Lease-Leaseback: An Architects Perspective

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An Architect’s Perspective

Why consider an alternative delivery method?

What are the benefits of Lease-Leaseback?

Thoughts on process

Summary
An Architects Perspective
Why alternate delivery methods?

The traditional Design-Bid-Build delivery method for Public Contracts requires that the District accept the lowest bid, opening itself up to:

- possibility of low quality workmanship
- change order battles
- time over runs
- legal ramifications

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Benefits of Lease-Leaseback

Lease-Leaseback allows the District to bring its Contractor onto the Team early to provide pre-construction related services such as:

- value engineering
- project estimating
- constructability reviews
- schedule development, etc.

This leads to a more successful project through a spirit of teamwork and cooperation and avoids adversarial relationships.
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Benefits of Lease-Leaseback

Results:
- Reduced or eliminated Change Orders
- Collaborative approach to the project
- Significant reduction in legal risks associated with design-bid-build

An Architects Perspective
Thoughts on process

- Request for Qualifications (RFQ) for Contractors for Pre-Construction and Construction Services.
- Establish an interview panel to review the RFQ’s and shortlist of the contractors.
- Once selected and approved by the Board, enter into a Pre-Construction Services agreement with the Contractor.
An Architects Perspective
Thoughts on process

- After Pre-Construction services are complete, competitively bid the project to multiple subcontractors ensuring competition and value.
- Negotiations with each subcontractor are allowed through the Lease-Leaseback process.
- Upon acceptance of the final bids, enter into a Guaranteed Maximum Price Agreement (GMP) with the Contractor.
- Consider a shared contingency incentive included in the GMP (3% - 5%).

Construction will proceed as normal with the Contractor, District, and Architect relationship.
- The Contractor is paid through the Facility Lease Payments which equal the GMP.
- Both the Site Lease and the Facility Lease are cancelled at the termination of the project and the District takes possession of the project.
An Architects Perspective
Summary

- Private sector process in the Public Sector
- Team atmosphere
- Better budget and schedule control
- Reduced risk of legal problems through partnerships established early in the project
- Easier Close Out process due to team relationships

LLB Design Phase Services
“Preliminary Service Agreement” Scope

- Management Plan
- Estimates
- Value Engineering
- Constructability Review
- Bid Package Strategy
- Subcontractor Input
- Master Schedule
- Construction Schedule
- Logistics Planning
LLB Bid Process

- Pre-qualify Subcontractors
- Advertise to Bid
- Invitation / Instructions to Bidders
- Scope of Work Sheets
- Pre-Bid Meeting
- Bid Opening
- Evaluate and “Level” Bids
- Negotiate Prices

What is a GMP?

A Guaranteed Maximum Price (GMP) is the amount that the Contractor guarantees (the sum of the cost of the work and the GC’s fee) it will not exceed. The maximum is subject to additions and deductions, due to changes in the scope of work. All costs which exceed the GMP and are not approved by change order are paid by the GC.
CM at Risk – GMP

Contractor’s Cost (GC’s + Fee) + Subcontractors Bids + Contingency (3% controlled by GC) = GMP

Changes to GMP:
- Errors & Omissions
- Change of Scope
- Unforeseen Conditions Including Force Majaeur

Acceptance of Risk

- Will Guarantee the Cost with a GMP
- We Cover the Gap in the GMP
- Project Completion – We Will Assure On-Time Completion
- We Will Furnish a Payment & Performance Bond if Requested
- We Will Furnish a Contractor Controlled Insurance Policy
- We Will Provide Subcontractor Default Insurance
- We function as the LLB Developer/Contractor
## LLB v. Lump Sum Bid

<table>
<thead>
<tr>
<th></th>
<th>LLB</th>
<th>Lump Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner receives competitive pricing</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Performance and payment bonds</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Ability to re-bid individual trades</td>
<td>✓</td>
<td>No</td>
</tr>
<tr>
<td>Prequalify all subcontractors</td>
<td>✓</td>
<td>No</td>
</tr>
<tr>
<td>Field coordination control</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Commissioning/warranty issues</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Price Guarantee *</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Contractor pays for scope gaps</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Contractor involved in design phase</td>
<td>✓</td>
<td>No</td>
</tr>
</tbody>
</table>

* Price Guarantee in Lump Sum is the “floor” but in LLB it is the “ceiling”.

## Benefits to Architects

- A/E maintains contractual relationship to District
- Selection of contractor based on qualifications
- Contractor involvement during design phase
- Adversarial GC relationship eliminated
- GMP prior to construction