CONSTRUCTION

Context

• KU and KUMC have a combined capital plan of over $960M across 390 potential projects, each in varying stages of development, and each managed independently of one another with limited procurement group involvement.
• In FY2010, KU and KUMC spent over $60M on construction-related projects.
• Payment vouchers are approved without the analytical support needed to test compliance with key contract provisions.
• Construction Materials is the largest addressable spend category at the University; however, it is not linked to architectural and infrastructure standards and purchases are made at variable prices across projects.
• KU takes a project-by-project approach to construction risk management rather than one based strategically on a risk management portfolio.
• Although self-performed construction work provides a labor cost advantage in the 20%+ range, KU spends approximately $10M on specialty contractors per year.

Goals

Goals for Construction Strategic Sourcing -
• Create a construction specific strategic sourcing capability within a unified purchasing group with responsibility for all KU campuses.
• An 18-24 month sourcing effort to get all categories under various multi-year contracts will result in standard contracts for materials, on call contractors, and services and an enhanced pool of qualified contractors with expertise specific to KU.

Goals for Financial Management Best Practices -
• Embed audit language in all future construction contracts and engage a professional construction audit group to enhance due diligence and financial control.
• Align insurances and bonds with a portfolio approach that will eliminate duplication and take advantage of KU’s buying power.

Goals for Construction Management Best Practices
• Immediately update campus Master Plans to account for infrastructure, enabling strategic thinking and increased building component standardization.
• Develop a KU construction team to deliver self-performed work in a more timely fashion and at a lower cost. Increase the on-call contractor program to include routine and continuous renovation/improvement needs.

Challenges

• These risks can be addressed through communication and project planning activities and will not be a significant hurdle to the success of this implementation.
• Creating an advisory board with cross campus and customer perspectives will help manage and mitigate these risks. Significant dialogue and communication with contractors is planned to implement these concepts effective.
• Many of Huron’s recommendations regarding the sourcing of construction materials will change current business practices and will require coordination with the contractor community.

Opportunities

• Once fully implemented in timeframes ranging from 6 months to 2 years, improvements in construction across all campuses would produce annual cost savings by reducing material costs, through audit recovery, by improving insurance/bond costs, and reducing labor costs by increasing in-house and on-call work.
• Opportunities exist in three areas:
  • Construction Strategic Sourcing
  • Financial Management Best Practices
  • Construction Management Best Practices
• Across all campuses, the combined capital plan is over $960 million across 390 potential projects. This represents the largest addressable spend category at KU.