CONSTRUCTION INDUSTRY ROUNDTABLE

- **RADM Korka Opening Remarks**
  - NDS and CNO's Maritime Design are focused on Great Power (China and Russia) competition, moving away from the focus on counterinsurgencies of the recent past.
    - Our adversaries are reducing our competitive advantage and in some areas leading the U.S. and our allies. We need to pick up the pace, and must partner with industry to do so.
  - NAVFAC obtains contracting and technical authority from SECNAV.
  - Follow-on roundtables (AE firms, real estate developers, facilities management services).

- **Discussion**
  - Industry trends.
    - Industry recommends *lean construction* (less waste, more efficient, faster).
      - Requires early contractor involvement and greatly increased collaboration during planning, design, RFP development, and construction.
    - Large current workload creates a premium on skilled workforce which is in limited supply.
    - Industry recommends increased collaboration before construction, especially "Early Contractor Involvement" (two types).
      - Market research: Industry provides input during RFP development (1 to 6 months prior to RFP release). 1-on-1 meetings are where the real value is vice the more traditional NAVFAC industry forums.
      - Pre-construction services: Awarded to constructor to consult with AE developing a DB or DBB project.
    - Increased involvement up front reduces the risk to the contractor (slow down to speed up), making the construction contract more attractive to constructors, and thus making them more likely to submit a proposal/offer.
      - Not getting input from industry may discourage contractors from submitting proposals/offers. Many in industry will not take on projects that they have not had the opportunity to shape prior to RFP. Too much risk that there's not a mutual understanding between the KTR and Agency regarding the embedded risks in the contract and who is best suited to manage it. If the Agency doesn't extend that opportunity for early and continuous collaboration, the KTRs take that as a negative indicator of the Agency's culture. Concern is that if Agency doesn't want to hear input early, they'll not hear it later on, when major funds and risk are in play; this frequently leads to increased conflict and possibility of claims.
      - For major projects, Industry would like to provide input 6-8 months prior to RFP. KTRs have observed resistance on the part of many Agencies against taking

outside input on development of AQ strategy after program submission to Congress. Assessed as a cultural issue.

- DoD/Navy leadership encourage early industry engagements on procurements (does not disqualify them from source selection). However, industry indicated NAVFAC seems reluctant to do so consistently.

- Early involvement allows contractor to plan for obtaining qualified workforce and maximizing pre-fabrication opportunities.

- NAVFAC tends to be inflexible on ACQ strategy RFP input, etc.

- Which Owner's representatives are best for early involvement? Some Industry responses:
  - USACE West Campus NSA is a good example.
  - USACE's RFPs are more detailed than NAVFAC's.
  - Those that weight Best Value scoring to ensure that price isn't determinative are preferred.
  - When USACE is serious they do qualifications-based, early KTR involvement, DB, and it works.
  - USAF best practice is a detailed RFI in advance of RFP, asking lots of questions of industry about approach and thought process.

  o Do not prefer to work with owner's who do not want contractor input or who "know-it-all."

o Design-Build vs. Design-Bid-Build

  ▪ NAVAC determining factors include, size/complexity, customer, technical competency, explosive arc (DDESB requires details for site approvals); designs are also helpful for justifying the program. NAVFAC believes DB best for simpler projects.

  ▪ Many in industry prefer design-build (performance based, without bridging documents), especially for more complex projects.

o Incentives

  ▪ NAVFAC needs to share risk (asking Contractors to hold bids prices for more than 120 days is unreasonable). This significantly increases risk and therefore costs correspondingly.

  ▪ Incentives for DB contracts (~$20K).

  ▪ Construction contractors are naturally incentivized to complete projects sooner (projects are more profitable the sooner the project is completed); vice Base Operating Support contractors who are incentivized to stay on the contract longer as they desire long-term relationship with the owner.

  ▪ NAVFAC should consider more Design-Build-Operate Maintain (DBOM) for the right projects as it likely will reduce total ownership costs vice just first costs.

- o Acquisition strategy
  - Industry recommends against breaking up a program into individual "sub-optimal" projects (e.g. creates inefficiencies if awarded to several different contractors).
    - For large programs, some contractors are willing to put together consortiums to figure it out.
  - For some programs it makes sense to break up large projects into smaller sub-projects (e.g. primary base utility upgrades might be completed while project design is in progress reducing overall delivery date of total project (enabling works)).
  - Industry recommends prioritizing betterments and any options.
  - Industry perceives NAVFAC as doing more "one-step" LPTA (lending no or insufficient credence to quality of individuals on contractor or DB team)—NAVFAC should be awarding to the most reasonable price.
  - Industry looks closely at phasing, since introducing seams into the work inputs risk that may or may not be known to the Agency. Ideally, the right phasing reduces risk. Early collaboration and involvement prior to design & RFP has a huge impact on complex / large projects.
  - Industry wants to look at the program level. Often waiting for individual projects is far too late to influence risk. SIOP is a good example of a program level effort.
  - NAVFAC should consider more Global Construction Contracts, since there are good lessons in there about how to speed the processes, and also apply those models to BOS.
  - Q: Does NAVFAC have the right Best Value factors?
    - No. Don't weight the project teams and individuals heavily enough.
    - No discussion on risk, or credit given for reducing risk or best value alternate or innovative solutions.
    - No discussion or evaluation credit given for on reducing life-cycle cost.
    - BV factors aren't deep / sophisticated enough. KTRs can handle the complexity and justify it. Ex: In the private venture realm, KTRs have to submit full NPV analysis for 35-year DBOM deals, where KTR owns risk on associated O&M costs and utilities consumption is based on 35 years of energy futures. It is doable and recommended for the right projects.
    - Encourage NAVFAC KOs to go to the field more often.
    - Wherever possible, short list (~3) contractors early on qualifications.
    - Consider stipend on RDP/design input to incentivize early contractor involvement or constructability reviews.
- o Estimating
  - Industry agreed there are no classes that lead to success as an estimator.

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- The best estimators learn on the job and are "buyers" – learn from experience not a class or book. Industry also peer-reviews internally and sometimes has SMEs for specific disciplines.

- Most contractors have their own databases, software, and systems for using historical data.

- Estimating should be done by contractors, not AEs (AEs never have to validate their work).

- NAVFAC might significantly benefit from estimating as a complete project (total ownership cost—including operation and maintenance, e.g. installing terrazzo tile might be more expensive upfront, but only requires replacement 2x over the facility life cycle vs. carpet, which might be cheaper upfront but needs to be replaced 8x).

- NAVFAC 1391s have too little contingency on them with such limited project development and so long before proposals are received. Does not appear to allow one to account for market heat, fluctuations, and the opportunity costs arising out of that for subcontractors.

- Industry recommends getting cost feedback from industry before going into formal procurement. NAVFAC will review.

o Oversight & Collaboration

- Industry generally skeptical of 3rd party QA (i.e. contracted TABs, commissioning)—as they tend to be self-serving and incentivized to find insignificant issues vice solve problems collaboratively.

- Industry generally questioned whether the amount of oversight has an impact on cost and schedule. Often three people are better than twenty.

- The best projects have clear accountability and decision authority on the owner's team. Problem solvers, not creators. Sometimes it is unclear who is authorized to make a decision—there are too many people who can say no.

  - ROICCs seem to want to solve problems.

  - For large complex projects too much turnover of government personnel on project negatively impacts project.

  - 6 months to address an unforeseen condition is unacceptable – speed to decision is critical to a successful project; limiting cost and schedule growth. In many cases an unpopular decision is better than a prolonged or no decision.

  - Industry would like to have something like CCAS for government decision-makers.

  - Industry stated NAVFAC RFI response times (21+ days) are over-long.

  - Government SMEs (commissioning, etc.) need to be involved at all stages (submittals, construction, etc.), not just at the end when it too late/costly.

- A large oversight group with unclear roles and responsibilities is a no-go, Industry won't bid the job… not worth the risk. Private sector projects have only 1 or 2

owner's reps on a project – key is quality over quantity and must be empowered to decide.

- Industry recommends decisions, modifications, RFI and submittal responses be provided within 1-2 weeks max like private industry (vice 3-4 weeks NAVFAC). Private sector is much more likely to have a meeting or phone call to resolve vice sending paperwork back and forth multiple times,

- Submittals are being returned 3x for minor issues, which is expensive and time consuming.

o Cost and Schedule growth

- Industry felt NAVFAC's average cost growth (6.8%) and schedule growth (9.9%) performances are reasonable.

o Metrics

- Most industry tracks a few key milestones, approximately 8-10 (planned vs actual), via regular weekly or monthly standard reports. Manage by exception…

  - Ex: Bottom of grade, Top of grade, Top of structure, Connection of power.

- Industry best practice is to watch key milestones as a predictor, intervene in a job before it gets more than 15% off plan, use exception-based reports to diagnose the problem, then send in a corporate "SWAT team" to swarm the issue and recover the plan.

- A leading indicator is productivity, e.g. if 20,000 man-hours were estimated, but only 6,000 expended by the planned date —something is clearly wrong. Analyze the issue, find the cause, and correct it.

- Contractor "go-no-go" factors:

  - Who is the project team?

  - What is the time to decision (decisions are needed within X? As soon as feasible? Always before 30 days?) Indecision is a cancer on the job – increase risk, impacts other projects, reduces profit, creates friction.

  - Projects > $25M

  - Develop with industry comment "top 5-10 metrics the Navy should consider."

o Sub-contracting goals – changed as a result of Industry input.

- Small Business was 65% (now 45%)

- HUBZone was 6% (now 3%)

- Small Disadvantaged Business was 15% (now 5%)

- Service Disabled Veteran-Owned Business was 6% (now 5%)

- Woman-Owned Small Business was 9% (now 15%)

- o NAVFAC will verify and put out current guidance regarding counting SB contracting at lower tiers. NDAA is reported to have been recently changed to allow 2nd tier and lower SB contracting credit. Similar criticism of SB Participation Plans.
  - o NAVFAC can improve MACC bids by better task order forecasting. Request advance notice to Industry at least 3 to 4 months prior to RFP that project is coming with general parameters (e.g. location, type of work, cost range), etc.).
  - o Better RFP Non-Cost Factors
    - ▪ Ex: management should be able to analyze in 50 schedule activities or less.

- **Discussion (VADM Moran)**
  - o Readiness of aviation forces < 50% recently before engagements, after Industry engagements, benchmarking resulted in increased readiness.
  - o Navy doesn't do a good job of planning (compared to commercial airlines and shipbuilders). Scope change authority in the Navy is too low. In industry that change authority is in the C-suite.
  - o Many facilities are not meeting latest technology standards.
  - o The U.S. has made more investments overseas, willing to take more risk at home.
  - o We are unable to "award at speed" (takes 13-14 months to award a project).
  - o Industry wants award within one month (early collaboration can shorten the window).
  - o Total cost is important… if a program has to wait on a MILCON, that doesn't make fiscal sense.
  - o NAVFAC should ask: What are we measuring ourselves with? Are we using the correct measures?
  - o Industry believes that accountability is important, but negative accountability (e.g. firings) is less important than positive incentives. Industry perception is Navy doesn't have enough tools to reward performers and establish an output-driven mentality.

- **Closing**
  - o Participants are welcomed to speak to field CDRs who are also hosting similar roundtables.
    - ▪ Post bios of LANT, PAC, & selected CEC Flag Leadership to public portal.
  - o Additional forums to follow (e.g. JBAB 12 April Leadership Board).

- **ACTION**
  - o (COMPLETE) - NAVFAC will post bios of LANT, PAC, & selected CEC Flag leadership to the public portal.
  - o (COMPLETE) NAVFAC will provide information on the NAVFAC Southeast industry day for shipyard projects.
  - o Industry Partners agreed to speak at the NAVFAC Leadership Board in Apr. (SCHEDULED)

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- o   NAVFAC will hold one or more follow-up working sessions in order investigate Industry methods for cost estimating, metrics, and analytics (EFFORTS UNDERWAY).

- o   NAVFAC will schedule another construction roundtable within six months of the first roundtable, approximately August 2019 (IN PLANNING PHASE).

- o   (COMPLETE) – Industry wanted to know status of DoD implementation of the Small Business Administration's (SBA) policy change to allow lower subcontracting to count towards prime subcontracting goals. Answer: The Federal Acquisition Regulation (FAR) has not been updated to incorporate this SBA change. The FAR Council is currently reviewing it for implementation.