Risk and Pursuit of the Lowest Reasonable Cost in the Federal Environmental Services Market

A Private Sector Perspective

John Kirschbaum PE

Sullivan International Group Inc.

January 25, 2007

www.onesullivan.com

Sullivan International Group is an SBA 8(a) and Service-Disabled Veteran Owned Business

Risk: Achieving the Lowest Reasonable Cost (LRC)

- Topics:
  - LRC Defined
  - Remediation Procurement Strategies for
    - Well defined sites (low govt risk)
    - Complex, highly variant, ill defined sites (high govt risk)
  - LRC model: best value for the government for each case
  - A contractors preference: Where they can enhance their $$

SULLIVAN

www.onesullivan.com

Sullivan International Group is an SBA 8(a) and Service-Disabled Veteran Owned Business

Risk: Achieving the Lowest Reasonable Cost (LRC)

- LRC Defined:
  - Lowest Cost that can be obtained from the private contracting community through a competitive procurement process and achieves:
    - All SOW items are completed at an ***acceptable*** level of quality
    - All schedule constraints are met
    - No due harm is incurred by the Contractor financially , i.e., loss or bankruptcy

Risk: Achieving the Lowest Reasonable Cost (LRC)

- Key components of an LRC strategy:
  - Competition wherever possible
    - Total price, indirects, ect.
  - Application of the ***Appropriate*** Procurement model (Risk driven)
  - ***Appropriate*** level of Govt. management and oversight
    - i.e……Cost reimb.: high oversight burden

Risk: Achieving the LRC, Well Defined Remediation site

- Ideal Govt. procurement model: FFP/fixed unit rate: generally Highly competitive
  - Margins driven by competition:
    - 9-12%, large projects, 15-19%, smaller projects
  - Govt. considerations:
    - Bonding likely required: adds cost, can limit competition
    - Limited govt. oversight/control
    - Design/SOW must be flawless: time consuming
    - Incentive models: LD's, or early completion incentives

SULLIVAN

www.onesullivan.com

Sullivan International Group is an SBA 8(a) and Service-Disabled Veteran Owned Business

Risk: Achieving the LRC, Well Defined Remediation site > Continued

- Contractor considerations:
  - FFP experienced management team
  - established network of reliable subs
  - Combative client relationship

- Contractor Edge ($$): Flawed design, SOW
  - Double margins on mods
    - No comp., mods negotiated not bid
    - Mods impact schedule, extend overhead

SULLIVAN

www.onesullivan.com

Sullivan International Group is an SBA 8(a) and Service-Disabled Veteran Owned Business

Risk: Achieving the LRC, Poorly Defined, (many unknowns), Remediation site

- Ideal Govt. procurement model: Cost reimb. or T&M: Highly competitive market
  - Margins generally driven by revenue size, volume and self performance:
  - 12-20%, lower for larger best value bids or idiq's
- Govt. considerations: Higher govt risk
  - No Bonding: saves $, assures full competition
  - Limited design: saves $, time sensitive
  - Compete pricing to inspire lower indirects, salary caps on program: large projects often below DCAA
  - Incentive models: fee models have minimal impact, offer % of project savings
  - Requires Aggressive, involved government oversight
    - Assures Appropriate Contractor staff, performance efficiency
    - Assures competitive sub contr. Procurements

SULLIVAN

www.onesullivan.com

Sullivan International Group is an SBA 8(a) and Service-Disabled Veteran Owned Business

Risk: Achieving the LRC, Poorly Defined, (many unknowns), Remediation site

- Contractor considerations: low risk
  - Much higher level of Govt direction
  - established network of reliable subs
  - Relationship based project, “trust” required

- Contractor Edge ($$): Poor, inexperienced govt oversight and administration
  - Can result in substantial increase in proj. costs
  - Contractor executes/invoices at leisurely pace
  - Steeply enahances contr. Revenues !!

SULLIVAN

www.onesullivan.com

Sullivan International Group is an SBA 8(a) and Service-Disabled Veteran Owned Business