



# The National Capital Section (NCS) COST FORUM

January 2012



### Officers, Directors, and Chairs 2011 – 2012 Program Year

President	Niyi Ladipo	(703) 641-9088
Vice President	Gina Jayawan	(703) 624-9167
Secretary	Jill Hubbard	(703) 641-9088
Treasurer	Calvin Speight, Jr.	(703) 254-9538
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NCS Website:	www.aacei-ncs.org	

## Greetings to all National Capital Section Members, Friends, and Colleagues

I hope you all had a very enjoyable holiday season and trust we are all looking forward to a successful new year.

We will kick off the new year by holding a joint meeting with the Baltimore Section on January 19, 2012 at the Columbia, Maryland offices of MBP. The following months will also hold opportunities for interesting meetings and a site visit.

Please enjoy the article written by Peter Forella of Forella Group in Fairfax, Virginia. I encourage you to contact me if you or a colleague would like to write a technical article for this newsletter.

Details of upcoming events can be found on following pages and are also published on our website.

[www.aacei-ncs.org](http://www.aacei-ncs.org).

We will host the May, July, and December 2012 certification examinations in Fairfax, Virginia at MBP's offices. Dates of upcoming examinations are on the ACE International and NCS websites. If you are interested in participating as a proctor in 2012, please contact me via email.

My sincere best wishes to each and every one for 2012 and I hope to see you at the coming events!

**Niyi Ladipo, CCE, EVP, CCM**  
*President NCS*

The Cost Forum is the newsletter for the National Capital Section (NCS) of ACE International. Its purpose is to inform members of the activities and policies of the NCS and to provide pertinent technical and professional information. Articles are welcomed from the membership, friends of the NCS, from the industry and related professional societies. Advertising space in this newsletter is available. Advertisements from companies seeking cost management professionals as well as from cost management professionals seeking employment are published in this newsletter at no charge. Advertisements from education providers are also encouraged. Contact Niyi Ladipo at [nladipo@mbpce.com](mailto:nladipo@mbpce.com) or at (703) 641-9088 for information regarding placing an advertisement or to submit an article.

## Meeting Details

**Thursday, January 19, 2012**

### PROJECT CONTROLS FOR THE LIFE OF A MAJOR RAIL PROJECT

held jointly by the National Capital and the Baltimore Sections of the AACE International

Time	Networking: 6:00 PM Refreshments and Talk: 7:00 PM
Location	<b>MBP</b> 10440 Little Patuxent Parkway, Suite 250, Columbia, Maryland, MD 21044 <i>The building is directly across the parking lot from JC Penny in Columbia Mall</i>
Cost	\$25.00 per Person at venue
Registration	<a href="mailto:info@aacei-ncs.org">info@aacei-ncs.org</a> or <a href="mailto:nladipo@mbpce.com">nladipo@mbpce.com</a> , by close of business on <b>January 17, 2011.</b>

## Meeting Details

**Thursday, February 16, 2012**

### DELIVERING THE ROSEISLE DISTILLERY IN SCOTLAND USING 3D BIM

Time	Networking: 5:00 p.m. Refreshments and Talk at 6:00 p.m.
Location	<b>AECOM</b> 3101 Wilson Boulevard Arlington, VA 22201 <i>Directly across the street from Clarendon Metro</i>
Cost	\$15.00 per Person at venue
Registration	<a href="mailto:info@aacei-ncs.org">info@aacei-ncs.org</a> or <a href="mailto:nladipo@mbpce.com">nladipo@mbpce.com</a> , by close of business on <b>February 14, 2011.</b>

*We look forward to seeing you there!*

## PAIN and OPPORTUNITY

By Peter Forella



*Adapted from an article written by Mr. Forella for the Associated Builders and Contractors "Commonwealth Contractor"; Issue 16 January 2011 "Pain & Opportunity". Mr. Forella is a principal with the FORELLA GROUP, a project controls firm in Fairfax, VA. He is also registered as an architect in VA, MD and the District of Columbia.*

While more time is needed to process the full scale and breadth of the damage done to the economy by the recent financial crisis, there are encouraging trends of opportunity and recovery.

### The Next Wave of Construction Demand

The U.S. population expansion continues from births and immigration as well improving longevity. As the population expands, an enormous inventory of existing buildings and infrastructure that must serve that population ages and wears out. These two converging phenomena are setting up demand pressures, which bodes well for the construction industry, if we can regain our financial footing.

Populations that expand, shift, and change, set up dynamic demand patterns and opportunities. The development of housing and commercial developments during the last economic boom have triggered the need for new and upgraded roads and utilities. Tax revenues from the new developments will help fund school expansions, county libraries and fire stations. Federal tax revenues will enable upgrades to interstate highways and bridges and so on. Our local, state and federal government agencies, however, are under considerable financial pressure. A growing list of new or increased taxes, fees and other costs could encumber the nascent recovery. Construction industry leaders should more actively encourage politicians to streamline permitting and related costs, impedences and disincentives. Public decision-makers and unions should keep an open mind where it makes sense to privatize agency functions and leverage technology to affect efficiencies and moderate the tax burden born by businesses.

### Hyper-Competitive Markets Force Survivors to Add More Value

A surge in productivity has been induced by the hyper-competitive marketplace. For surviving consultants and contractors, business processes are more efficient; payrolls have been optimized. Employees are expected to add more value, often for the same compensation. Figuring out ways to further leverage and imbed knowledge and quality controls into key business processes has become more of an imperative as a consequence of the loss of experienced personnel and shrunken organizational structures.

These painful changes have enabled the strongest firms to develop better ways to solve their client's problems and add more value than their competitors. They create competitive advantage through enhanced processes that yield insights and consultative depth over firms that have only superficial skills in these areas. Adding and enhancing value for the client-customer has been migrating all the way through the various supply chains. Great strides have been made, but more will be needed and expected going forward.

### Competing for Investment Capital

Working against and countering these trend lines is a resistant set of financial issues that needs to be overcome before any serious recovery is possible in real estate and construction. Pre-eminent on the list is the lack of private real estate investment. Real estate and construction are capital dependent. The incentives for capital formation, investment and lending must entice those with means back into the real estate markets. Investment capital migrates to where returns are favorable and risk is limited, predictable and manageable. Presently, returns are not very good in real estate relative to other investments, so the capital migrates elsewhere. Core incentives have been upended: Is it better to consolidate, lease, buy and not build? Do we need all of the buildings in our inventory? Will new taxes, fees and fuel

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## November 2011 NCS USGBC joint meeting



*Bruce Lyall receives award*

## December 2011 NCS Holiday Party



*Calvin Speight receives award*



*Augustus Tweneboa-Kodua receives prize*



*Association members and friends*

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costs undercut the property's financial viability? There is a lot more the federal, state and local governments can do to breakdown some of the impedances and disincentives currently in play. Federal state and local debt levels have ballooned causing investors to think twice about investing in government issued investment instruments. If this continues, it will have a pronounced effect on public works spending.

### Workforce Quandaries

Some of the biggest challenges brought by the financial crisis have occurred in the workforce. The construction trades have suffered massive, structural changes. For construction, it has been the "second great depression". The hyper-cyclical, hyper competitive nature of the construction industry is causing able, young prospective candidates to question the viability of a career on a construction jobsite. This mentality could cause big changes in field productivity, field quality and labor costs. There has been a growing shift towards an increased use of piece workers and [1099] contract labor to reduce full time payrolls.

Recruitment shortfalls into the trades over recent decades had reached critical proportions during the last three construction booms. Looming workforce shortages were averted by large influxes of foreign workers, predominantly Hispanic. If we were, however, to experience a major construction expansion in the near term, there would be a significant shortage of qualified tradesmen and professionals, prompting wages to spike in order to entice people back to the industry. These dynamics will cause changes and create opportunities. Field labor intensive trades such as masonry could lose market share to metal panels systems manufactured in low wage countries.

### Reality Testing Taxes, Fees, Codes & Regulations

Approximately one-fifth of the total value of a construction contract ends up in public coffers during the tax years of field operations. In other words, construction projects generate handsome federal, state and local tax and fee revenues. They also generate property taxes and fee revenues for the entire life of the improvement. Private construction projects are the "gifts that keep on giving." Construction related taxes and fees do not include regulatory and code driven costs for mandated improvements imposed by public codes and standards. Bear in mind, many public improvements are completed and paid for by private owners through proffers extracted by local governments as a condition of the granting of site plan approvals to private owners. Wouldn't it make sense to evaluate the scale, breadth and weight of all of these taxes, charges, fees, codes, regulations and proffers to find efficiencies and eliminate redundancies and unreasonable charges? The reduced costs would induce more private investment and stimulate the economy.

### Rating the Agencies

Service to the public sometimes gets lost in mazes of bureaucracies and regulation. Would it make more sense to install an independent standardized performance rating system for critical agency functions, especially for those agencies that regulate companies and economic activities that employ large numbers of people in the private economy?

This information could provide critical feedback loops for the politicians and agency management to better equip them to stimulate economic activity and make operational improvements. Any kind of rating system would need to be kept independent and given teeth to overcome the resistance to change that is inevitable. This type of initiative could help beleaguered politicians and bureaucracies demonstrate tangible, substantive actions helpful to the economy. These new rating processes could also test privatization options and spawn the development of technological and web-based innovations that might replace or streamline expensive, labor intense bureaucracies.

### Incentivizing Local Economic Activity

Change can create both "pain and opportunity". Well developed, coherent strategies at the grass roots level are needed to induce substantive economic growth and activity. Local industry groups should develop and push tangible, specific reform recommendations for local, state and federal agencies to induce and incentivize economic activity.