecycle costs. What are the owning and operating costs?

I mean, looking at the numbers up on your screens here this morning of your owning and operating program it’s enormous. And so to have value engineering in there as a tool to look at

these things is very important from an owner's perspective.

GEN. WILLIAMS: That's the reason we are talking about it. Okay. Are there other comments? This is wonderful.

MR. ZINGESER: One thing I want to add. Somebody show me the last government building that was bought on a lifecycle basis.

MS. LEWIS: That's exactly right.

MR. ZINGESER: Thank you.

GEN. WILLIAMS: No, I understand. I understand.

MR. TOUSSAINT: That was my question. Show us a building. It doesn't have to be a government building. But I think the last time we talked about this we came back to this same position and there was also the concern if you show any value engineering or lifecycle cost in your proposal those ideas may be captured by the owner for future application with another builder. So your competitive advantage and so forth can be lost.

But are there ways to crack the nut so that you get the selection process of your design-

builder takes into account any kind of value engineering potential or lifecycle costs outside of government? How would you do that or do you do that?

MS. LEWIS: I love it that we're all talking about value engineering this morning. We've done probably, our own firm alone, we've done almost 3,000 value engineering studies in every industry.

And frankly, lifecycle costing comes into play mostly in the municipal field. And that's because while a city may be getting money from the federal government or the state government these days to help build their water or wastewater treatment plant they will then own and operate it for the rest of their lives. So lifecycle costing is much more important on a municipal scale than it is on a federal scale.

We do not, frankly, pay attention to lifecycle costing in value engineering on the federal scale. I have to say we offer them but they're never accepted. You can go through the Navy, the Corps of Engineers, the State Department.

Frankly, lifecycle costing ideas are just

not the ones that are implemented. It is always initial costs that drives implementation in a value engineering study.

But that’s not the case in a municipal situation and it’s also not the case in a lot of private industry. We do a lot of work in the petroleum and petrochemical and pharmaceutical industry. They’re owning and operating buildings. It’s very important to them to find out what are our costs for the future. They're looking at business cases and how are we going to do this. So it is different in other fields.

GEN. WILLIAMS: Yes, Bill?

MR. MINER: I just wanted to add that as you pointed out in your presentation we’ve been recognized for outstanding commitment to value engineering. When we do value engineering, through your leadership in the planning stage, in the case of Beijing it generated enormous savings that we needed on that project.

We have taken our standard embassy design and had a value engineering study done of that so that the prototype that we give to our contractors

has already been sort of pre-VEed. We did complete a value engineering study of our Division I which you brought up earlier. Our construction office requested us to do that and it's part of the revision that we have going on now.

And then we routinely do VE studies at the 35 percent design phase regardless of the delivery method. The remaining piece is to get the contractors to also during construction come back and tell us what are the constructability concepts that we could employ with you, share savings and produce a good quality product.

GEN. WILLIAMS: Thank you, Bill. Derish, you had one more.

MR. WOLFF: Just two quick asides. I saw recently, and unfortunately it does not apply to OBO, but in this desire to use value engineering the government is going to apply its program management which seems very strange to me, a walking conflict of interest. So it's something to be aware of. It just seems to me you hire a program manager to do value engineering not to benefit from it.

GEN. WILLIAMS: That's correct.

MR. WOLFF: So that was one issue. And I think Mary Ann’s point was very good but when we work in the private sector a lot of times they will bring in value engineers as an outside analysis as well as constructability but the rewards will be quite different from government. The reward will be you will get another job from General Motors or General Electric.

So you won't have this argument over who’s the beneficiary of it. You get paid a fee and you do your -- maybe you get a slight bonus. It’s not the same formula as government. So it’s relatively easy under that system to bring in an outside evaluator. You get into all the fights Todd was talking about but at least it's easy to do.

The other problem you have with design-build, I think, and I think we really addressed this very well is what if there's a cost effective change where you're not getting as good a product but you’re getting a more cost effective product? How does OBO benefit from that? How does the design-builder benefit?

So it’s easy to say on a design-build that

if it’s the exact same product it’s very hard to prove because the design-builder says either I was going to do that or that's my process. I have a learning curve on all my projects. I build it in. So I assumed I was going to find this.

But what if we switch as you say from concrete to steel or something and there’s a slight quality difference but a big savings. So you say it’s cost effective. How does OBO or any owner get the benefit or part of the benefit of that? That’s more difficult to measure.

GEN. WILLIAMS: That’s right. These are excellent inputs. Are there others on this subject?

MR. RICHARDS: I’ve got a comment, sir. Good morning. My name is Monte Richards with M-R/Innovers. The question I would like to pose to the panel, years ago the design of embassies included the -- well the PCC and some of the other classified areas was left out. And in that area was designed and fitted out by those entities that occupied those spaces.

And that way of doing business has changed and now the general contractors and the designers

have in their scope to be responsible for some areas that they may not have clearances for or that they don't understand why things are the way that they are.

And so in my opinion it probably limits the field of firms that would attempt to come after an embassy project because of the relatively small percentage of that project that is devoted to those areas that have those unique requirements.

Has there been any thought to perhaps having -- perhaps removing some of those requirements from the scope of work of the design-bid-build firms and establishing a cadre of firms that have those particular skills and clearances that could focus solely on those areas?

Perhaps it would allow you to use local contractors to a greater degree. Perhaps it would allow you to broaden the field for firms that would want to come after an embassy project, knowing that they're not going to have to bone up to learn about these unique areas and the --

GEN. WILLIAMS: What is your question?

MR. RICHARDS: My question is well, I'm

asking for a comparison, maybe, that perhaps something could be looked at where it used to be that the vault on the --

GEN. WILLIAMS: Let me do this for you because I don’t want you to confuse our panel. The question you are asking is an operational, procedural one that OBO, your answers would be at OBO by sitting and talking with our people.

And the decision about how the PCC would be managed and this type thing, that decision was made by OBO because this is the classified area that we’re dealing with and it has to do with cleared Americans.

So we want to deal with your question but it’s not a question for our panel. It's a question for our people to talk out with you. And so Joe Toussaint will be your point of contact to answer that with you. He will be able to discuss it in an appropriate forum for you. Okay?

MR. RICHARDS: Okay. Thank you, very much.

GEN. WILLIAMS: What’s the name of your company?

MR. RICHARDS: M-R/Innovers.

GEN. WILLIAMS: Okay. Thank you very much. Any other questions from the panel?

MR. PAPADOPOULOS: I'm George Papadopoulos.

GEN. WILLIAMS: Hi, George.

MR. PAPADOPOULOS: Brand new at this panel so I want to stay a little bit with the question of the value engineering. In my experience and also with my discussions with fellow engineers we found out that the term value engineering, per se, the term value engineering is nothing more than a first-cost-driven concept and it has that culture behind it.

It does not have -- it's culture that was to evaluate lifecycle cost vis a vis first cost in the project itself.

Value engineering by definition to engineers is something that needs to be done really up front. Regardless whether it's DB or design-bid-build it needs to be done up front in the very, very early stages.

The drawback that we have experienced in

doing it in the early stages, the documents in the early stages are not comprehensive enough to do an effective value engineering. It becomes almost like an exercise in futility. And I feel that an effective value engineering besides taking its proper definition of lifecycle cost should also be addressing construction documents at various stages, early stages that are more comprehensive than what we accept as a 35 percent or what have you. I just wanted to share this knowledge that I have.

We had as an individual my firm we have done several projects for FBO, in the old days when it was FBO, and the Defense Department and lately we've been doing work overseas for Baylor College of Medicine out of Texas which is a private, completely a private situation.

And we did exercise value engineering not for any other reason strictly because it's good behavior when you do design to have that particular mentality. And we found that when you're not restricted and you you do the interior spaces you get tremendous amount of double benefit to the projects. So I just wanted to share that.

GEN. WILLIAMS: That's wonderful, George. I appreciate that very much. Mary Ann, any take on that?

MS. LEWIS: Oh, sure. One of your first topics here deals with planning and applying value engineering we completely agree at the early stages is an excellent approach.

And it's only been in the last really ten years that it's become a fairly recognized way of applying value engineering. It took us ten years to convince the Maryland State Highway Administration, for instance, that doing it early is much better than doing it too late, because too late you can't implement good ideas. It's just too late in the design.

But there are many organizations who are using value engineering to plan the plan. For instance, we did one for BP Amoco in the U.K. on a pipeline. They were going to build a pipeline in I think it was Azerbaijan or something.

And so what they did is they used value engineering as the mechanism internally for the management staff to determine how to plan for this.

They used value engineering to discuss geopolitical considerations. Is there going to be a war here? Do we really want to be building a pipeline in the middle of this?

They looked at the funding elements, the technical elements but they sat down and internally used value engineering to plan how they would plan the project. So it was the very initial step. Lots of owners.

The city of Edmonton, Alberta is an excellent example of this. They use value engineering consistently to plan internally with their own organization before going out to hire consultants to design their projects to sit down and decide what are we going to do.

They have a big bridge investment program where they're trying to do a gap analysis. How much money have we got and how many bridges have we got to repair and what's our maintenance program? And so they sat down and used value engineering methodology to decide internally how they would approach this huge investment strategy.

So there are lots of excellent examples.

Milwaukee Metropolitan Sewerage District. They're planning for 40 years on how they're going to clean the environment. They're looking at a watershed plan that takes up a third of the state of Wisconsin.

And they sat down again with the stakeholders, internally they had the Department of Natural Resources. They had the EPA. They had all of their own people.

They got the stakeholders in the room before they ever decided what's the actual plan, how are we going to do a facilities plan, they sat together and used value engineering to define functions, to recognize who the stakeholders are, to brainstorm how are we going to develop a plan? How are we going to do this?

And so there are so many wonderful examples out there of how it can be done early and how it makes so much more sense than waiting until you're 60 or 70 percent complete in your design.

GEN. WILLIAMS: Very good. Yes, Ida.

MS. BROOKER: The only caution I want to interject here is who the parties are evaluating the

ideas. Every organization including OBO is departmentalized. I know you work as a team but the decisions made on value engineering based on initial cost is a real concern.

And there are systems, especially as we get more high tech, as we go along there are systems that have lifecycle maintenance that go along with their initial installation. And sometimes the lifecycle maintenance varies greatly so that the lifecycle cost of the systems varies between products.

And so initially the product may be very inexpensive to install but very expensive to maintain because it must be maintained by representatives from the manufacturer who developed the product in the first place. And so you get to be a captive audience on those maintenance contracts.

So my concern is that there are some great value engineering ideas but they better be looked at with the lifecycle cost processes involved as well because coming from a company who has people who have a short-range view on some of the products they

build and throwing it over the fence to other people who have to maintain it it becomes a real problem.

GEN. WILLIAMS: This has been very healthy and we wanted to put this out and get the best views about it. You know we have kind of discussed it early on in another session but I thought this morning we would just allow a little bit more time on it. You have been quite helpful with your comments. You’ve not been bashful about coming forward. And so this is very helpful, don’t you think, Bill?

MR. MINER: Yes, sir.

GEN. WILLIAMS: Let's try and move to one other area that is equally illuminating today. Fortunately, I think I briefed you about six months ago that there were some claims around, the Secretary started here, and we have been fortunate enough to get those pretty much off the plate.

We have been working very closely with industry as you know, and as of today we haven’t had an issue with claims. I’m very pleased about that because we’ve got 27 projects under construction now. But nevertheless it looks like we have a clear

understanding among each other and we're able to deal with it. But we know as an organization with a responsibility as big as we have that the potential or the claims issue cannot be just left dormant.

So the question is Number 4, what do you see in your worlds as the major items of risk to the general contractor and where there may be potential claim discussions?

I’ve already told you we don't have the problem so I'm not searching for an example but we know that what we’re trying to do now is to do preventive business and so that we can be proactive about your thoughts. And I don’t want all of you to speak at once because I know this is a hot one. Okay, Todd.

MR. RITTENHOUSE: The biggest issue of course these are all with the new facilities as opposed to the existing ones but it always comes down to site conditions.

And the biggest problem that we have had with other entities as well as concerns with the OBO projects is the soil which is the only existing information that one has going into the design-build

process.

And on a couple of these projects we get preliminary information that may be done from a reliable or unreliable source in the host country. And the biggest discussion, for choosing a nice word, with the contractor is how reliable is that information and how reliable is the design that comes out of it in the preliminary, the bidding phase? And then we come back and we get to put our own geotechs out there and get some real information.

And so the biggest claim that I see on a new facility that there is very little control on the design-build or the AEC side of it is the soil conditions and what are the foundation system that's applicable at that bid phase. Because they're looking for hard numbers to bid off of and then we come back later and realize that there can potentially be problems.

Of course, the soil, we don't know the quality of the -- you know, if we do a job in Europe that's fine but when we get into mostly jobs in Africa or Third World countries we are not so

certain about the people doing the test and it’s in a foreign language and how the tests are performed, et cetera, et cetera.

So that’s the biggest issue that we have seen and I personally believe that there has to be some responsibility from the State Department looking at this. We’re giving you this information but we don't say that it's good, bad or indifferent. It’s up to you to decide. And I think it's very difficult for the bidders, that would be the contractors, to take responsibility for something that they had no input into getting and evaluating.

So there has to be some -- this does not affect us as much but I see it from hearing time and again that they’re really worried about it and they don’t know how to bid it and so they bid high on it. And I think there has to be some shared responsibility for that information.

GEN. WILLIAMS: You know we know that it’s bid high. That’s why we’re addressing it.

MR. RITTENHOUSE: Obviously.

GEN. WILLIAMS: And we want it on the table and I think your comments are very

constructive. I don't know how many other entities in government would speak to it like this but we recognize that we are in a foreign country. We're not on Main Street.

You know all the land that was claimed in New York, you know, most of us could make good estimates about the soil conditions. We know that.

But when you're in Conakry, New Guinea that's a whole different story. I have another comment to make to this after I hear some other comments. But what are the other views you have about this potential claims area? Joel.

MR. ZINGESER: We've talked about this in one way or another and it's obvious we'll talk about it -- well, you'll talk about it in the future because this is my last meeting. But it's just a part --

GEN. WILLIAMS: Don't be so sure. But go ahead.

MR. ZINGESER: I guess the good news is --

GEN. WILLIAMS: There's something called a hook.

MR. ZINGESER: The first meeting we had 70

items on the agenda. Today we have 18 so we're making progress.

GEN. WILLIAMS: And one of those was on the original list.

MR. ZINGESER: The simple way to talk about claims and claims avoidance is always to look at the issues of unforseen conditions which is what Todd's talking about and scopes.

And the thing that has impressed me in the scope area has been your willingness to draw lines and help to define scopes. I encourage you to continue defining those scopes.

Now, again, this is kind of a chicken and egg in a vicious circle in a way because the more prescriptive you are the less likely you probably are to have unforseen conditions or questions about scope or claims issues except if you want to change something then that's not a claim, that's a change in scope.

But by the same token that goes back to this other question of really getting the benefit of design-build and new ideas and value engineering and all of the brainpower that you're really paying for

when you pay for those services you are looking at.

So I guess in terms of claims the simple answer is be clear and provide as much information as you possibly can about what it is you think you're buying. And that sounds so simple and maybe trite but that's really what it's about. The claims all come about when the right hand and left hand don't know what they're doing and it's just a question mark.

GEN. WILLIAMS: Well, you know, I appreciate that because that was the whole premise and it's good you brought it out from that side of the table, that is from the private sector.

And I know Harold and others remember when I first made presentations to the various trade organizations. The reason we drew that box was for control and to try to get a handle, to make certain that it was -- because what we are doing is really not magical or anything. We are building a fairly straightforward building, three or four storeys, with the diplomatic package on it.

And so we thought it was best to just tell everyone what we were trying to do for clarity. And

at least that would get everybody, quote, on the same page and in the box.

And now that we've got that under control and that is working well, my other issue that we still need to deal with is the one that Todd brought up because we have a learning curve and a lot of data in countries but an analysis, in particular analysis that deals with soil, has so much to do with who did it, what was in that person's head and the level of qualifications and all of that. So that's an issue for us. So any other comments?

MR. ZINGESER: General, could I just add one more --

GEN. WILLIAMS: Yes.

MR. ZINGESER: Point because you have 63 rehab projects on your list. That's a different kind of issue. It's not soils. And defining those existing conditions will be paramount to awarding claims.

GEN. WILLIAMS: That's right. Do you see the Division I helping us in that regard?

MR. ZINGESER: Well, I think what you're doing in Division I, if I understand it correctly,

is simplifying it and clarifying it and that's certainly a step in the right direction, absolutely.

GEN. WILLIAMS: Thank you. Yes, Ida and then Mary Ann.

MS. BROOKER: I guess there’s a definition of terms here as well. In my vernacular a claim is any condition on the job that’s not recognized as a change so it becomes a claim.

A lot of concern in the industry is when the owner’s representative doesn't recognize it as a change and so then it doesn’t get addressed. It gets delayed. It gets swept under the carpet. It gets ignored.

And I think that also prompt recognition of issues and a way of getting them identified and brought forward can alleviate a lot of complications down the road.

Now, a claim to me is where the situation just isn’t addressed by the owner and then you end up in a claims situation. And I think that that a lot of times if there’s enough pressure on the person from the owner’s perspective running the job not to have a cost overrun then there is a delay in

addressing some of those issues. And that is not in the best interest of the project.

It's like the idea of having a value engineering not incorporated and the contract be awarded for it until months after the project is over. Same problem with claims.

And what my answer is that if there is added cost on a project I don't want the contractor making the decision on how they're going to spend the money. We need to understand those cost impacts early in the project so that if we can mitigate the impact on the overall cost of the project by making some changes or adjustments through the project then we have a winning partnership and situation.

But if they go along and they get old and moldy then you've got an added cost that you don't have any choice but eventually you're going to end up paying. And I don't think that's fair to either the contractor or the owner of the project.

So I say no surprises is one of my themes. I don't want any surprises. If you've got a problem, I want to know about it today so that maybe decisions we're making tomorrow are done in a

knowledgeable way with all the impacts on the project.

GEN. WILLIAMS: Thank you. Mary Ann?

MS. LEWIS: Speaking to mitigation one of the best tools that I've seen that can be incorporated into the value engineering workshop is a risk analysis to identify the risks within the project, to classify them as low, medium or high or whatever categorization you want to use, to assign them. Who owns the risk? Is it the owner? Is it the designer? Is it the contractor? And then to mitigate.

And you brainstorm to find out how can you mitigate this or go ahead and accept it and decide that it is nothing that we can't -- for instance, the soil situation I bet every value engineering study you folks have developed has something pertaining to soils, has alternatives in there pertaining to the soils conditions and the reporting.

So those are the things that you can do. You can do risk analysis within the VE process so that it's very clearly specified to the owner that

okay, here’s where the bumps in the road will be. Let’s do something now.

GEN. WILLIAMS: I think that’s right down the line we’re going. The staff know we have put on the table this concept of risk allocation, realizing that in these very strange places that there is risk.

As a matter of fact, there’s no job we do that does not have risk. It’s a question of who’s carrying the risk is where we need an understanding about up front. And that is the whole reason for bringing up this claims subject so that we can address it. Any other comments? Yes, plenty of them. Okay. We’ll go with Harold, then Todd, then Derish.

MR. ADAMS: General, to add to Todd’s statement of the soil conditions I think it's a general logistics and site restraints that are also a big unknown. So that's an area certainly that needs to be clarified.

But to focus also on the existing facilities the site restraints become especially important and access to the site for not only the

contractor and the construction but during the design stage the A and E team really needs to be able to have access and to get into areas to totally -- to try to eliminate as much of the unknown as possible because I think it is that unknown that becomes a huge item in the existing conditions.

GEN. WILLIAMS: Excellent. Thank you. I'll just go around. George.

MR. PAPADOPOULOS: Yes. Staying within the topic of the discussion, what's a major item of risk for the general contractor, we have experienced lately on projects in sub-Saharan Africa loss of semiskilled and skilled workers due to the AIDS epidemic. It's a very, very serious situation.

A project we completed last June was delayed by two months because we could not find a crane operator, a very simple thing like that. I think it's very unique in certain areas that are suffering from this epidemic.

However when it comes with M and R backlog, where you have a lot of HVAC systems, a lot of generators, elevators, fire protection systems and so on, but you need to upgrade it, finding local

skilled workers that would be there for the project is a major potential risk.

And I think that is becoming -- it will be becoming if we listen to the projections of the World Health Organization -- more critical in areas as in China and in Indochina and so forth.

I want to share that experience because I would have never thought that this epidemic is devastating people. We're talking -- in Botswana we're talking, where we're doing this project, a life expectancy of 34 years old, which is dropping by the week.

So it's a very, very serious issue and where do you get the people to do the work? I don't think anybody -- because we are in the comfortable environment of the United States, perhaps, or Europe where this thing is under some very serious control, that is a major risk item to me if I were a general contractor in those areas.

And I do not know what the government can do about it but perhaps it is an item that needs to be talked up front prior to embarking in a year or a year-and-a-half construction effort.

GEN. WILLIAMS: You know, it's a worldwide problem. You just touched on the manpower side of it, or personpower I guess I should say, that the industry, I think, and we in government, are going to have to deal with, which is another issue. So we're going to stick that one on for another day because the whole idea of the quality of manpower is an issue. Yes, Todd.

MR. RITTENHOUSE: Building on the first two topics today, I really think that the biggest way to avoid claims of course or to understand them better is the whole -- it goes back to the idea of partnering and the proper attitude and education.

Some of the things we constantly see, the RFP system, request for future payment, payment denied turns into a claim, and if people had the right attitude and say, you know, he really didn't understand this or the condition -- when we appraised it, the condition isn't what we all thought it was.

And if there wasn't an attitude of the greater world of owners sticking it to contractors, contractors sticking to owners and vice versa.

And if the attitude was changed and it was true partnering and I've seen some cases where there has been true partnering for both in the government and in the open industry, true partnering.

But I've seen twice as many times where it's not true partnering. It's well, we had that nice little session, we had a good dinner afterwards but now let's see how we can stick it to the other side attitude. And that attitude really has to change.

GEN. WILLIAMS: Coming both ways.

MR. RITTENHOUSE: Absolutely. Both ways, both ways. So that's the biggest change here and we'd all be better if we all had a better attitude across the board not only in business, in construction, but all business.

But that's where I see this partnering, the education of individuals. Quick story, our own value engineering in house for quality assurance. Certain people said well, I can do it better. Yes, you may be able to do it better but is it the proper way to do it better? Is it the proper way to do a value engineering, quality assurance check?

And that attitude changed. And sometimes giving -- I don’t believe you ought to do this but I’m going to give you this one, both sides, will help change the attitude towards the claims process.

GEN. WILLIAMS: I think that's excellent because that's the whole premise behind this panel. That's the whole premise behind the Industry Day and all of that because you don’t get very far without both of these engines running together and having some mutual trust between each other. So I think it’s excellent. Derish?

MR. WOLFF: I had more of a question than a comment. I was interested from Bill and Joe, what’s the rule of thumb for the cost of a site investigation, say the standard ten-acre -- just trying to get some idea how much we’re spending on soils studies before we let out the bid documents.

MR. TOUSSAINT: I’ve got a number but I think Bill’s probably closer to it.

MR. MINER: Yeah. There are two studies that are done. One is a civil investigation which includes boundary, telephone and utility investigation and then there’s a separate soils or

geotech which may also include some environmental research, $30-, $40,000 each and they're competed with local contractors so that might change from county to country.

Not very much time and these are not extensive investigations. These are just a few borings and conversations with local authority. As Todd said, sometimes they're not in English; sometimes they're not of very good quality. And there is a risk.

MR. WOLFF: I'm not pushing for it. Joe's laughing already.

MR. TOUSSAINT: I know where you're going.

MR. WOLFF: I'm not pushing for soils engineers, who I'm representing right now at this table, but it might be an interesting value engineering study.

The other thing that might be interesting is if you allow whoever does your soils and investigation studies if you allow the bidders to have access to that firm and also to hire them.

There may be a conflict but they may be much -- they may be very comfortable spending

another $20-, $30,000 before doing their bid, so that’s a possibility.

We're finding that even in a large bridge it doesn’t cost that much to do good soils, so you might look at this whole -- just open up, give the report but say you’re able to just contact them. Feel free to -- if you want to hire them for additional studies just do it. That will also give them a comfort factor.

MR. MINER: I think the more that we can do certainly the better position we’ll all be in but just to explain the complexity, right now we have 11 projects in one solicitation. These are 11 new compounds and there are 14 prequalified firms. So 14 times 11 is how many bodies that are interested in this data. So it gets unwieldy.

One way to mitigate the problem that we have tried to use is to go to an allowance arrangement where there's an allowance for the soils, maybe an allowance for unforseen conditions in a rehab so that we all go in and the contractor and the government share the risk that we may exceed the allowance.

The problem from the government's side is we have the risk that we may end up being bankrupt on that particular project because we have a finite amount of money available. So we have to find some way to ensure that the project funds don't exceed a certain availability of funds. So, it's a dilemma.

GEN. WILLIAMS: Yes, Harold.

MR. ADAMS: General, this may be an area where you should have some term contracts with expert firms that will help you around the world in analyzing material that you get before it is turned over to the team for competition.

GEN. WILLIAMS: Excellent suggestion. Yes, Joel.

MR. ZINGESER: Well, I was thinking that maybe it was good that I didn't get that microphone but I guess I'll go ahead and stick my foot in my mouth.

It seems to me that the size of the problem isn't an excuse at all. Fourteen times 11, so what? If we're bidding a job we have 40 trades. We're getting three or four prices.

And in these days the owner wants us to

give the quals of the subcontractors that we're going to put on the table in front of them. That means we have to get all kinds of past performance, people resumes and everything on everyone of those subcontractors because we don't know which one we're going to actually use. They're all qualified but they have different prices and so forth.

So a lot of data and a lot of data gathering. If you're the owner and you want our best proposal we have to go out and get all that information and give it to you. The size of the problem is the size of the problem and that is the way it is. Sorry.

GEN. WILLIAMS: You have never been reluctant about getting the -- that's good. That's what makes these discussions useful.

MR. MINER: This is your last meeting, Joel.

MR. ZINGESER: See you, guys.

GEN. WILLIAMS: You made a lot of points.

MS. BROOKER: I'm confused with your comment. Are you saying that you believe that the cost of going and doing all the investigation on all

those 11 sites by the 14 bidders is the responsibility of the bidders?

MR. ZINGESER: No, no.

MS. BROOKER: Because from my perspective, from an owner’s perspective, I don’t want to have all the bidders go out and do that expense --

MR. ZINGESER: No.

MS. BROOKER: Because I don’t believe that in the long run that's good for me. I think they need to be given as much information as they possibly can and be able to rely on that so that they're not going and asking those companies that did the soils investigation independently.

MR. ZINGESER: No. I agree. That's why I was ducking because I was really saying it’s OBO’s responsibility and however many projects you have and however you have to do it to get that information it’s in your best interest to do it. And unfortunately it’s a big problem.

GEN. WILLIAMS: But we heard you. It is a big problem but we heard you and we recognize that and we put this on the table. We recognize this is an area where we have to get more clarity because

it’s a little issue for us. Yes.

MR. DINEGAR: Jim Dinegar with the American Institute of Architects. I just want to expand on what Harold said. It seems like after the discussion with Todd kicking off the point about soils that you’re looking at treating the symptoms but not really providing a cure.

If the confidence is not there in the different firms that are out there because they’re not speaking English so there’s not good translation of the information where you don't have confidence that they’re doing that work then hire one firm that all of those 14 groups have confidence in and they are your soil experts.

They’re the group that goes around the world and does that so when the information comes back it’s virtually not only unquestioned but beyond that they get to learn your protocol. They get to learn the expectations of those 14 companies.

And that’s in the spirit of knocking off the spikes of your claims and knocking off the spikes of some of your costs. And you may not be able to address it but it was the first thing from

Todd and the rest of the table began to discuss it.

If that is one of the areas that has potential for the most problems in terms of the claims, one way to get at it is to get an expert group that everybody of those 14 has confidence in and that they really match up to your expectations, not you matching up and having to deal with ones that you have no confidence in.

GEN. WILLIAMS: Thank you. You know, I started off by saying that is not a major issue for us. We recognize that it’s out there and we’re trying to get ourselves in a preventive posture. This is not to put a fire hose on a fire that’s already flaming but it’s to try to prevent a fire from starting because we know what we inherited.

So I think all of these comments are helpful and we will clearly examine them and look at them and see what makes sense. I do have to pay some attention to Bill’s two points he made, one is, which makes us a little bit different than some clients, and that is part of the success we have had with funding has been that it is expected from us when we make a request through a programmatic

process that we have the number right.

So this requires us to do a lot of work, coming back to Mary Ann’s issue, in planning, because once our number is in the documentation then we have to manage to that number which makes our job very difficult. And it also makes the front causes in question to do the front-end process as thoroughly as we can.

So we're just trying to explore a number of ideas on how to make this better. This whole issue of clarification in RFPs, clarification and reworking the Division I business, drawing a box, having a lot of clarity, all of that is to do that front-end process correct so that when we do advance these jobs that Bill and others are getting out this year that we have a pretty good idea of how this may fall out at the end of the day. So that’s where we’re at.

Let’s see. Had enough of that one? Let's see if we can’t move ahead to another area. Let’s talk a little bit about real estate because I think most of your companies have to acquire something if you work in a national and we’re just concerned

there about looking at Number 2 about procedures particularly as it relates to due diligence. How do you know that this building is what it’s supposed to be, et cetera, et cetera?

As you know, we have a big portfolio. We buy all of the sites that our facilities are built on and we operate in many different countries. And in many cases we’re helping the country write the law at the same time. I don't mean that literally but we’re taking them down a path with the fee simple where they’ve never heard it before. So we have a big issue there.

So I would just like to ponder this one a little bit with us and see -- clearly, Derish and some of the others might be overseas -- how have you dealt with this whole real estate acquisition matter whether you were leasing, renting, buying, et cetera?

MR. WOLFF: We have one advantage over you. We try and lease wherever possible. So we try and stay away from owning. In fact we try and stay away personally, the company, from owning property and prefer to lease it.

A number of advantages you have: what's hard in some countries, it used to be difficult for us to even own the property so we'd have to get into some contorted relationships in order to own, like in Mexico, property. So it just wasn't worth it to us. So we try and lease wherever possible.

I'm not sure it's cost effective because, well, all of you who've worked overseas for the State Department you curse yourself subsequently why you didn't buy an apartment when you lived in Rio or something but we very rarely own anything.

GEN. WILLIAMS: Any other comments around the table? Yes, Ida.

MS. BROOKER: It's a complex question with a complex answer. The issue is we own 80 percent and lease 20 percent but the fact is it depends. None of our sales offices are in owned space. They're all in leased space but some of our facilities there's a different story. Depends on what the purpose is, what the length of time usage is projected to be and whether or not the need in that particular location is going to evolve.

And so are you buying something for ten

years down the road or are you buying something for the next three years? Well, buying something for three years doesn’t make any sense. So if you know it’s going to evolve and you’re going to outgrow the space in too short a time frame then you lease.

It’s a business decision that you have to make given any specific location. So it’s, again, the ownership of the property is another consideration but also the longevity of whatever you’re planning to do there.

If you’re looking at, in your case, you have got a pretty good idea of the long-term need so the fact is that you probably will survive with that same plan for many years. So there’s a different consideration there than when you're in a high tech business environment where you don't know what tomorrow is going to bring.

So I think you have to look at the projection of the need for the property to determine whether leasing or buying is in the best economic decision. And again, even with government processes you’ve got to be able to justify the long-term

business plan and return on investment to determine whether or not leasing or buying is in the best interests of that particular operation.

GEN. WILLIAMS: Excellent. Jay, this was generated by your side. Do you have any information there?

MR. HICKS: As the question says it takes us a lot of time, particularly overseas, it can take time here to go through and properly vet a due diligence process. And we're always looking at ways to accelerate that process.

And I think it ties into a lot of the discussion we had before about who we hire to help us with this. But I’m just curious as to some of your best practices in terms of how you get through that process quickly.

It’s at the heart of whether you buy or lease and it’s appropriate we talked about that. Obviously, zoning processes and local government processes can be a real critical path for us in terms of understanding those before we put a property under contract.

I'd be curious to hear what experience you may have had in those areas, due diligence with governments in terms of maneuvering through that process and getting clear direction.

I like to think we have a leg up on people in terms of getting that kind of direction and that kind of access because that isn't always the case. I'm curious as to what your experience is.

GEN. WILLIAMS: Go ahead.

MR. ADAMS: I'll speak to an international company, not a government but a worldwide company that was acquiring a very large hotel operating company. They had 110 hotels around the world. They hired, this company hired a group of consultants, an accounting firm, an international law firm and they turned to our firm to do the physical analysis of the projects.

We organized teams that we had available for Europe, for Asia, for South America and for the Americas, put them through a training program very quickly. This was all done within a six-week period of time to go out to look at the facilities, to meet

with the manager of the facilities, and to generally go through a pretty comprehensive due diligence.

We had on standby environmental consultants and we had on standby construction consultants. We had structural engineers, mechanical, electrical engineers on most teams.

There was a three-person core team that went to every project and they had a book of questions and analysis that they had to go through. Where they uncovered or were suspicious of a problem, whether it be environmental problem or dumping stuff into the ground, whatever was uncovered, or structural problems where they thought there may have to be some major construction or code problems they would bring in another expert, bring in the other teams as needed but they weren't sent to every location.

This was all done night and day over a six-week period with the report delivered to the owner in time to go in and renegotiate the deal because we uncovered major problems. We uncovered about a half a billion dollars in needed construction and needed

investment in the facilities because we had some contractors available to do some quick cost estimates for us.

So it can be done on a very rapid basis and I think that here's where the private sector perhaps can help you in such consultation to speed up that process. I find, especially in the private sector, that time is of the essence so that it's not unusual for due diligence to be required in a very short period of time.

GEN. WILLIAMS: Excellent. Ida?

MS. BROOKER: There are some requirements that I think or pressures on an organization like OBO to be sure that you're protecting the interest of the taxpayer. And so there's no way around avoiding a due diligence process. I mean, you have to do that.

One of the things that we do is we hire private companies and we make them sign nondisclosure statements so that they do not tell anyone who they're representing. And they do it in an anonymous fashion so that the people don't know who is acquiring the land.

Sometimes that helps so that there's not a panic buy or whatever else in that area. But the fact is that private industry does in fact at times make procurement purchases that would maybe put you in a situation of losing out, quote, unquote, on a particular piece of property. But I don't think that under the circumstances you can afford not to do the due diligence and you must continue to do that.

But sometimes as Harold says, you know, the private industry is a quick mover and they can do some of that. And that quick movement can maybe be brought to the resources of the OBO to be able to do some of those things in a manner.

I know that sometimes internally we cannot move that quickly but we can hire an outside firm and they can have it done for us. And that sometimes is a great benefit. But just having someone know that you're interested, that OBO is interested in buying ten acres of land in that area, it can be a hindrance to some of the operations that happen.

So going out to the private sector and saying, finding a company that specializes in that

and saying it's confidential that we're the ones involved here can help.

Then on top of that I believe that you do have most of the time a better position with some of the governmental agencies than private sector does after some of the projects I have been involved with. And that does help but it doesn't always help.

You know, you're right, the situations are difficult but I think that trying to capitalize on purchases that are out there and being offered has just got to be able to follow the due diligence process just as quickly as possible but you can't avoid it. I don't want you to avoid it being a taxpayer.

GEN. WILLIAMS: Right. Well, you know, you raise two very interesting points. One is that yes, we do have to do due diligence but you also raised, at least for me, another idea because of our linkage to the various host governments we do normally start with that linkage. And everyone is up front and they know who's looking for what and they know we're looking for one of these trophy sites.

So maybe, and this is something that we can talk about internally, but maybe if we would keep our post out of that and look at some of these methods you're looking at where, say, we found a site that we knew was available and then bring the host nation in after the fact might be an issue.

In many cases the owner of the property is in fact the government and so this becomes even more problematic. This is a tough arena. You can see that as we mature with this panel you see the questions get really, really hard.

Those first ones we gave you were just tune-ups. These are real tough ones because to move this ball further to purity or to the ideal state than we have it is what we're trying to do now.

We feel that we sort of got the course charted for moving ahead and what we're trying to do now is just come up with best practices to do things better. And since we buy so much real estate, hundred million dollars of it, we buy a lot of it, we just want to make certain that we're employing the absolute best.

We do have third-party help. We have international firms out front helping us do things but we're still concerned about a better method for doing the due diligence process. So that's where we're coming from. Yes, Derish.

MR. WOLFF: Just on a humorous note, Ida and Harold remind me when I was younger we were doing housing projects in Honduras and Salvador and we did just what you said, we found wonderful sites and every time we found a site the president said that's wonderful and the local housing institute took it.

GEN. WILLIAMS: That's a problem. Okay. Let's move right along and let's pick up another topic. What sort of process do you go through when you commission something that's been completed? What's your commissioning process?

Well, let me help you a little bit with that. What we try to do is to draw lines as Joe said and we've found that this is a good disciplined, ordered process, that construction reaches a point of substantial complete. That triggers then the few punch-list items out there and then occupancy can be

brought forth.

During the period of time from substantial completion to the time that the building is open or ready for occupancy we use that period as, quote, the commissioning period. We get all the operation and maintenance documents in place. We ensure that training is there. We flush every toilet. We do all that kind of stuff and get the building commissioned.

Now, we drew some lines a couple of years ago of a duration from that point to the next point. And right now that’s very tight and it requires everyone to perform and do things absolutely correct.

I’m just wondering whether you have a process like this or do you just -- Derish, you do a lot of this, and Joel do a lot of this, when is complete?

See, one of the problems that’s plaguing -- and you guys are not helping me but you know exactly what I’m talking about -- you see one of the things that was plaguing us from years past was projects never really got complete complete.

And what we’re interested in here is

getting off the clock, drawing a line. It's over. It is really over and we're going home. Okay.

So in order to try to get there we drew a line, flagged it for the user, user meaning our mission people, that the project is now substantially complete, basically complete with the exception of little punch-list business and we're getting ready to move you in.

And it's that other end after substantial completion that is ragged because the propensity of the user is to be very sluggish and this type of thing. So what's your views about that? Yes.

MR. ADAMS: General, we're great believers in commissioning and we think that the commissioning should not be an independent consultant. It should be the designers of the project, the engineers and the architects and it should occur at the point in time when the project is being turned over to the people that are going to operate it.

It is especially today important with the complex mechanical, electrical systems in buildings that the people that are going to operate the

building meet with the engineers and go through and understand the systems, how they operate and what they were designed to do, because we find many, many times that the problems are that people maybe don't read a manual.

They're given a manual or a big book. They do not read that manual and perhaps with you you have people you have locals that simply don't understand the document. So it's very important to go through a training program as a part of the commissioning, the training of the individuals that are going to operate the building.

We have an example here in Washington where we designed the embassy for Singapore, foreign government. And it was a very complex building that we insisted on commissioning and in training the people that were operating the building. It's a building that has operated very smoothly from day one because of that.

And I think you would find that it would be very beneficial to you because often you do have building engineers that simply don't understand the

system or how they were designed or the reasons they were designed.

GEN. WILLIAMS: Excellent. Yes, Mary Ann.

MS. LEWIS: I agree completely with Harold except for one thing, and it's that the program or construction manager can also do those things and frequently does. I say this because the other side of our business is program and construction management and we do a lot of commissioning.

And one of the ways to control this, and I completely agree about the training, one of the ways to control this is through the schedule on the project. The CPM schedule should include the commissioning element so that you can control it and determine the completion date.

GEN. WILLIAMS: Very good. Yes, Joel.

MR. ZINGESER: Commissioning is the buzzword of the day and is really a hot button, at least in my observations, for the last couple of years and is getting more and more defined and more precisely defined by design professionals as well as the construction community and the owners, especially

the government.

Again, there are very specific sections of the specifications on commissioning, commissioning agents, third-party commissioning, full commissioning, commissioning as it relates to lead points, different types of commissioning, and so on.

We as a company recognize substantial completion as everything except pick up our tools and leave. That’s what we try to do. And so we look at commissioning as being complete at substantial completion because yes, you’re right, in fact, there are always a few things that you have to come back and touch up.

But if we're doing training and turning the keys over between substantial completion and final completion we’ve missed the point because substantial completion is when the occupants are in there and from that point on all hell breaks loose.

I mean, we turned over laboratory buildings that are absolutely ready to go and as soon as the scientists get in there, come back in a month you won’t recognize the place.

So substantial completion is a key, key milestone in terms of commissioning from our point of view. And I think the owners ought to focus on that point in time as the point when the full commissioning is really in place. And it does involve all the things you heard of and it really does start -- with us it starts at day one of the construction phase.

I mean, we're not involved in the design phrase except on design-build projects but still when we hit the site from that point on we're starting to think about turning over the whole building.

GEN. WILLIAMS: Very good. Okay. Craig.

MR. UNGER: Good point, Joel, and swinging the pendulum the other way some discussion we're seeing in the industry is commissioning going out two, three, four years, particularly when you're designing on performance specs to make doggone sure that building functions as you said it would.

The energy consumption, lighting and a lot of -- we're seeing it in wastewater treatment plants that are being designed, built and operated for an

extended period of time for that O and M and that it really gave them a safety net on that from that performance that they're going to be responsible for making sure that building works.

Again, it goes to the opposite of what Joel is saying, substantial completion and pushing it out. So I'll just share that with you. I don't know if that's been tried in any of your facilities.

GEN. WILLIAMS: Yes, George.

MR. PAPADOPOULOS: We do believe at least from the consulting engineer's point of view that it is important that commissioning takes place by the design personnel. It has a two-fold benefit that we don't want to accept sometimes.

The majority, in the past anyway, of design personnel did not know anything, do not have any field experience. They will be designing something; they will be putting something in a building and they don't even know what it looks like. If they go there afterwards they won't recognize it.

MR. ZINGESER: Write that down.

MR. PAPADOPOULOS: It's a very honest

statement. That's a reality. So I think it’s an opportunity not only for the design personnel to see what they have designed and become responsible for making it work but also at the same time training the operating people, giving them the philosophy behind the intent.

The other point I want to make is really very much in commissioning on systems basis. There are certain distinct systems of buildings that we do not have to wait for a global commissioning situation. We can commission fire pump systems, booster systems, electrical systems, what have you, elevators, HVAC, all the systems because they stand on their entity, if you please. They can be done.

We used to rely on what is called the testing and balancing process that was done by an independent entity hired by the contractor to do a testing and balancing of the building. But that fell very short because it only focused in a very limited area of the building, that is the HVAC portion of it as opposed to other components of the building.

So commissioning might be the buzzword

these days but it’s extremely important and I think the fact that you can have design people learning and becoming more beneficial to the owner afterwards also showing the operating personnel what they are missing by not listening to the changeover or turnover process.

GEN. WILLIAMS: Very good. We have had some great discussions this morning. I think we now have approached noon time. The clock is in error there. I’m sure your body clock is telling you it’s probably not right. It’s about five minutes after 12:00. So I’m going to ask -- we have two announcements. Gina is going to talk about lunch arrangements and Joyce has a word about security.

MS. HENDERSON: Good afternoon. I’m Joyce Henderson, OBO security. Just wanted to share with you while you’re here at the conference if for some reason there is an emergency the closest exit you will follow the green arrows out here at the door straight and then it turns to the right.

Also we have several visiting groups today so when you depart for lunch if you would ensure that

you get with an OBO staff member and also with my staff to escort you to lunch so that you don't get lost or sway off in a different direction.

And if you’re not going to come back this afternoon Mr. Burns will escort you to Beverly Heard so that you can turn in your visitor’s badge.

GEN. WILLIAMS: Thank you. Any questions on that? Okay. Gina, lunch arrangements?

MS. PINZINO: The panel members would now follow the director, the Chief of Staff and Phyllis up to the executive dining room. Also the managing directors are to go to that luncheon as well.

For our outside guests we do, as Phyllis said, have very fine facilities here. And we will be able to escort you there. And if you do not wish to return this afternoon, if you would make sure that you turn in your security badge. Thank you. And we should be back here at around quarter of 2:00, sir, is that correct?

GEN. WILLIAMS: Yes, 1:45. Let's have some lunch.

(Whereupon, a lunch recess

was taken.)

AFTERNOON SESSION

1:45 p.m.

GEN. WILLIAMS: I think what we'd like to do now is to look at new technologies or anything that is emerging that will improve or enhance the process for the business that we are in. I just would like to hear your views about that whether there's any new something on the cusp of a breakthrough.

We just don't want to be left behind with any emerging technology or technique or whatever so now is the time to think about that and see if you can help us think through some of that. However

mundane it might appear it doesn’t matter.

Just if you know that there’s something out there that’s being sort of talked about that we can noodle right now, let’s kind of put it on the table and we’ll see if there’s a slot here where it can fit because the whole purpose of this is to try to get better at what we're doing.

And I think you saw this morning we have a big job in front of us. We have expanded very fast and so we just want to make certain that we get it right. Yes, Harold.

MR. ADAMS: I think one of the most important areas is design, the whole green movement around the world, energy-saving. And one might initially say, well, with our buildings and the security requirements you cannot meet these requirements. But I know of projects such as the new NATO headquarters that meets all those requirement.

It's daylighting. It’s fresh air and other elements. That is a big movement and we are seeing it in other government agencies’ requirements to meet these requirements. And I think with our diminishing

natural resources around the world it’s going to become a more and more important issue.

GEN. WILLIAMS: Excellent. Are there any others that in your comings and goings that you can think of? Yes, Joel.

MR. ZINGESER: One relates to another question on here having to do with fire and light safety and performance-based procurements and design. I think that this is an ever-moving and evolving situation but I think there have been advances and there continue to be advances in fire modeling.

In particular, NIST is working on this every day. Some of those models are used in some other government buildings, especially on historic renovation type projects where you’re looking at trade-offs, clear trade-offs where you're not able to comply specifically with the prescriptive requirements of the code on air and how it’s moved and smoke control and things of that nature. So that’s, I think, something you should keep your finger on the pulse.

GEN. WILLIAMS: Very good.

MR. ZINGESER: The other thing is something we've talked about at other meetings which is really I'm not up to speed at this point but it's the question of again BACnet type platforms and other platforms for interoperability of systems.

And then, I guess, you could again talk about international interoperability as it relates to documents and systems. I just think there's a number of fronts that are in play to some extent but potentially will become more mainstream in the not-too-distant future and you'll have to keep your fingers on it.

GEN. WILLIAMS: Anything else on that topic? Yes, Derish?

MR. WOLFF: Our company in Seattle is playing around with remote cameras for construction supervision, especially when you have a single site you like you have, and you play them back to the home office and you have some very interesting dialogue, who is saying that -- you're were saying that you can never -- architects and engineers never know how to build anything. So you have this wonderful --

MR. PAPADOPOULOS: I didn’t say that.

MR. WOLFF: You inferred it.

GEN. WILLIAMS: I can tell you guys now, it’s on the record. (Laughter.) We’ll know exactly what he said.

MR. WOLFF: So this gets a very interesting dialogue where you can actually move the cameras around and start talking to the engineers or the architects. So we're doing more of that.

The other thing that’s tied to the same issue is that, and I know your philosophy always was to delegate it and is to delegate, which I agree with, but the power of a home office or a back office to supervise now is much stronger with communications.

So there’s much more sharing and you can still delegate but you can also find out much easier what they’re doing. And so we're finding out, for example, on warranties and guarantees and things of this sort, you keep dual records and before you were talking about commissioning, before people sign off on facilities you can have experts, just like

hospitals are doing on spending a lot of time -- the hospitals are ahead of everybody where you walk in sort of in a little village in Colombia and you wind up with the best doctor in a New York hospital looking at you.

Well, you can do the same thing with these kinds of remote communications. So there’s not a high penalty, you’re not holding anyone back by checking, sitting down on the teleconference. We do teleconferencing all the time with Afghanistan or even Zaire and going over the warranties, going over the checklist just as if someone’s in your office.

So all of these things are changing. You know the paradigm between home office and field is changing, where, for example, doing bookkeeping much more controls than we used to back here.

And there's no penalties anymore. There used to be huge penalties because you could never find the files. So those kind of things. Well, just as an aside then I’ll leave, before I say anything bad, is anyone here from the Inspector General’s office?

MS. PINZINO: They were this morning.

MR. WOLFF: Thank God. The Inspector General would always come into a county and say you've got to keep the originals --

GEN. WILLIAMS: Right.

MR. WOLFF: Oh, you've heard -- in the country. And of course, everyone, we'd lose it. If we didn't lose it the client would lose it. And then the government would come in and demand to know where the originals were. Then the U.S. IRS would want to know the originals.

And you only had one set of originals and you couldn't even find them. So that has all changed now. It's much easier to keep a set of originals back, say, in New Jersey and then send them out if someone wants them.

GEN. WILLIAMS: You know, it's always intriguing when we have these questions because something always comes out that support what we're trying to do. Without even connecting to the emerging technology piece that Derish talked, about we adopted a system of accountability about two-and-

a-half years ago where we have a consolidated look.

And once again, this was not to take away from anything in the field but today with the climate and all the focus on corporate you better have your act together at the corporate level or you're going to be left out. At least it's very paramount in government and it's becoming more and more of an issue in the private sector as Derish mentioned.

So we adopted a policy where we take two days a month and really just go through a complete scrub of everything that we're doing in the field. We have the input from the field. We have digitals. We have all of that. Not to the level of -- I'm very intrigued by this remote idea, which I think is something that we can advance.

But I think you're absolutely right and we sensed this early on with our program that we had to have more visibility on what was going on, not to check on people or get in the way of folk but corporate is expecting to have some answers, I mean, the real answers.

Are there anything else along that line in

the way of innovations or new path forward or anything that's helpful that you can think of?

MR. SHIRVINSKY: General?

GEN. WILLIAMS: Yes.

MR. SHIRVINSKY: Real quick. Adam Shirvinsky. There are some predictive maintenance tools. You're doing preventative maintenance but there are some predictive maintenance tools based on software. Any oil analysis, things along that line that can be done, you can tie that into JOBE (phonetic) which is AMC run so you would be able to do any oil analysis. With that oil analysis you can tell whether or not, for instance, a bearing on a microturbine is going to go out, things along those lines.

And it's applicability from the aircraft maintenance industry it's drawing into the energy side so that there's some potential areas there. And I can forward over some information as to who's on the forefront of that technology.

GEN. WILLIAMS: Okay. It sounds like you're in the diagnostic side of --

MR. SHIRVINSKY: Exactly.

GEN. WILLIAMS: The house which is very interesting as well. And if you have something like that please forward it over to, I guess we'll send it to Operations and Maintenance side. Yes?

MR. DINEGAR: Jim Dinegar with the American Institute of Architects. General, there are two issue that we're working on and one is on energy. And I know that's a big concern that you've got such a high cost area.

Working with the American Society of Heating, Refrigeration and Air-conditioning Engineers under a grant with Department of Energy for 30 percent reduction in the ASHRAE standard and then a subsequent grant for a 50 percent reduction off of the ASHRAE standard.

And we think we've been able to achieve at least now in writing the 30 percent reduction and we're working to see if we can achieve the 50 percent reduction. DOE's got that for a five-year plan; the 30-year one is underway. In fact, there's a meeting at our office this weekend. So I'd be happy to get

the information over to anybody on your staff and certainly share that information early on in it's formative stage. Okay, Joe.

And then the second is an area that I'll just lay out but it's the building information modeling. And it's a movement that's taking hold pretty steadily with a group called CURT, the Construction Users Round Table.

A number of different private companies along with GSA are part of that and I would encourage State to join that because they really are pushing on the leading edge of some of the technologies that will reduce costs, handle better due diligence, be able to identify shortcomings in the plans and in the collaboration efforts earlier on before the first shovel goes in the ground.

GEN. WILLIAMS: Send me something up on it and we'll see if we can't sign up. Thank you. That was very helpful. Let me move to another area which has to do with renovation work.

You know, we have a lot of renovation work. Usually we're doing renovation at or in buildings

that are occupied. And you know, the whole threshold of safety, inconveniences, swing space, all of that, what are your ideas about that in terms of better management? What is the best way to do it? What is the most efficient way to do it?

Now, we may have some constraints because we're overseas and we have some issues there but I would just be interested in knowing how you approach that.

MR. ZINGESER: Our bread and butter is to work in occupied buildings and buildings of some stature in terms of who the occupants are and do complete modernization and renovation of those buildings and it varies.

Ideally, the simple answer to your question is get everybody out of the building. I mean, that's the best way to do it. But assuming that that's not possible then you have to look at what I would call critical mass or critical components as a function of how the original building is structured and where you want to go when you get to the end of the day.

For example, in some buildings you might

turn over the whole basement as a level and work your mechanical, electrical systems if that’s where they're going. And all you’ve got to do -- all that you’re going to do on a horizontal platform and then you might work geographically in quadrants or sections vertically because you’re running things in vertical stacks, piping and ductwork and so forth. So there's that sort of approach. Other buildings might lend themselves to a floor-by-floor type of operation. And then there might be some mixture in between.

So the truth of the matter is the only answer to that question is it depends on the specifics of the building, what’s going on, what the time span is that you can afford to do this work.

Again, if it’s historic or not that is a big factor. Hazmat is a big factor in dealing with that and where it is and what it is. It takes a pretty thorough analysis and plan up front even before the architecture and engineering is done to assess that on a building-by-building basis.

And that’s really the only answer. Is

there 50,000 square feet, a minimum number to vacate and move people into or some other number? There's no simple answer.

GEN. WILLIAMS: Very good. Other ideas on this business of renovation for efficiency? Yes, Ida.

MS. BROOKER: I just have got to second everything that Joel said because the answer is to give the contractor full control of the worksite. I mean, that’s the most efficient, straightforward, the least expensive and the most timely process.

But again, as you said, that's a wonderful theory but unfortunately it doesn't usually happen that way. But one of the biggest things that can happen is that on projects that require that kind of interface with occupied spaces you need an additional team.

And that additional team is the team that’s going to work with the occupants to be able to communicate what is going to happen, what the future holds, what the ultimate goals are, how they’re going to be involved, get their buy-in, get their

cooperation, get them informed on what’s happening so that it’s not a surprise, so that there’s some cooperation rather than resistance.

Human nature is, even if they’re being told they’re going to get a slick new something or other, human nature is to resist change. It just is one of the biggest problems of renovation projects. And what you need to do is you need to get the current occupants on the team.

And that's what it really takes because you're going to have to move Group A to Area D and Group B to Area A and Group -- it just is one of these shuffle, reshuffle, shuffle in some of these occupied spaces.

So what you try to do is you try to minimize the number of times people move and try to be as efficient as possible but you get them on your team. And sometimes they come up with great ideas on how to be more efficient but that’s the key on how to be the most cost-effective for the project is to get them part of your team.

GEN. WILLIAMS: Any other -- yes, Harold.

MR. ADAMS: Really just to reinforce what Ida and what Joel said, it is communication, communication, communication. Early on, being involved, getting the whole design team involved in helping to communicate to the users, to identify their problems and then incorporate that in a move plan.

We have been involved in a number of these types of projects, one of which Joel has worked with us. We're doing one at the Capitol right now where we've had to move some very, very important people out of their spaces.

But it was all a part of the communication process of informing them what was happening, when it was going to happen and understanding what they would get back after the project was completed. It takes a great deal of communication and it does take, I think, a special team to deal with it.

GEN. WILLIAMS: As a collateral question to that discussion it just triggered and it ties back into something we talked about this morning. How does the private sector present and then fix scope of

a particular project?

And I’m really after the renovation kinds of projects where I thought I was going to get a blue light. I thought the carpet was going to be here. The desk is in the wrong -- you know. How do you fix that so you don't end up with this discussion sort of in the ninth inning when it’s all done?

MR. ZINGESER: Basically, it's the same thing. In any project the worst thing is unfulfilled expectations. Everybody loses: the owner, the designer, the contractor. We thought this was going to happen. It didn’t happen.

In this case again if you’re talking about the tenant or occupant and if you as the owner agency are working with them you have to work very closely with them in the earliest stages to ferret out what it is that is going to happen, help them understand that, get their inputs, come to some agreement as to what the level of quality, in quotes, is meaning all things, quality of finishes, quality of furniture, quality of everything so that they have a sense of what’s going to happen and what they’re going to end

up with.

And then the same is true for you as the owner in terms of going forward with your designers and constructors. You may have expectations for that building that really can't be realized and that need to be up front and communicated and worked through. So as Harold said, it’s communications.

In the implementation phase, just to pick up what was said, again, in our case we have designated people who run around the building making sure all of the containment is contained, all of the protection of historic features is protected on an ongoing, ongoing, ongoing basis. And it’s a whole separate crew and foreman and you have to think like that if you're going to do that kind of work.

GEN. WILLIAMS: Excellent. Yes, George.

MR. PAPADOPOULOS: What we have found particularly with large corporate clients or large agencies is that the people that you originally started communication with are not there towards the end of the job.

That's a reality of -- decisions are made

about the end product very early and then a gap in communication takes place, people get replaced and the new tenant or user that comes in says that’s not what I want.

The idea is to give a continuous interactive communication. The regular meetings between user, client, design contractor, is a must. That's the only way you can keep the scope of the project on line, continuous communication and updating of what needs to be done. As new people come in and new ideas come in either you discuss them and implement them or you have another reason not to do it, but that’s what I’m referring to.

GEN. WILLIAMS: That’s excellent. Are there -- yes, Craig.

MR. UNGER: The only thing I would add to that is the similarities of turning over a prison that took two, three years to design and construct and activate we found probably the only thing worse than not engaging that warden until the very end was engaging the warden and ask him, and ceiling tile and floor and all these changes.

But it sort of underscores what Ida was saying. It's one thing we found not only to communicate in brief but to get their buy-in, get them truly on the team and then they're resistant -- they seem to self-restraining there if they felt like they had some ownership in it pretty early, maybe through the various design levels. Again if they don't change.

As George mentioned, they frequently do but sometimes if there's two or three there's one person that may, you luck out, be there for the duration. So we went through the same frustrations of thinking we did a great job and some what seemed to be some minor innocuous issue didn't seem that way to the end-user.

GEN. WILLIAMS: Are there any other questions or comments in that area? Yes, Harold.

MR. ADAMS: One is to involve professionals early on in the procurement of the project if you're buying an existing facility or if you are looking at an existing facility.

An example is a corporate user that we have

served that had gone out, their real estate people had purchased a building based on a number of square feet, and we were brought in to finish it out, to renovate it and finish it.

And it would not hold the number of people because they failed to realize that there was an existing structural system. There were existing exiting requirements and limited exiting requirements that when you applied all of the codes and all the reality of the building you could not put as many people in the building as they had originally planned. So bringing reality to existing facilities as early as possible is very necessary.

GEN. WILLIAMS: Excellent. We have got a lot of experience with that one. Yes, Ida.

MS. BROOKER: Also, if you know that you're going to have someone in that facility that’s going to be renting it and they aren't on the payroll yet get them on the payroll ASAP because one of the worst things you can do is get someone on board halfway or quarter of the way through the project after everything has been set, the design is done, the

construction has started, the contractors and all the suppliers have been chosen and then you give it to this person to run and they have no ownership or buy-in to the end product. And that is not a good way to handle the project.

We had a situation where we designed and built a factory on, in this case, a green-field site which is not what you were talking about. But we didn't hire the plant manager until about 30 percent into construction. And it was not a pretty project.

It was on foreign soil and there was a conflict between that plant manager and all parties on the site. So there was one common denominator and eventually, after a lot of angst and conflict, he was finally replaced but it's better if they're on board and buy-in at the very beginning if that's possible.

GEN. WILLIAMS: Excellent. New question. Those of you who work overseas, and a lot of you have, how do you deal with the currency fluctuation? How do you factor that in? How do you manage that because obviously as an owner this is a big problem for us. And I just would like to hear your views on

that. I know Derish is there. I know George is there.

MR. PAPADOPOULOS: If I may, please, the currency fluctuation was not an issue in the past.

GEN. WILLIAMS: Not in the past?

MR. PAPADOPOULOS: Not in the past.

GEN. WILLIAMS: But today it is.

MR. PAPADOPOULOS: The past two years vis a vis the euro that is giving us new headaches. I think we all got caught in it because nobody really planned into that situation.

If a new project comes in today I would take a different approach of how to do it, create some sort of a mathematical formula whereby X is the fluctuation, negative or positive, goes to an allowance and I can work with it back and forth during the construction phase.

But it’s like everything else. It is a crystal ball that’s very cloudy. Who would have thought that we’d have $1.30 on the euro today and perhaps going higher. That affects every other currency throughout the world whatever it might be.

They are related.

In reality we have not addressed it. We're thinking about it what kind of formulation, what kind of a system to put in place is a must in addressing the cost.

GEN. WILLIAMS: Derish, do you have any --

MR. WOLFF: Well, I circled that question. I was afraid you were going to ask it. It's one of the toughest questions. There are two different issues and for you it's even harder because the first issue is for a company an enterprisewide solution.

And there we have some solutions. What we try and do is we hedge by buying -- we look at a basket of payments of our client base, euros, dollars, local currencies, and originally it was say local currencies was a problem and now it's the euro.

And we try to match our procurement. For example, we have different payrolls and if 30 percent of our business is going to be in euro-funded contracts or in euro markets we try to put people on matching payrolls, either a dollar payroll for a dollar contract or euro. So we try to match our

risk. We try to borrow in that county also to protect us. It doesn't help you in your case because you've got individual projects.

The other problem you have is that hedging is very expensive for a contractor. That's why you end up getting surety bonds. And they can only really hedge when you get -- and the longer the hedge the more expensive it is.

So they want to find out almost to the day you're giving them the contract whether to hedge or not but that doesn't help you in the bidding cycle. That's your problem. So from your point of view you want to minimize the risk so you'll get a balanced bid.

From the contractor's point of view he wants to delay buying the hedge until he knows he wins the contract because the most useless thing is to buy a hedge six months before he gets the contract. So you've got a real chicken and egg issue. It's not an easy answer.

The answer which is not a good answer for you is to pay as much money up front and you lose

control of the job but typically the EU had this problem in the reverse when the euro was going down against the dollar.

And the EU solution was to shovel out the euros. They would get their consultants and some of their contractors to take very large mobilization payments against bonds. It was wonderful for the EU and it was wonderful for the contractor. They could convert quickly if you thought you were going to have a dollar product you take the EU euros at that time and you'd convert them right away. You could do it.

The problem they got into is the contractors and consultants were in on the bonding and guarantee capabilities. So it's quite common for a consultant working for the Common Market and overseas work on their aid programs to get about a third of all their -- have to guarantee a third of all their payments that the EU is paying them in advance.

So there's no easy answer. You're really walking into this whole world of hedging and very sophisticated companies like even General Electric

can lose money on hedging. So it's not an easy -- I knew you were going to ask that. There's no quick answer for you.

The only thing is to try and match your buying and selling and get your contractors to match as best possible. That's the best hedge to have long-term contracts in the currency at risk so you lock in the price. But it's not easy.

And for you it's, as you have to work in dollars, it's even harder. I can just see you going to the Secretary and OMB and saying you want to convert your $1.7 billion budget a third of it you want to buy euros tomorrow.

GEN. WILLIAMS: I would get converted pretty quickly. (Laughter.)

MR. WOLFF: So it's a tough question.

GEN. WILLIAMS: Be back out there with you guys.

MR. WOLFF: Yes, exactly. (Laughter.)

GEN. WILLIAMS: Okay. Let's leave that one. The other question I think we should deal with, it's not in the book but I just want, you know I put

a couple of these in each time. You know, we have a lot of security requirements one of which you know is to strengthen the skin of a building such that it can help us with blast protection. And we all experienced the Pentagon and other places a couple of years ago.

Are we going after this in your opinion the right way by looking at the skin of the building or should we be looking at something else? Any thoughts?

MR. RITTENHOUSE: You're saying -- I'm not really sure because you don't go up to one area you look at the whole thing.

GEN. WILLIAMS: Yeah.

MR. RITTENHOUSE: So I believe you're looking at all the areas. I've been counseling for years and years about that. So I don't know, I think you're doing it correctly and we've talked previously in this meeting about ways to change how it's done or come up with new products which we've collectively introduced. And so I think -- some of those improvements have been made.

And I think the area perhaps, and it's not my area, is in the chem-bio area protection, of that type of protection.

And just dealing with the conventional protection building -- conventional building sciences for protection of the other sort. But there's been huge strides by the State Department over the last couple of years. I think they have been all for the good in allowing more to happen, allowing things to progress and get more like the industry and incorporate industry practice into it.

So I actually can't think of a way right now -- because you asked this question like three meetings ago we asked the question --

GEN. WILLIAMS: That's right.

MR. RITTENHOUSE: And then two meetings we were the Muntin system is one thing that's now available.

GEN. WILLIAMS: Well, I think that's good. I keep it in the top of my worry box, and I just want to make certain as we move forward I check in with industry and make certain that you do see it as we

see it.

We think we're doing everything that we know to do. We clearly take new approaches from any time some new product comes about we try to look at that. But we are where we are, and occasionally you will hear people make reference to bunkers and this type of thing because of the requirement to do this strengthening. But the world evolved and we are where we are. So it was just a little test to make certain that --

MR. ADAMS: Todd hit on one of the areas that I think that you should be paying attention to is the chem-bio and filtration. There is a threat and it's a threat that -- actually, the dilemma that designers find themselves in is what you need to do to protect the occupants from chem-bio threats and at the same time honor all the life safety of the building. In some areas they go against each other. And that's going to be a big, I think a growing need and concern to help to solve those problems.

GEN. WILLIAMS: Any other comments on the chem-bio side of it? Yes.

MR. BAILEY: With respect to the issue of whether or not it's just the skin that you're looking at with regards to protection, as an architect I have observed the protection of buildings, the construction of barriers. Just even this building, for instance, I'm approaching it this morning I used to be able to get to the building and park in front of the building. Now there are barriers everywhere.

I would think that the issue of landscaping and coming up with more delicate ways of protecting the building further away from the building but at the same time introducing barriers such as natural stone that would serve as ways of preventing vehicles but cushion that or insulate that with landscaping on both sides so that the overall image of that protection is a little bit more pleasing to the eye.

GEN. WILLIAMS: So you're saying look further at landscaping, just using that broad term and, slash, barriers?

MR. BAILEY: Correct.

GEN. WILLIAMS: Okay. Any other discussion around that idea? Once again, I know we're doing a

lot but I just want to make certain there's nothing else out there that we need to be looking at.

MR. PAPADOPOULOS: I think there is a need here, General, about looking at the conflict between the building codes as they are developing and security requirements as they are emerging.

Unfortunately, building codes are very slow-moving. They are more reactive as opposed to proactive. There's more security so you have to be more proactive on that.

I think this is a subject that will require perhaps a lengthy evaluation and discussion and evaluating in your buildings at least whether the building codes and your criteria are really suitable and not taking them as gospel.

And you have to comply within a certain amount of understanding and reasonableness in applying design standards and building code compliance under the auspices of life safety while we're compromising new upcoming security issues like the bio-chem, for example, filtration. So I think it's an excellent subject but perhaps we can, in the

future, devote more time to it.

GEN. WILLIAMS: Thank you. Bill, before we leave this do you want to add anything to that?

MR. MINER: Well, it's just wonderful to hear a discussion about this because this has for many years been the ultimate challenge for us, and that is how to balance security with an aesthetic and a functionality of our buildings.

Exactly what I would say. A lot of our codes, especially fire protection codes are in direct conflict with our physical security requirements, our requirements to pressurize our buildings.

One of our chem-bio strategies is in direct conflict with energy conservation measures and we’re constantly struggling between safety, functionality and cost.

So there are no easy answers but it’s good to hear that the industry has recognized it and might see opportunities for government to lead some research or some joint investigations there.

GEN. WILLIAMS: This is a follow-on to this because these are things that are really in my worry

box and we have not even advanced them to the level where we have had the staff totally positioned around it.

We have a lot of facilities that are historical. They are on Main Street, if you will, in various places around the world. Take our embassy in Paris or London or anyplace, if any of you have ever been there, since 9/11, or more specifically, since the bombings we have had to look at trying to do whatever we can.

Obviously, the skin is the skin that's there now. So the whole notion of dealing with that is kind of out of the question.

What else do you think we can possibly do in and about the building to help with this process considering what Mr. Bailey put on the table, but that is fraught with don't put that junk in my town by the host country there.

They don't want these structures out in the streets because a lot of times the building is right on the street itself so in order to put up a barrier you have to take a portion of the street to do that

and that's sometimes prohibited. Any thoughts on how we can continue to deal with that? Do you understand my problem? Okay. Well, you're silent like a lot of us so I'll just leave that one alone.

MR. STABLES: General?

GEN. WILLIAMS: Yes.

MR. STABLES: I'm Gordon Stables with Ingersoll-Rand. You may want to think about virtual security, improving lighting, more cameras, ways to expand your perimeter without being intrusive to the local people.

I've been to Quito, Ecuador and I can see what you're saying. They put a Jersey barrier in the street. So I think you can do it in a virtual presence, get those construction type cameras and those types of things and you can gain a larger presence without really standing out in the community. Just a thought.

MR. SHIRVINSKY: To add to that, there's a group called Object Vision that basically from the CCT cameras can denote certain behavioral patterns and through certain algorithms can say that's a

threat.

Indeed the general idea being along the lines of the deer whistle. The deer whistle concept having been a Vanel (phonetic) guy who had some places blown up in Saudi twice it was real important to us and there are technologies out there that if it frequency-based it will explode a mile before it gets to where it's intended to go. So those technologies are out there and you're going to have a problem with the mayor when you blow something up. But that's a risk you can deal with.

GEN. WILLIAMS: That's an idea.

MR. MOUNT: But to follow on on that that's a real delicate issue. When the bomb went off at our consulate in Karachi the devices that we put up protected our building but they pushed the overpressure back against the host country's facilities. So it was not a clear -- it wasn't a win-win. We're darn glad we did what we did. And there may be -- if you think Jay Hicks has trouble buying property now --

MS. BRIZZI: Excuse me, General. Hi, I'm

in Diplomatic Security. I’ve been there for three years. Back to cost effective measures, I’m looking at physical security, we’re always looking for one solution and it always gets us 85 percent of the way to meeting physical security standards. Maybe instead we need to look at layering three methods that each meet 55 percent to get us that complete way.

GEN. WILLIAMS: You know, I think your idea makes a lot of sense realizing that we're not going to be able to achieve it all, try to do as much as we can. Well, the reason in a normal sense someone would say why would a person like in my position put this on the table and start dealing with it because I recognize that we have to be very sure that we have searched and done all that we can do knowing that we have a large body of facilities that we can’t do everything that should be done.

That's the whole purpose of asking this question so that we could all dialogue about it. I’m delighted to get the input. We will continue to look, continue to think about this.

We feel very good about our new facilities. They are done correctly and we're fine with that. We'll pay some attention to the landscaping. I do think Mr. Bailey has an idea there as long as the costs stay in the box. So that's an issue as well.

Let's move now to another point, requirements and standards, Number 6. It has to do with energy conservation and the author of this from my staff, help me explain what you mean about the comparison so that we can get this out.

MR. ETHERIDGE: General, I think I have to 'fess up that that team in the resource management on an RMP but the idea here is we in OBO are always looking at enhancing our performance measures. And this gentleman was focusing on ideas that we could tune ours up in the area of energy conservation, use of resources, and this ties back probably to some of the earlier discussion about how this is one of those areas that is constantly in conflict with what other people are trying to do.

GEN. WILLIAMS: Any ideas on energy conservation, how all of that may impact dollars?

MR. MINER: General, I'll try to answer this question and that might generate some discussion. What we now do is what industry does. Our energy code is the International Building Code's energy code, the special supplement within that family of codes.

We haven't had a lot of experience with it because the IBC, frankly, is a very young code but it's in line with guidance that we have designed to before. It's all ASHRAE based and included in federal regulations.

Our challenge in the energy area is to reduce fuel consumption worldwide. And I believe we're talking about 3 percent per annum. It's not a target that I think we meet regularly and a lot of that is based upon poor recordkeeping, variations and fluctuations in that.

We try to be as self-sufficient as possible because power and fuels are not always available in reliable quantities or quality, especially in power.

The issue of green buildings came up earlier. I think Mr. Adams brought it up. We are

members of the U.S. Green Building Council, and for several years we have been using the L E A D or LEAD method for scoring our designs to determine the level to which they meet the LEAD standard in our sustainable and green buildings.

It includes energy conservation but goes beyond that and says that as stewards of this planet and its resources we should try to conserve them even if those around us are not. And that's what often happens in a lot of these locations. We may be the only folks in town that care about the water quality or saving vegetation. But after all, we are supposed to set an example worldwide and we try to do that.

One of the difficulties is in trying to achieve those fine goals sometimes the rules and regulations of these associations kind of get in the way to submit designs for scoring by the U.S. Green Building Council is expensive.

And we have in-house resources and contractors at our disposal that can do the same sort of analysis at a fraction of the cost. So we try to do that. We use the methods but we self-certify in

many cases. So it’s sort of a half and half situation.

Those are the kinds of things we're doing. There is this worldwide growing cost for fuel, and as I said some of the security features in our buildings drive those costs up higher and we just have to balance the two off.

The energy costs, lifecycle costs, also play a big part in our value engineering studies and we will try to seek savings or even add cost to a design if we think it will reduce energy costs long term.

GEN. WILLIAMS: Are there any questions, any further information from the panel on that subject? Yes.

MR. UNGER: I would like to add I spoke a month ago out in Scottsdale to the Construction Owners Association which is mostly universities bringing on facilities throughout the country.

And the issue with value engineering and lifecycle costs is sort of the dichotomy and being Fed many, many years I could identify with it is back

to that trying to win the procurement, whether you're the design-builder or the government making the award, the guys are basically saying, listen, I get funded from my B and F, building and facilities out of this pot of money.

The O and M is somebody else's problem. It's funded separately and those drivers there, particularly if someone's trying to win that contract, could I upgrade and put a gas-fired absorption chiller that would reduce cost down the road.

I would imagine the State Department is similarly funded, that you'll go so far in true lifecycle costing but when it means you're still trying to stay in that cost figure I think that's driving the folks that are trying to speculate in your evaluation criteria what are they really looking for? We don't want to price ourselves out of the market.

One of the things, we talked about this a little bit earlier, I was going to comment but maybe it's applicable here, is that when you put your

bridging documents out or the requirements that you know you want is to perhaps, and maybe you do this already, is allow an alternative bid.

You kind of want apples to apples. This is what I want. If you want to go out and be creative and innovative and we, again when I was with the Federal Bureau of Prisons, entertained alternative bids that allowed them to think outside the box if you will and occasionally I've sat -- it depends on who's on the panel -- I've seen the same creative idea I thought as far as sight line and some perimeter security that were innovative.

And one panel looked at it and really just dismissed the effort and energy they put into putting that proposal, didn't really get a second look, yet three months later they offered it on another panel, again for another facility, and we loved it.

So I'm rambling here but I'm saying I'll throw it back to you saying that I think the bidders will respond to what they think you're going to select on.

GEN. WILLIAMS: That's excellent. Well,

the whole reason of having it here is to see how we can deal with it better. Are there any other questions on that subject? Yes.

MR. PAPADOPOULOS: On the energy, issue?

GEN. WILLIAMS: Yes.

MR. PAPADOPOULOS: Yes, please. Speaking as a mechanical engineer I think we need to make a very important differentiation in our buildings, particularly the Department of State buildings.

If it's a new design versus an existing building I think you have to have two philosophies how you apply energy conservation in existing situations, whether it’s new or refurbished.

It’s very easy to do an existing building as a 10 percent reduction. I mean, that’s a no brainer. But then every few percentage points becoming more and more difficult to achieve. In new buildings as well the opportunity really lies to do not only energy conservation but sustainable design with recycled materials.

Now, my understanding is the Department of State does not require LEAD certification in their

buildings as opposed to GSA that does. There are good reasons for it. I'm pretty sure there are.

On the private sector we're finding that a typical developer whether it is a hospitality facility like a hotel or office building is not really interested in energy conservation. And that is the reality.

And what we're seeing is like, for example, Fairfax County starts imposing on private projects that we meet certain amount of -- and they're making it as part of their zoning approval, if you please -- we have to demonstrate up front we're going to put this apartment building, this office building that we do a certain amount of sustainable design and a certain amount of LEAD compliance, the L E A D compliance.

In other words, the only way in the stage we are complying with energy conservation is if it's in a regulation. It is not a volunteer thing.

And federal agencies they have an ability to impose on it. Again, it's like everything else should Department of State to make it a directive I

think we'd have a lot of drawbacks because of trade backs between the building codes and security and so on.

But energy conservation is a big buzzword out there again like value engineering and everything else. It's part of the process. But I would suggest that you do differentiate in any policymaking between existing facilities and new facilities. The approaches can be day and night.

GEN. WILLIAMS: Any other thoughts around this energy conservation matter? Okay. Let's look at what is done in the private sector around the business cases.

Before you move forward on a project, an initiative, what guides you? Is it a professionally done business case or just a boardroom decision or you take it all from the technical side of the house? What do you use to chart your goal decision? When you're deciding to go there or not go there what do you use processwise to get you there?

MR. WOLFF: Well, to begin with there is a lot of me-too-ism. In every field there's usually a

lead firm that people look up to or at least as we were talking at lunch about the hiring so that people -- you typically have a team that is pushing a project or pushing a program or new facility and you have people criticizing the board or the operating executive committee's job is to try and rip it apart and try and slow it down and look at it carefully.

One of the easiest ways typically to sell a project is as a me-too project, that General Motors put up -- or better yet Toyota put up a plant. They hired so and so to do it. This is the size plant.

And for example, when you talk about lifecycle cost you just have to look at the fact that no one has ever decided what an optimum -- they don't have a formula even for what an optimum size stadium is. If you're thinking mathematically that should be easy to do.

So a lot of it is me too. Kansas City put up this stadium. We are, too. And that's the easiest way to sell a project. Typically, you have to have a team to sell it in a reasonably large company and you have people who criticize it and

their job is to criticize it.

So it’s not as scientific as people think and I always get in trouble over this because I’ll always -- you’ll hear these companies saying we don’t take anything that doesn’t have 22.65 percent threshold.

So I said what was your return on investment in your new office building? Blank look on their -- your new headquarters. Blank look on their face. They never did one ounce of analysis or they do some analysis but it’s very superficial.

So a lot of it is follow the leader, not so easy. And a lot of it is in big, large companies, maybe like Boeing, it’s also lessons-learned like OBO does. So you try and avoid but then you get caught building all the same facilities, if you’re not careful, until you find out you made a big mistake.

But a lot of it is either you follow the leader, you look for an industry leader and you copy them, or you take your lessons learned.

Now, the question you’re going to say is how do you become a leader. That’s hard. And then

you take real risks. And my favorite was poor Robert Shapiro of Monsanto who decided that he was going to be a leader. GMO, no question, was the seed of the future and he took this whole company and gambled it. It takes a lot of nerve to do that.

GEN. WILLIAMS: Stepping out first?

MR. WOLFF: Yes.

GEN. WILLIAMS: Thank you. Ida.

MS. BROOKER: It also depends on the project and whether or not like the comment was, what is your rate of return on the new headquarters building? Well, it’s an interesting question.

But there are other projects that do have a business case and the business case has to be presented in order to obtain the funding for the project.

So in the case where we are consolidating facilities the question was do we really want to consolidate it or do we want to leave the people in the same place they are now. They are functional where they are now but is that -- and all business cases have two sides of the coin.

They have the financial side and then they have the theoretical side. And the theoretical side has to be presented as well as the money side of it, of the equation. But the money side is how long is it going to take us to get reimbursed for or have the payback for spending this money? And the theoretical side is why do we want to do it? Is that the only reason? And generally, you've got more reasons than just consolidation of space.

Hopefully, there’s things like there’s more efficiency, that for any number of reasons they're closer together, they don’t have to walk as far, the product line is closer.

I mean, there’s all kinds of reasons but the fact is many, especially in the energy conservation field, every one of those projects has got to go through the business case scenario. And if the business case does not support the project in a given length of time the project isn’t done.

I don’t know that that’s the right approach. It’s just an approach, and it's an approach that helps determine whether or not the

budget this year can pay for the project this year.

And if you have to now go to a multiyear budget who’s responsibility for that budget? And then that gets to be another issue, especially if the person that’s at the head is about to retire and they don't want to fund it.

So I think that a good business case makes the project much easier to sell, to obtain funding, but need also is a very important aspect and the need for better technology, new processes, new business for that particular group. I mean, all these are also very important aspects of justifying a project.

But the whole point of is there a business case is is the project justified. And the business case is just one of the things that will justify a project.

GEN. WILLIAMS: Yes.

MR. WOLFF: Just as an aside, one variation of what Ida said in classic theory you should be investing whether you’re on the downside or the upside of a cycle because you get the same savings. You can make the same business case sometimes a

better business case in a declining market to save money but you'll find that most companies, invariably the majority of investment is on the upside is tied to expansion of facilities.

So you can't go to someone and say -- it's very hard to sell them lifecycle and efficient operation when they don't have the cash flow. Even though you can show them that in theory they have the cash flow.

GEN. WILLIAMS: Yes, George.

MR. PAPADOPOULOS: A very recent case that we just finished evaluating, one particular project to go, there were eight candidate countries, eight countries but they were only going to one. It was sort of short listed down to four.

One of the factors was the issue of corruption. Corruption was a very important factor in the entire team in evaluating whether we should be going into that country or not. And I don't say you have the same political, social funding, et cetera.

The process that basically is used is try to get as many people as possible into an open

thinking forum and developing a matrix with certain criteria. We do weigh the criteria and totally that becomes a math process. But the hard work is up front developing the criteria not to bias the matrix towards a particular something.

But in this case I want to share that corruption was one thing that really surfaced and eliminated four countries out of eight automatically. It didn't go any further than that.

MR. MOUNT: Did you make that a go/no go part of it --

MR. PAPADOPOULOS: Yes.

MR. MOUNT: Or weight it? If you made an analysis that the corruption was of a certain level they were out no matter what?

MR. PAPADOPOULOS: Correct.

MR. MOUNT: Because that's the tough part for us -- well, not the corruption so much but the first analysis, what is it that allows you to proceed with the project and will stop if you say no to a project that we can say no to the various stakeholders who in many cases have an enormous

amount of emotion invested in this project and not one red cent because all the money is the General's.

GEN. WILLIAMS: That's right.

MR. MOUNT: So cost and budget are relatively unimportant to many of our clients.

GEN. WILLIAMS: That's correct. Did you all know that? (Laughter.)

MS. BROOKER: Do they know that?

GEN. WILLIAMS: But Gay makes a point. There's only one organization or one leadership element in the State Department that is really worrying about that. The other side is I need, I want and this type of thing.

So that's the reason quite frankly you see some of these lines drawn and a box built because the whole issue is containment at the end of the day which makes it very interesting for us. Let me ask -- go ahead.

MR. WOLFF: Just as another aside to what we're talking about because governments tend to -- committees like this talk about 22 percent cutoffs and give you an inferiority complex sometimes.

For 200 years the average American company -- remember these are only the companies that survived -- only grew at 6 to 7 percent. And only three companies ever grew at 15 percent a year for 20 years. One of them was IBM.

So all these figures you hear that they throw around, thresholds and everything there's no historic validity to them. To make matters worse if you look at recent studies of what they call agency-free cash, which is the monies large companies like IBM or General Motors have that they really don't need for their long-term 6, 7 percent, whatever it’s going to be, growth while IBM was 15 you find that they got negative returns.

Almost every major company, Eastman Kodak, IBM that they studied over a ten-year period got negative returns on the cash they had available to them above what they needed just to fund their ongoing operations.

So a lot of these figures like cutoffs, like business plans are people playing in a sandbox. In fact, Boeing maybe has a 15, 20 percent cutoff.

Boeing never earned 15 to 20 percent. They lied. So someone’s making some bad -- I’m just teasing you, Ida, but you know people pull these numbers out to make governments officials feel bad.

GEN. WILLIAMS: Well, once again, for the record, I’ll let you private sector folks deal with that. (Laughter.) I’m not going to go there.

Let me ask another question as well. This has to do with performance. What rings a bell in your top management or your boardroom on identifying a hero. Is it schedule, budget, what is it? Come on you guys give --

MS. BROOKER: If it's not there by May 30th, find a new job.

GEN. WILLIAMS: See, that's hard. I need this lady on my team. She looked at schedule. That’s what -- yes.

MR. RITTENHOUSE: You know, overall client satisfaction but I have different people who work for me and certain guys come in and they all make the schedule but one guy’s on my desk three times a day with, I want you to address this or help me

understand this.

And I'm like, you've been doing this for 20 years. You know, maybe he should -- well -- (laughter.) Maybe I should, dot, dot, dot. But it's a number of things. Mostly schedule, mostly budget.

One other topic we talked about a long time ago, it's not what makes me happy, it's not what makes you happy. It's what you believe you are happy at the end. So if the client is happy and satisfied with a June 3rd date on Ida's schedule but they're still happy because they got what they want but there's reason for the three or 30-day slip for whatever reason.

Client's happy, that's like number one, number two, number three. What makes them a real hero in my eyes is if he can do it on his own and not constantly go and seek advice from everybody along the way.

There's guys who just are afraid to make decisions. I was really surprised, just a little -- nobody knows this person but we had a snow day one time and there wasn't a higher ranked person in the

office, and the guy who's been there for 25 years they said, you're the most senior guy here. Should we close? He said, I don't know. I don't know what to do.

And so it wasn't a lot of snow. It wasn't like it was a blackout day but it was a marginal case. And that person could never be a hero if they can't make decisions as simple as go home or we're adults and figure it out. Something like that.

So you really need someone who can manage the process in which the client gets what the clients expect themselves to get. And that is what is really a hero. If something slips, there's a little budget slip here or a little schedule slip and there's an explanation for it. I mean, we partnered and we understand what's going on, that's fine, but the client has to be satisfied.

GEN. WILLIAMS: Okay. I've heard, make it or else. I've heard be creative, figure it out. Okay. Let's go. We're doing pretty good.

MR. WOLFF: I think you're really on this meeting on the right questions but I think one of the

hardest things I've had to decide is separating my own view from the client.

It's easy to talk as Tom and Craig did and that's what we do most of the time is if the satisfied client. But this is the same problem as bonus systems. Someone may have an easy client and you get a huge bonus and you haven't done anything where the other poor guy -- you're familiar with this in New York City, yes.

So I think the hardest thing as a manager is to step back and try and have an independent system and make sure it's not biased. Harold will say that he knows what good architecture is and so it's very hard.

You know, I'll look at a job or a report and I'll say, gee, that's a terrific report and the client's climbing all over it. And I'll look at another report I won't like it. It'll be sloppy to me and the client hugging -- many times because he got the project or she got the project -- so that's one of the hardest things. It's easy to measure client satisfaction but it's very hard to measure

kind of independent. I’ve never been at peace with this issue.

GEN. WILLIAMS: That's good. Well, you can understand our dilemma. Yes.

MS. BROOKER: It actually depends. Every project is different.

GEN. WILLIAMS: You just made --

MS. BROOKER: I mean, I was in charge of the Chicago build-out. We made a promise to the executives that they could have their kids enrolled in school September 1st and if we didn't have that contract and that project done we were going to be reneging on a promise we made to a lot of people.

So in that particular case the date was ultimately important. I’m on a project now that the planning stage did not take into consideration the amount of programming the project needed in order to be developed into a design process.

So on that particular case it was the old adage, communicate, communicate, communicate. It's not popular to go to Boeing and say please, please, please can I have another month but if you present

it, you work with them, you say here’s the choice: either -- of course I just love the fact that our completion date was April 1st -- we either make it April 1st for the contract.

The contractor has been impacted. The project has been accelerated because we didn't get him the drawings in time. So to do it April 1st is going to cost this much more money. Do we want to do that or do we want to extend the completion date?

You have got to understand who gets to make the decision. There was no way we could extend the scheduled date in Chicago because that was a published corporate promise and we could not have done that.

So we spent a lot of 24/7s on that project to get it done but in the long run now we’ve now extended the project by five months and what we thought was going to be a drop-dead April 1st date ended up being a negotiated extension. And so the fact is it depends on what the goals are of the end user and the customer.

The fact is that ten years ago I would have

said schedule is everything and if I heard one more person in my organization say cost is no object I was going to crown them.

But the fact was that you could lose your job if you didn’t make the date but you never lost your job if you overran a budget. That was ten years ago. Today is a new day and budget is all-important.

It is not all-important but it is getting to be as equally important as schedule. And what you have to do is you have to figure out on a project by project basis which one is king because it depends.

And you’ve got to understand why and what the issues are. I mean, who’s the one that has to come up with more money? If you have to go to Chicago to get more money you might want to think about that or if you can slide and come up with other options.

I was on a project where we had to make parts by April 13th or 15th or something. And I kept saying why, why? Why do we have to do that? It costs us $3 million extra to do that. And later I found out it was because somebody promised the plant

manager we'd be making parts by April 15th.

I said, did he know it costs us $3 million? He said, oh, no, we weren't going to tell him that. So I said, well, what would have happened if -- we had a contract for an outside company to make the parts and the contract was good until September.

I said, why didn't we go tell him that we're not going to make parts until September but no impact in production. And he said, oh, you could go tell him that if you want to. I said, I would. I'm brave. Never been fired, yet.

But I think you have to know the goals of the project and the only way you know that is to have that communication tool that allows you to have that partnering where you all have a stake and that's how you know what the issue is on that particular project.

I mean, I know some that you've got you have to have by a certain date. There's just no doubt about it. And there's other that if you have some impact on the project you can work it. I mean, it just depends on whether you've got other options

or not and other solutions.

MR. UNGER: I'm thinking again how you identify heroes. The obvious are cost and schedule but from my experience in this industry things go wrong and we're in a world that the more uncertainties out there to me identifying the heroes are those individuals that how they reacted to an adversarial situation which came their way.

As one set of quotes said, character is not established in a crisis situation merely displayed but to me some of the projects that we've had where it did not make schedule, did not come in on budget or unforeseen events, probably the most -- one of the ones I think that pleased all of us as patriots, as Americans, as a former marine was how our Commander-in-Chief, right after elected, truly reacted to the situation of 9/11.

So kind of -- I know that's certainly not a fair comparison to perhaps the design and construction industry but to me some of the best folks we've recognized for superior performance again had some of the worst projects, dealt the worst

cards, but how they reacted to that with their leadership was truly commendable.

GEN. WILLIAMS: Anything else on that?

MR. ZINGESER: I don’t want to get into making a speech but it’s interesting you asked about heroes. This morning before coming here my wife and I were talking about the new memorial design at the World Trade Center site.

And there's an issue of how the names of the people that died are going to be displayed, whether the firefighters and police, and uniformed people who responded should be displayed separately and apart from the people that worked in the buildings.

As I understand it the present plan is to intersperse these names and have an emblem next to those that were firemen or police -- firefighters or police department people or whatever. And my wife’s comment was initially she thought that that wasn’t really right, that there ought to be this special thing for the heroes.

And my comment was that I thought it was

absolutely appropriate because everybody that died there was a hero in the sense that they were all going about their business. They were doing their jobs.

And in our case, in our simple world of doing what we do, design and build things, to me what’s important in not necessarily distinguishing heroes but distinguishing high performance is to be very, very clear at the outset of what you expect from the people that are doing their jobs, whether it’s in the accounting department or your number one safety guy who in my case spent the night before Thanksgiving at a fire that occurred at one of our projects and spent another time away from his family doings something.

And other people who didn't have to be there who went and did things because they saw a need. From a company point of view we have the same goal that you’ve heard expressed before. The customer is everything.

I mean, what we want at the end of the day is a letter. I want a letter from the customer that

says we did a great job. That's all I want. And if I get that letter we're fine.

But everybody that works in the company is owed to them some statement of what is expected of them and what will be their ordinary measure. And then when they go beyond that, whatever the circumstances are of their job, that’s when there's something extra to be put on the table, something extra to be gained by them and so forth.

And it sounds simple, and I just think that’s the way it ought to be, simple. People have different functions. They are all important. A company cannot work without the laborer. I have a guy -- I’ll tell you a story -- I have a guy who last year I gave him his bonus. He’s a quality control guy.

This year I talked to him on his performance evaluation. I said, you know I’m going to give you -- we’re going to give you a raise and we’re going to give you another bonus.

And he said, well, that’s nice, he said, but I’ll tell you what I’m going to do with the

bonus. I’m going to do what I did last year. I said, what did you do? He said, I gave it to the laborers because those are the guys that did it for me.

I said, well, I can’t tell you what to do with your money but if that’s what you want to do, fine. But the point is in a company like ours it goes throughout the company. That letter isn’t going to come if the laborer is smoking and throwing stuff where’s he’s not supposed to or doing something wrong. So that's my definition.

GEN. WILLIAMS: Well, the reason I asked that question, of course, these latter two or three questions had not been presented to the staff and you know I do this quite frequently because there are things that I’m tossing around as well.

Part of our approach here which we are cutting our way for the first time, the only element in the Department that is only results-based avenue where the end game or getting back to your piece of paper when you finally put a nice bow on it for me, what really counts to us it’s not about philosophy or

whatever because in our organization we have a lot of smart people and so capability and all of that is not the issue.

The issue is did we deliver the facility when it was promised. That's the only thing that counts. That's the only thing that can continue to improve our credibility. And I would like to say that since we all are taxpayers one of the reasons you saw this morning in my presentation, in my humble opinion, that the funding has been increased here by $3.3 billion over the period of time has been that somebody saw that we we're trying to do what we said we would do. So that's the key. It's results.

And the only reason I wanted to kind of tap your brainpower on this to see if I were seeing the right picture. And I think in your own way that’s what you’re basically saying is that there has to be some driver at the end.

And I do like what Joel put on the table. You can’t destroy people in the process. You’ve got to end up with recognizing that somebody did something but at the same time like the person

recognizing the lower workers and this type of thing. I think it's important.

So it's a combination of and I don't have to tell you guys how hard you push in the private sector because I know. You have to push hard and you have to work hard. I mean, real hard.

And some people have to do the 24/7s and do other things in order to stay credible because you can't stay in business unless you're credible. You'll never get a job. Am I correct?

So that was the foundation for these three or four questions. Well, we're at that point now where I think we will summarize and try to get everybody on their way and out of the building by 3:30.

It will take a little time to download and have the staff walk you out because we have been very sensitive to your time and schedule. We try to start on time and we try to end so that you can be about your way and have some time in the day to get back where you need to get.

I do want to say as I always do how much we

appreciate, how much our President, how much Secretary Powell and our organization appreciate your service. I say this openly. We all know that you're not paid for this. You do this because you love your country and because you have some level of confidence in what we are trying to do. And we appreciate that very much.

These sessions have been well attended. You have been very interactive. Most of you, those who have known me for some years and those who have just met me in the last couple of years know that we deal with a lot of candor and there's no way to get after these issues unless we look each other in the eye and talk it out. And that's why there's no secret about what we're doing and what we are trying to do. So we don't mind talking about what we need to talk about.

And I think you have been very helpful. You're very straightforward with your advice and it has helped and we appreciate it.

Many of you do not stop working for us and with us after this meeting and the public needs to

know this. You provide documents. You help us with studies. You answer questions. You do all of that as the staff run across items between these meetings. And we appreciate that very much.

So I wanted to convey this. I know that I told some of the older members that about the only thing we have not been able to deliver, and it’s a matter of results, and Ida is smiling and she’s knows exactly what I’m talking about, but he’s been a very busy man and it looks like every time that it's teed up to come and be here, something -- some event, some world event happens.

Twice he was scheduled to be here and we had U.N. events. One was on Iraq and the was on Afghanistan. But I do have an agreement with Secretary Powell that he is going to -- he knows he owes us this.

So I’m going to get him down here next time one way or the other. I just may have to be a little bit more assertive but I think on our next meeting we will have an opportunity for that. And hopefully he can stay a minute or two for some photos and the like

and say some words to you. Once again, thank you so much for your effort.

Now, what I do want to do is to recognize our visitors who have come for observation and whatever. I hope you continue to see a good display of good government and that you can tell others that we are trying to do the best we can to protect your taxpayer dollars and all those that you know of.

And the process is open so you can observe and you can see. Everything we do here is recorded as you know. We have our court reporter -- not court reporter. I call her a court reporter, our recorder will be here taking notes.

Our panel members receive a copy of the minutes and so everything we do is a matter of record. And once again, let me start over in the corner. My friend over there, if you just introduce yourself once again and tell me where you --

MR. RUOCCO: Yes. Joseph Ruocco with Skidmore, Owings & Merrill.

GEN. WILLIAMS: Okay. And I hope you found this worth your while.

MR. RUOCCO: Definitely. Thank you for inviting me.

GEN. WILLIAMS: Yes, ma'am.

MS. BRIZZI: I guest paid for this. I'm Jacqueline Brizzi. I'm in Diplomatic Security.

GEN. WILLIAMS: Okay. Well, you didn't -- you said that nobody paid for it. This is a Williams freebie. (Laughter.)

MR. NESTLEROTH: I'm David Nestleroth, an architect with Ewing-Cole. I have one very brief comment from this morning when words by many were spoken that identifying risk analysis and allocation was very key. I think it's particularly key in the chem-bio issue because that is a very wide range of cost in order to mitigate that.

GEN. WILLIAMS: Thank you. Thank you for reinforcing that. Yes, sir.

MR. STORCK: I'm Richard Storck. I'm an architect with RTKL Associates and I'd like to thank you for inviting us here today.

GEN. WILLIAMS: You're welcome. Let's go out to the gentleman next to Shirley -- this one.

MR. SHEPHARD: Ben Shephard with Project Developers. It's nice to be here.

GEN. WILLIAMS: Thank you.

MR. GATES: I'm Dennis Gates with Project Developers. I'm finding that the conversation and the dialogue that goes in on this meeting, this is our third time to attend, is very helpful in our being able to participate as a partner and lend more contribution. Thank you for inviting us.

GEN. WILLIAMS: Thank you. Yes.

MR. SAUTER: My name is Curtis Sauter. I'm with 3M Company and for me the meeting was very enlightening. We operate and develop products on voice and customer so this is tremendously helpful for us to bring things to you.

GEN. WILLIAMS: Thank you.

MR. DINEGAR: I'm Jim Dinegar with the American Institute of Architects. I guess I would just give you to a general reminder as you look forward of all the different things you're facing don't forget to look back and recognize the successes.

And this morning you threw up a slide that said your down days, your safety record is really way beyond the industry. And those are the types of things where you've got a lot of heroes along the way that make the bigger heroes look even better. But those are the types of things that are remarkable. Congratulations.

GEN. WILLIAMS: Thank you, very much.

MR. SHIRVINSKY: Adam Shirvinsky with EMSI. We represent a number of small businesses and we appreciate the opportunity to give them a little bit of a voice.

GEN. WILLIAMS: Thank you.

MR. STABLES: I'm Gordon Stables with Ingersoll-Rand Company. This is my fourth meeting. I've enjoyed all of them. Thank you.

GEN. WILLIAMS: Thank you. Yes, sir.

MR. BEYAH: Good afternoon. Omar Beyah, architect/asset manager with GAO, formerly GSA. I worked with you before on other projects, Gen. Williams, and I'm encouraged by what you're doing with the State Department because you have unique

challenges that GSA does not have. And you're already out there.

GEN. WILLIAMS: Thank you for your observation. You're always welcome.

MR. SMITH: I'm Verlyn Smith. I'm with Greenway Enterprises. We been a longtime partner with the Department of State. Pleased to be here to hear this today. Thank you.

GEN. WILLIAMS: Thank you.

MR. GALIANO: I'm Phil Galiano with Orepedio Financial. I'm actually a former FBO person prior to your joining the organization. I do consulting work with some of FBO's counterpart organizations that manage government properties investment, I thoroughly enjoyed the meeting. I appreciate it.

GEN. WILLIAMS: If you want a real job you can come back. (Laughter.)

MS. ANDERSON: Hi. I'm Mary Anderson. I'm with Schnabel Engineering and I thank you for inviting us and look forward to contributing perhaps with some feedback. I look forward to attending the

next meeting.

GEN. WILLIAMS: Thank you. And feel free to interact with Gina if you have a comment. She'll be delighted to hear any comments you may have. Yes, sir.

MR. RICHARDS: Again, my name is Monte Richards with MR/Innovers. We're primarily electrical engineers and this is our first time attending this event. I certainly appreciate the opportunity to contribute to the dialogue. Thank you very much.

GEN. WILLIAMS: Thank you. And Mr. Toussaint will chat with you.

MR. RICHARDS: Yes. Thank you.

GEN. WILLIAMS: Yes, sir?

MR. MUSZYNSKI: I'm Olek Muszynski. I'm with Eighth Day Design, interior architects. And I'm very impressed. It's my first time here and I'm very, very impressed with the level of details you guys go into here.

GEN. WILLIAMS: Thank you.

MR. MUSZYNSKI: Thank you for the invite.

GEN. WILLIAMS: You're welcome.

MS. MCINTYRE: I'm Marla McIntyre with Surety Information Office. And I heard the term surety bond come up a few times today so if I can be a resource to anyone please feel free to call on me. Thank you.

GEN. WILLIAMS: Yes, go ahead.

MR. LEE: I'm Wanchul Lee of Wanchul Lee Associates. I've been involved with State Department projects since '83 on many small projects. And currently we've just experienced ICP project.

And it's nice to be able to come and listen to what your concerns are and perhaps there are certain things that I haven't been able to express but maybe privately we'll have a chance to exchange ideas. I would like that opportunity. Thank you.

GEN. WILLIAMS: Thank you for coming. Yes, ma'am.

MS. HOURAHAN: Hi. I'm Laurie Hourahan with the IMF. I work with our real estate administration. This is my first meeting. I've really enjoyed it and look forward to coming back.

GEN. WILLIAMS: Delighted to have you.

MS. HOURAHAN: Thank you.

GEN. WILLIAMS: Yes, sir.

MR. BAILEY: I'm Lance Bailey, architect, Lance Bailey and Associates. This is my first meeting. I'm extremely impressed with the fact-finding effort here and particularly impressed, General, with your leadership. I look forward to coming back.

GEN. WILLIAMS: Thank you. I believe that does it. Let's consider ourselves dismissed until next time. Gina, are there any instructions before we leave?

MS. PINZINO: If you could, just as a reminder, our future meetings are actually posted on the front of your meeting book and if you would just, as the General said to you, feel free to contact me with feedback or anything that you'd like to hear.

GEN. WILLIAMS: Let me do one thing before I leave, if you don't mind. And if you don't feel comfortable, don't join me in this but I really would like to just recognize the effort of Gina who works

very closely with you. She does all the administrative work on this. And I just wanted to recognize her. And if you wouldn't mind, give her a round of applause. (Applause.)

The other person who is not able to interact at all but she's been with us since day one. She's from the private sector. She comes and she takes minutes for us. She's paid to do that but she's diligent, she's here and her recordings are absolutely great. So I would like for you to give our reporter a round of applause. (Applause.) It will be interesting to see how she translates that. (Laughter.) Let's see, is Phyllis gone?

MS. PINZINO: Yes, sir.

MS. CONRAD: She had to go back.

GEN. WILLIAMS: In absentia, will you please give my Phyllis a round of applause. (Applause.) Okay. Harold?

MR. ADAMS: General, I would like on behalf of our whole panel to thank you and all of your staff for this opportunity, this continuing opportunity. Those of us that have been with you for the last two

years, I think, have seen great exchange and we're looking forward to working on that list of questions. And as Joel said, maybe we'll get it down to zero by the end. I thank you and all the staff.

GEN. WILLIAMS: Thank you very much, Harold. Okay, we are dismissed.

(Whereupon, the hearing was adjourned at 3:24 p.m.)

CERTIFICATE OF REPORTER

I, Deborah Turner, CVR, do hereby certify that the foregoing proceedings were electronically recorded by me via audiotape and reduced to typewriting under my supervision; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were transcribed; that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome in the action.

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