

# Outsourcing FACILITY WORK

**A Georgia district tightens reins on capital spending, adds oversight through an outside management firm**

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In the late 1990s, Fulton County Schools in Atlanta were looking at average enrollment growth of more than 2,500 students a year and a new source of significant revenue to drive its capital improvement program.

With funding from Georgia's new special purpose local option sales tax, or SPLOST, for school capital needs, total revenue from the county's approved 1 percent sales tax was projected to be approximately \$1.7 billion over the following decade. What could possibly go wrong with financial resources of that magnitude?

In the early years of the special purpose funding, the district managed its capital improvement program in-house. District employees used many of the same accounting methods and procedures they had used for years. Yet, as community members came to learn, the program clearly did not have the accounting controls, forecasting and scheduling systems for managing a major construction capital improvement program.

A few years earlier, in 1997, the Fulton County Schools had come under public scrutiny for cost overruns and schedule problems that captured national attention. *The Atlanta Journal-Constitution* headlined

one news story: "Overspending depletes fund but work goes on at new facility with a price tag that has almost tripled." *The Wall Street Journal* announced, "Fulton County far exceeds budget for new schools."

## **External Management**

As the scrutiny continued, the Fulton County school board ordered a forensic audit of the capital program and then a moratorium on construction. With cost overruns on many projects, the board came to believe a new approach using outside expertise was necessary.

The school board opted to change the way it managed construction through a type of outsourcing known as professional program management. In 2004, the board entered into an agreement with Parsons Corp., an international firm headquartered in Pasadena, Calif.

The school board's president, Linda Bryant, says of the decision to look outside for better management, "We needed better savings and more control and accountability for construction spending. Outsourcing our capital programs has gotten us better pricing from an honest group of suppliers and contractors and definitely more accountability."

Another board member, Gail Dean, points to the clarity and transparency in the capital program brought about by professional program management. The public now has access to a real-time website that details schedules, status and budget spreadsheets of every facility job. "How can you get more transparent than live changes?" Dean asks.

### **Comprehensive Coverage**

So what is professional program management? First, it is not a euphemism for facility management. Facility management is the day-to-day care and operations of the existing buildings, including repair and general upgrading of facilities. The Fulton County Schools still maintain a full facilities and maintenance staff.

Program management is a comprehensive method of managing a capital improvement program that covers planning, pre-design, design and construction oversight. While architects, engineering firms or construction companies may provide program management services, several firms, such as Parsons, Jacobs, MACTEC and PBSJ, specialize in K-12 program management.

The program management firm acts as an agent for the owner, answering to the desires of the board of education, the superintendent and the school district's chief of operations. The contract spells out specific duties and responsibilities of both the program management firm and the owner, but key functions usually include these:

► **PLANNING PHASE.** The program management firm prepares the master schedule and budget estimates for the entire program, including selection of land parcels for new school sites; procurement of site approvals; and establishment of space requirements, room layouts, education specifications adjustments, space schematics, flow diagrams, project budgets and preliminary design schedules.

► **PRE-DESIGN PHASE.** The firm oversees



selection of the architect/engineer design team, implements the master schedule and total program budget and prepares a project cost model with critical dates.

► **DESIGN PHASE.** The firm updates and ensures adherence to the master schedule and program budget, establishes cost control procedures and, if necessary, recommends alternatives to stay within education specifications and budget. It prepares phase estimates, conducts adjustment sessions, and agency review, and generates a monthly program status report to staff and school board.

► **PRE-CONSTRUCTION PHASE.** The firm recommends to the school district the best procurement method for a specific project and assists with evaluating, negotiating with and selecting the general contractors. It works closely with procurement staff, attorneys and the architect to assist with contracts between the school district and the general contractors.

► **CONSTRUCTION PHASE.** The firm provides an experienced management team for each project. The firm receives and negotiates contractor claims, monitors safety and implements a quality review program and, most importantly, manages a stringent change-order control system, which is critical for the system's accountability. Additionally, it develops a detailed construction schedule, prepares construction progress reports, monitors the cost of the project and conducts final inspections.

► **POST-CONSTRUCTION PHASE.** The firm participates with the architect, school district and general contractor in the checkout and starting of all utilities and operating systems and coordinates with local district staff on warranty issues during the one-year period after substantial completion. It manages and receives "as built" documentation, evaluates performance of new systems against contract requirements, develops an occupancy plan, and performs final payment and accounting activities.

### **In-House vs. Outside**

School administrators and boards of education with significant capital improvement programs face a dilemma. Education and school administration are our core businesses, not construction. Having in-house staff manage a construction program may seem like a smart way to reduce costs, and for some school systems it is the best choice.

However, when evaluating in-house staff versus outsourcing, you need to consider the size and variability of the capital program, the total cost to the system of in-house employees, and the skills and systems necessary to carry out the capital program while maintaining transparency and public accountability.

Outsourcing certainly has its benefits. A professional program management firm is well positioned to attract, evaluate and

retain high-quality construction staff because construction is their business. Skill sets required of staff can change depending on how many projects are in planning, design or construction, and such firms can vary the staff and skill sets assigned to the district on an as-needed basis. Also, as specific construction circumstances present themselves, the firm can call in experts from another office or project to assist in your district.

Professional program management

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firms are in the business of bringing their clients robust systems and procedures in project controls, estimating, scheduling and accounting. The firms bring well-trained, quality staff as well as the necessary technology. The latter typically is integrated with existing district systems to improve overall controls and accountability. As new systems are implemented, they may challenge existing systems to consider new practices and industry approaches to operations, within construction as well as facility management overall.

**Our Story**

Once the Fulton County school board made the decision in 2004 to look outside for program management, the district issued an RFP. Out of eight firms, the board selected Parsons following extensive evaluation of each company. Parsons managed the remainder of the second round of the capital improvement program that had begun in 2002, and in 2007 the board extended its agreement and asked Parsons

to support the anticipated SPLOST III program. Even with the impact of the recent economic downturn, we anticipate the current five-year SPLOST program will exceed \$650 million in new school construction and renovation work.

In Fulton County’s case, Parson’s staff is made up of three groups: planning and programming, design and construction, and project controls. During each phase of a project, all three teams interact. For instance, the planning group develops the scope of the project but the control specialist and estimator make sure the scope matches the budget. The project administrator reviews the design drawings, and the project controls estimator makes sure the budget is adhered to so there’s no surprise on bid day.

Outsourcing the capital programs did have an impact on the Fulton County staff. Some employees were reassigned to other departments. The district’s 2004 RFP required the selected management firm to retain qualified members of the capital programs department to form one cohesive management team. Five years into outsourcing, some original members of the school district’s staff form an integral part of the program management staff. Two have received the annual outstanding employee award for their group, and one was the overall employee of the year. Their historical knowledge contributes significantly to the success of the program.

At startup, Parsons assessed the in-house program, reviewing schedules and budgets of all ongoing and future projects, leading to changes in construction delivery methods to improve cost control. A sophisticated, web-based project controls system has improved the department’s ability to develop and maintain budgets, forecasting and schedules. The system ties together budgets, actual cost, data, schedule activities and milestones for all projects. It has been extremely effective in controlling costs and schedules and providing us with real-time, web-based reporting.

**Ongoing Savings**

New approaches to contracting, cost control and capital projects management netted documented savings in excess of \$6 million in the first year of operations alone, offsetting the fee to Parsons and yielding significantly better results than

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in-house. These changes continue to reap significant savings, particularly in the areas of general conditions costs, geotechnical fees, change orders costs and renovations management, giving the lowest possible cost for each project.

Prior to outsourcing, the school system paid general conditions fees for construction management at risk contracts, which cover such costs as management items over and above construction materials and labor. With Parsons, we pay no fees in this area, saving \$3 million per year. Also, the company manages contracts directly for the school district for geotechnical surveys and studies and requires the architects and contractors to follow procedures that reduce design cost and overhead fees, saving the district \$450,000 in architect and engineering expenses.

When renovating existing schools in the past, five separate firms managed separate regions and another firm managed them. Parsons' revised approach eliminated the at-risk contracts, managing renovations in the same way new construction is managed, and packaging renovations by work category rather than by individual schools, saving the school district a minimum of \$5 million in year one.

Finally, Parsons implemented "design-bid-build" and "form of proposal" construction delivery contracts, resulting in better prices, value and accountability through the bid and RFP process rather than using only construction management at risk contracts, netting significant savings.

### Improved Accountability

Since outsourcing program management, we've significantly tightened controls, linking all capital improvement accounting to the school district's integrated database and software system for enterprise resource planning. All documentation, communication, contracts, change orders and payment requisitions now go through a project control system, providing Fulton County with a well-documented system that electronically archives all project activities.

Outsourcing gives us needed flexible professional staffing to execute our plans. The current five-year SPLOST III program includes the construction of 13 new schools, 11 additions and nearly 890 individual renovation projects at more than 90 school district facilities. In August, we



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opened six new schools plus four school additions totaling \$252 million, which includes completed renovations totaling \$13.9 million. All sites opened on time with the construction costs at or under budget. These new schools and additions/renovations are serving the district's sharp student growth from 67,000 in 1997 to 90,000 students today. The Atlanta area's growth is projected to continue.

Also, Parsons can call on expertise outside the district when needed, giving us considerable bench strength. For example, a project planned prior to the firm's involvement included the addition of a practice sports field but required moving a cell tower, a project first quoted to cost at least \$1 million! Because our project management firm manages cell tower construction in another state, one call provided a more reasonable cost estimate, a third of the initial bid. In the end, we did not move the tower as Parsons redesigned the field and located it out of the way.

### Renewed Confidence

Now we have greater customer satisfaction from our school administrators. Dara Jones Wilson, principal of the newly constructed Lake Forest Elementary School in Sandy Springs, a Fulton County city adjoining Atlanta, had opened another school under the previous in-house capital programs department. "What a difference!" she said, contrasting professional program management to the previous system.

"When I opened Hillside Elementary in 2001, the construction process was a

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nightmare," she added. "Parsons has more expertise and authority dealing with the contractors. Also there are fewer hoops involved in getting something done. Before, they didn't want the principals to have much contact, but now I feel empowered, in the know."

The Fulton County Board of Education no longer has groups of angry parents and other community members coming to them up in arms about the construction program. There are no surprise cost overruns and, more importantly, the equity in the projects is constant and consistent.

Bryant, the school board president, is convinced the outsourcing arrangement has given the school system "more bang for our buck. ... We are now on time and on the money or even under budget." Dean, the previous board president, said, "Now I have the confidence I can spend my time and energy on student achievement, policy and overall budget management. I don't have to worry whether capital programs are running well. They've freed me as a board member to do my true task." ■

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