

**Office of the President****TO THE MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:****INFORMATION ITEM**

*For the Meeting of May 17, 2005*

**PROJECT COST CLASSIFICATIONS AND SOFT COSTS**

In response to questions and concerns raised by the members of the Committee on Grounds and Buildings, information is provided on the University's standard method of displaying project costs by project phase and cost component, as well as on soft costs for UC capital projects.

***Project Cost by Project Phase***

Historically, the University has displayed the estimated cost of each consecutive phase of a capital project at the time when a project is presented for approval. This includes the Preliminary Plans (P), Working Drawings (W), Construction (C), and Equipment (E) phases of a project. This practice reflects State requirements for State-funded projects displaying the separate appropriation action associated with each phase of a single project over several fiscal years. It also reflects an historical process whereby State review and approvals took place on a current phase before any subsequent phase was initiated. During the initial project phase involving schematic design and design development (Preliminary Plans), and construction documents (Working Drawings), costs are comprised primarily of external consultant costs, campus administrative costs, and costs for surveys and tests. During the construction phase, the costs include the full spectrum of construction activities from site clearance to construction of a building, as well as ongoing consultant and project management costs, construction contingencies, and interest costs during construction if appropriate.

***Project Cost by Cost Component***

A second way that project costs are disaggregated, displayed, and compared is by cost component, organized into the major uses of funds. This includes four major categories: (1) hard costs, including site clearance, building construction, exterior utilities, and site development; (2) soft costs, including architect and engineering fees, campus administration, surveys, and tests, and special items; (3) construction contingency; and (4) Groups 2& 3 equipment. The Attachment provides a definition of the costs included in each of these components, as well as the line item number as referenced on UC's standard capital improvement budget.

These two ways of displaying project costs do not lend themselves to a simple reconciliation. For example, external architect and engineering fees, which is a single cost component, will be incurred during all phases of project design, construction, and equipment installation, while site

development costs are just one of several construction component costs that occur during the construction phase.

***Project Soft Cost***

At the meeting of March 2005, The Regents requested additional information regarding the “soft costs” of University construction projects. These include the fees paid to external design professionals, campus administrative and project management costs, surveys and tests, special consultants, and financing and interest costs during construction.

Official State regulations (the *State Administrative Manual*) allow 13 percent of total construction hard cost (Lines 0, 1, 2, and 4) for basic services and related soft costs (Lines 5, 6, and 7). Allowable contingency (Line 9) is 5 percent for new buildings and 7 percent for renovations. Taken together then, Lines 5, 6, 7, and 9 may not exceed 18 percent to 20 percent under State regulations.

“Line 8 Special Items” are special, outside of normal parameters, and not subject to the above-mentioned 18- to 20-percent limit. They must be itemized, however, and are still constrained by State expectations. Assignment of items to Line 8 in effect increases the capacity of Lines 5, 6, 7, and 9, and so is often the subject of professional debate between campuses and the Office of the President.

These State-funded restrictions have also served as the cost guideline model for non-State-funded projects, albeit with greater flexibility afforded to campuses when budgeting their project.

University of California  
**Capital Improvement Project Component Costs**

<i>Hard Costs</i>	<b>Site Clearance (Line 0)</b>	Preparation of the building site for construction including relocation of existing utilities, demolition of existing buildings and paving, rough grading and erosion controls.
	<b>Building Construction (Line 1)</b>	All aspects of building construction work from foundation and exterior cladding to interior finish and mechanical/electrical systems, and Group 1 equipment.
	<b>Exterior Utilities (Line 2)</b>	Site utility work beginning five feet from outside the perimeter of the building, including hookups to building stub-outs.
	<b>Site Development (Line 4)</b>	Work necessary to restore the project site following construction excavation and backfilling, including site drainage, parking, pedestrian paths, landscaping, site lighting, and signage.

<i>Soft Costs</i>	<b>Architecture/Engineering Fees (Line 5)</b>	(External Consultants) Basic services associated with design, including executive architect, civil/structural engineer, mechanical engineer, electrical engineer and landscape architect. Also includes external construction management and inspection services not normally part of the construction contract. Excludes “special” services and consultants (e.g., acoustical consultant for theater project) that are part of Special Items.
	<b>Campus Administration (Line 6)</b>	In-house University services such as project management, building services, contract administration, construction management, and inspection services. Excludes pre-design programming/studies, preliminary site master plans, and environmental analysis, (the first two are not considered capital costs by the State, the third is included in Line 8 Special Items).
	<b>Surveys &amp; Tests (Line 7)</b>	Topographic surveys, soils and hydrology investigations, advertising, plans and specification reproduction, material testing during construction, etc.
	<b>Special Items (Line 8)</b>	“Special” services provided by both external consultants and internal staff including value engineering/constructability review, independent structural/seismic review, plan check fees, EIR consultants, special design consultants. Also includes loan financing and construction loan interest, and the cost of permanent relocation of occupants of existing building.

<i>Other</i>	<b>Construction Contingency (Line 9)</b>	An allowance for construction contract change orders and unanticipated costs based on the total hard cost, the complexity of the project, the potential for unknown factors and site conditions.
	<b>Groups 2 &amp; 3 Equipment (Line 3)</b>	Moveable furnishings (including furniture, open office systems, laboratory equipment, large custodial equipment, etc.); also relocation of existing equipment to new building.