

Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

JULY/AUGUST 2014

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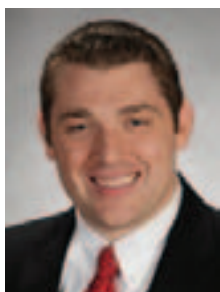


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Babst Calland proudly welcomes attorneys Robert M. Palumbi and Dylan B. Spadaccino to our Construction Services Group. Bobby and Dyan continue to expand the breadth and depth of services we provide to our construction-industry clients. Bobby is admitted to practice in Pennsylvania, New Jersey and West Virginia with experience in a variety of construction law issues, including payment disputes, mechanics' liens, construction defect cases, and litigation involving energy and natural resources projects. Dylan is admitted in Pennsylvania, New Jersey and Texas and has similar extensive experience in construction law. Prior to becoming a construction attorney, Dylan owned and operated a commercial demolition company in Philadelphia, Pennsylvania.



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Publisher's Note

It didn't take many years for the paradigm to shift in the education segment of the construction industry. When *BreakingGround* was first published, schools were a plentiful and steady source of work for architects, engineers and contractors. The housing crisis and recession that followed it dented the coffers of public and private education. As expected, construction spending declined during the downturn but more importantly, the slowdown seemed to give educators time to re-think what they were planning to build. The result has been a significant shift in the ground underneath the educational system.

In the feature article that follows on page 18, we go into detail about the challenges that face the educational systems across the board. What struck me as I interviewed the career professionals in education was the sense of uncertainty about what their campuses should look like to be properly positioned for 2030.

That was the question that I asked today's educators and designers. It was a question that inspired relatively few guesses. I didn't think it would be hard to visualize what would be built in 15 years since looking back that same duration put you in 2000, which doesn't seem that long ago. But, a lot has changed in those intervening 14 ½ years. You can trace a lot of the changes to technology and better understanding of the impact of environment but there were also many trends that developed in response to the increasing lifestyle expectations of the students. Of course, the other big change that occurred was that the cost of building a school almost doubled. That alone would cause some soul searching.

Here is where you might expect my middle-age rant about how we've overspent to make today's kids too soft, how the concrete block walls of my dorm or the half-broken toilet rooms of my high school didn't get in the way of my good education (for the most part it was I who got in the way of a good education). But my rant is aimed at those who are looking at austerity as the answer.

Access to education remains the way up and out for Americans who want to get up and out. The quality of our public education system was one of the pillars of the once-burgeoning American middle class, which in turn is one of the major differences between our society and most others. The benefits of a well-educated society are countless. America's great leaders benefitted from a great education and understood its role in raising the standard of living. Education lifts the workforce. On a microeconomic level, great education is a differentiator from one region to the next. How well do you think Pittsburgh would be doing economically without CMU, Pitt, et al?

There's ample waste in the systems that must be eliminated. By any measure, the status quo is unsustainable financially.

The problem is that the common-sense solutions are unsustainable politically. We've waited for too long for leaders with courage to look past party lines and past their re-election to do what's right, to serve the people now. Maybe it's time for voters to take the lead.

My home district is Hampton Township School District. We're a top ten district in the state. My daughters received a great education and had opportunities to participate that they would not have had in bigger districts. In the 23 years I've lived there my property taxes have gone up 61 percent, but my house has more than doubled in value. By any measure, I got a bargain living there. Yet, the top priority of our school board appears to be delivering a budget that doesn't raise taxes. To meet that goal, HTSD has cut a few services here and a few positions there over the last decade. Dozens of experienced teachers have taken early retirement incentives. Perhaps the quality of education will continue to be high but I know of few ventures in life that gain by reducing investment in them.

Perhaps I'm in the minority in my willingness to toss a few more bucks my school district's way but there are apparently others who agree. Public leaders in different parts of the country are putting issues up for referendum that would normally be legislative decisions and the voters are saying yes to more revenue, even for things like roads, transit and education. Closer to home in State College PA, voters just said yes to a \$115 million school construction project by a four-to-one margin.

Usually when you hear about voting with your feet or your pocketbook it's in the negative sense but obviously it can be thumbs up too.

It took a Herculean effort by an unlikely coalition to get the state legislature to agree to a highway bill last fall, when the consequences of ignoring the failing infrastructure were fairly obvious. I have little faith that the same group of elected officials will stick their collective necks out for something with subtler longer term ramifications, especially in an election year. Perhaps it is time to rely on the voters to have more courage.

For as long as I can remember it has been an article of faith among architects and administrators that a referendum system in Pennsylvania would spell the end of the K-12 market. We seem to have arrived at a similarly apocalyptic place without referendums. Maybe it's time to let the citizens take the wheel.



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REGIONAL MARKET UPDATE



As the final days of the option wound down for the purchase of the Horsehead plant site, Shell's final investment decision was the big story no one was talking about. That may have been because word out of the American Chemistry Council's Annual Meeting in early June had eased some of the fears that had arisen from the petrochemical giant's extended due diligence period.

Graham van't Hoff, executive vice president for Shell Chemicals, told ICIS News at the industry summit that the producer has signed ten third-party contracts related to its proposed Monaca ethane cracker and filed an air quality permit with the Commonwealth. Shell had also apparently lined up sources for ethane from throughout the Marcellus and Utica Shale footprint.

"It's getting pretty solidified now in terms of how [the ethane sourcing] will work, and we're pretty comfortable with that," van't Hoff said. "And certainly we will aim to make sure that we are tapped into a broad portfolio of producing locations so that we have a good portfolio mix coming from various points in that whole system."

Shell also confirmed that Linde Engineering North America from Houston, TX was doing the front end design on the plant. No other construction or engineering contracts had been finalized by that point. Demolition of the former Horsehead zinc facility is underway. The demolition effort also includes some pre-preparation work for the site. Some 50 or so workers are at the site daily. Earlier behind-the-scenes estimates of September for the first site work for the cracker and likely polyethylene plant now seem overly optimistic, but pending a last-minute about face, there should be initial development of the site underway by early 2015.

Perhaps because of the growing optimism about the Monaca petrochemical project, developers have seized upon the favorable commercial real estate dynamics to kick off more than a dozen projects since spring.

For more than a year, the activity in commercial development was primarily in apartments and hospitality properties, although dozens of office and industrial projects were in the pipeline. Occupancy levels for both property types are extremely high, with vacancy growing only in

the Cranberry sub market as a result of corporate reorganizations at Verizon Wireless and, to a lesser extent, Westinghouse. Outside of Southpointe, however, office projects have been very limited. And industrial construction was dangerously missing from the market. That changed this spring.

There were headlines for the start of the three biggest projects, the long-awaited Gardens office/hotel/retail project developed by Millcraft Investments, Walnut Capital's 218,000 square foot Bakery Square 2.0 office building and Elmhurst's 105,000 square foot Schenley Place.

Below the surface were smaller spec projects that moved off the drawing boards and are the kinds of bread-and-butter commercial properties that the Pittsburgh market needed. Burns & Scalo Real Estate Services began its 60,256 square foot Concorde office in RIDC West. Chapman Properties started two 30,000 square foot industrial buildings, one each in Leetsdale and Chapman Commerce Park. Continental/Chaska rolled into development for its fourth building at the Pittsburgh International Business Park.

In addition to the spec space underway, there were reports that Amazon was searching for 200,000 square feet-plus for a fulfillment warehouse and a separate 195,000 square foot user looking for a build-to-suit industrial building.

Apartments and hotels continued to be hot properties. Construction got underway or is about to begin on Village Green's 223-units at the Don Allen site, Oxford's 117-unit Hot Metal Flats at South Side Works and the 69-unit Uptown apartments being developed by Castlebrook Development. The 150-room Homewood Suites being built by PJ Dick for Walnut Capital at 1400 Smallman Street is coming out of the ground and Massaro is beginning construction on a 10-story Holiday Inn Express that Kratsa Properties has been planning for some time on Federal Street by PNC Park.

The increased activity level for commercial development is a reaction to the low vacancy rates, historically low interest rates, pent-up demand and a suddenly favorable lending climate.

Oxford Development's CEO, Steve Guy, notes that while developer activity is more noticeable in Pittsburgh at the moment, favorable conditions have existed for a few for commercial developers. "We have been doing \$150 million in development every year since the recession ended. Most of the development has been out of town but now our focus is on Pittsburgh," he says. "The projects you're reading about have been in the works for a couple of years. What is unusual is that we will have seven or eight projects starting construction in the next ten months or so."

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Ironworkers complete the steel structure of The Tower at PNC Plaza.

... there seemed to be executive and legislative will to increase investment in bridges, highways and state buildings.

The dominant story elsewhere in Pennsylvania as summer begins is the state budget battle. After taking in better than expected revenues through mid-2013, the legislature passed a budget for 2013-2014 that anticipated additional growth. The opposite occurred, however, leaving a \$1.4 billion shortfall going into fiscal year 2014-2015 preparations. Such fiscal problems will put pressure on the governor to meet his pledge to increase educational spending and infrastructure investment.

Pennsylvania's budget problems come at a particularly inopportune moment for the construction industry. After decades as a leading source of construction projects, the Commonwealth has under-invested in schools and infrastructure as the Corbett administration undertook

measures to restore balance to Pennsylvania's finances. Beginning with the passage of Act 89 in November, there seemed to be executive and legislative will to increase investment in bridges, highways and state buildings. While political momentum still exists for capital spending, the fiscal pressure from the shortfall will limit any new spending.

The budget crunch adds further pressure to Gov. Corbett in his re-election campaign. With the Democratic candidate Thomas Wolf firmly in place, Corbett finds himself trailing in the polls. Wolf has campaigned on increasing state support for schools, including construction, and is an advocate for a natural gas severance tax to help make up the revenue shortfall. His positions resonate with moderate and middle-class voters and will certainly garner support from organizations that wish to see more construction funding. At the same time, Wolf's plan for maximizing revenue from the energy industry could provide an incentive for producers to cut back exploration of the Marcellus and Utica formations, or at least provide a rationale for leverage in negotiations.

For his part, Gov. Corbett finds himself with considerably less flexibility. His willingness to deal on the transportation bill, education spending and now, the gas severance issue, alienates the more conservative of his political supporters. Campaigning from behind in the polls, Corbett may have to move away from long-held positions on fis-

BENCHMARK	Jan-June 2013	Jan-June 2014 (f)
Total SFD units	1,152	969
Total SFA/Multi-unit	1,741	1,189
Total residential \$\$	\$483.7 million	\$319.4 million
Total non-residential \$\$	\$1.45 billion	\$1.11 billion
K-12 additions/renovations	\$107.3 million	\$120.1 million
Higher Ed construction	\$130.4 million	\$64.8 million
Hospital construction	\$150 million	\$90.2 million
Hotel construction	\$109.2 million	\$90.2 million
Industrial construction	\$160.3 million	\$50.6 million
Office construction	\$161.5 million	\$201.9 million

cal restraint but again, he'll have limited flexibility. He's likely to find that a Legislature running for re-election will limit his options for balancing the budget to cuts in government spending.

Even with the cutbacks in government, the economic picture in Central PA has recovered on a par with metro Pittsburgh. Unemployment in Harrisburg remains much lower than the national level, falling to five percent in May. York has seen unemployment fall to its historic norm at 5.6 percent, while Lancaster's unemployment rate dropped to 4.7 percent in May. And the jobless rate in State College is the lowest in the state, at 4.5 percent.

The economic driver for State College and Centre County is, of course, Penn State University. The university employs over 30,000 people full time and 45,000 total. More than one million visitors come to the campus every year, spending nearly \$2 billion while visiting almost half of that from out-of-state residents. Penn State students spend more than a billion dollars while attending school. Consulting firm Tripp Umbach estimates that through all of its activities, Penn State generated \$9.5 billion in direct and indirect economic impact in 2013.

The majority of that impact is felt in the immediate area surrounding the University Park campus. As an owner of facilities and buyer of construction services, Penn State is shifting its focus about both the kinds of facilities and the kinds of construction. The projects currently under construction and in the pipeline are more heavily weighted on academic facilities – especially sciences – and on investing in existing buildings.

In its current \$2.6 billion, five-year master plan, Penn State inventories its facilities in detail and roughly 35 percent of the buildings are over the age of 50. Virtually all of the projects planned for 2014 will involve major renovation and upgrading existing academic buildings.

Looking to metropolitan Pittsburgh, it is difficult not to be disappointed at the results from the first half of 2014. Through five months of actual results and forecasted

June data, starts for both residential and non-residential construction are running behind the same period of 2013.

Residential starts were heavily influenced by the weather in the first quarter, as freezing temperatures kept buyers at home and prevented builders from starting spec homes or finishing those underway. Through June 30, the forecast is for 969 single-

family dwelling units to have started in the six counties of Allegheny, Beaver, Butler, Fayette, Washington and Westmoreland. That is a 15.9 percent decline from the first six months of 2013. Construction of multi-family and attached housing properties was off by nearly twice that amount. Permits for attached units and apartments fell to 1,189 units from January to June, compared to 1,741 units in 2013, a 31.7 percent decline.

Analyzing the decline in housing during a healthy economy will take a few quarters but the initial reading is that the slowdown in new development during the recession has created a lot shortage, offering buyers few new construction options. Tighter mortgage regulations also seem to be discouraging first-time buyers. In the multi-family sector, the decline is more a reflection of the abnormally high volume in 2013. Projecting the first six months of 2014 to a full year's activity would result in volumes that are higher than any other year in the past 20, except for 2013. With a full pipeline of projects in planning, starts in this category should exceed 2,500 units again by year's end.

Construction of non-residential structures was up steeply from the first quarter but ended at \$1.11 billion, a decline of 23.4 percent from the \$1.45 billion started during the first six months of 2013. Weather may have impacted starts slightly but it's more likely that contracting is still suffering from the indecision of business owners and, to a greater degree, fiscal problems of public authorities. Comparing benchmark categories, commercial construction projects were up over the same period in 2013, while education and healthcare projects were off significantly.

As the third quarter begins, the die is cast for 2014. Construction from this point forward in the year will have little material effect on the financial performance for the calendar year, although new work would bolster backlogs for 2015. The forecast for construction going forward will be influenced significantly by two decisions: one made by Shell in Monaca and one made by voters about who will work in Harrisburg next year. **BG**

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NATIONAL MARKET UPDATE

After dropping off significantly in January and February, construction activity in March and April showed strong rebounds in both residential and nonresidential construction categories.

Total construction spending rose modestly for the third straight month in April. An analysis of the government's June 2 report by the Association of General Contractors (AGC) revealed a mix of increases and declines in public and private categories that showed construction's recovery remains fragile and fragmented.

"Residential, private nonresidential and public construction spending all have areas of strength but also pockets of weakness," said Ken Simonson, the association's chief economist. "While the overall trend remains more positive than last year, growth is likely to be spotty for the foreseeable future."

Construction put in place totaled \$954 billion in April, 0.2 percent above the revised February total and 8.6 percent higher than in April 2013. The year-over-year growth so far in 2014 has exceeded the full-year increase of 5.0 percent recorded from 2012 to 2013.

Private residential construction spending inched up 0.1 percent in April to a six-year high. The latest total exceeded the year-ago level by 17 percent. Single-family construction rose 1.3 percent in April and 14 percent year-over-year. Multifamily spending soared 4.4 percent and 31 percent, respectively. Improvements to existing single- and multifamily structures slumped 2.2 percent for the month but increased 17 percent from a year ago.

Private nonresidential spending dipped 0.1 percent in April but climbed 5.6 percent over 12 months. Most major categories increased from year-ago levels. However, the largest private segment, power construction—which include construction on oil and gas fields and pipelines as well as power plants—slipped 0.6 percent for the month and 3.9 percent over the year. The fastest-growing private type was office construction, which jumped 3.1 percent in April and 26 percent since April 2013.

Public construction spending rose 0.8 percent for the month and 1.2 percent year-over-year. The largest public segment, highway and street construction, declined 1.1 percent in April but increased 4.9 percent from a year before. The second-biggest category, educational construction, gained 3.0 percent and 4.9 percent, respectively.

Census Bureau reported on May 16 that housing starts increased 13.2 percent at a seasonally adjusted annual rate in April from March and 26 percent compared with April 2013. Single-family starts edged up 0.8 percent for the

month and 9.8 percent year-over-year. Multifamily starts jumped 43 percent and 70 percent, respectively. Building permits, a fairly reliable indicator over time of future starts, rose 8.0 percent for the month and 3.8 percent year-over-year, with single-family permits up 0.3 percent from March but down 3.2 percent from a year before and multifamily permits up 22 percent and 16 percent, respectively.

The two national private construction reporting services each tracked much lower volumes of construction but found similar trends.

New construction starts in April rose 3 percent to a seasonally adjusted annual rate of \$533.7 billion, according to McGraw Hill Construction. By major sector, April gains were reported for nonresidential building and housing, while nonbuilding construction (public works and electric utilities) retreated. Through the first four months of 2014, total construction starts on an unadjusted basis came in at \$153.8 billion, unchanged from the same period a year ago.

"With construction starts now climbing for two months in a row, it's become more apparent that some of the lackluster activity in early 2014 was due to tough winter weather conditions," stated Robert A. Murray, chief economist for McGraw Hill Construction. "On the plus side, nonresidential building is strengthening once again, after slipping in recent months. The commercial and manufacturing categories are regaining momentum, while institutional building is making the transition to an up-and-down pattern after its steady decline over the past five years. Multifamily housing continues to move at a good clip. On the down side, this year's total construction volume is being restrained by a more subdued pace for public works, given the comparison to last year's elevated amount and the uncertain prospects for getting new transportation legislation passed..."

Reed Construction Data reported on May 28 that the value of nonresidential construction starts it collected in the first four months of 2014 fell 3.6 percent compared with the same period in 2013. Nonresidential building starts slumped 11 percent, as commercial starts plunged 28 percent but institutional starts climbed 9.1 percent. Heavy engineering starts jumped 13 percent.

While Reed was the outlier in terms of the overall direction of the industry, it's worth noting that their tracking of commercial construction, which comprises the majority of the decline Reed reported, is historically thinner than other sources.

The improving construction outlook reflects the improvement of the underlying economy in general. Data on the major benchmarks and leading indicators for the economy continues to show stronger business conditions rebounding from the extreme weather conditions of the past winter.

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On June 6, the Economic Advisory Committee of the American Bankers Association (ABA) predicted that inflation-adjusted GDP will grow at a three percent clip for the remainder of 2014 and into next year. The committee is comprised of 14 chief economists from among the largest banks in North America, including Stuart Hoffman, chief economist for PNC Financial Services Group. The ABA committee sees growing investment in businesses and homes spurring the economy over the next two years.

The bank economists believe home prices nationwide will rise solidly and residential investment will increase ten percent for the remainder of the year. Improving labor market activity will foster stronger household formation, supporting the housing recovery. The Bureau of Labor Statistics' announcement earlier on June 6 seemed to support the ABA's bullish outlook for the labor market, reporting that employers had added 217,000 new jobs in May. The job growth in May finally pushed total employment back to the pre-recession highs, although additional hiring will be needed to match the employment needs from the population growth in the intervening years.

The ABA economists see unemployment falling to 6.1 percent by the end of the year and close to a full-employment level of 5.6 percent by the end of next year. They also forecasted that lending to business would outpace consumer lending, predicting growth of nine percent in business loans during 2014.

The National Association of Business Economists (NABE) echoed the ABA's sentiment in its June 2014 Outlook Survey, taken from a panel of 47 business economists, including the AGC's Simonson. NABE panel forecasts quarterly economic growth for the balance of 2014 to be stronger than was expected in its March survey, forecasting an annualized rate of real GDP growth to jump to 3.5 percent in the second quarter of 2014 and to equal or exceed 3 percent for each quarter through the end of 2015. The survey's forecast for the labor market was also more optimistic. Economists surveyed pegged job growth to average 209,000 monthly through 2015, with the average wage increase to be 2.0 percent this year and 2.5 percent in 2015.

The Conference Board said its consumer-confidence index rose to 85.2 in June from May's 83 reading. The May level was up 12 percent from a year earlier, roughly where it has been for all of 2014. Some of the highlights of the consumer survey include: A net 18.2 percent said jobs were hard to get versus being plentiful, compared with 19.8 percent in April and 26.5 percent in May 2013; those who plan to buy a home within six months fell to 4.9 percent in May, the lowest since July 2012; 20 percent expect their incomes to improve in the next six months; consumers with plans to buy major appliances within six months fell to 45.1 percent, the lowest since September 2011, but those who plan to buy an automobile rose to 11.3 percent in May. **BC**



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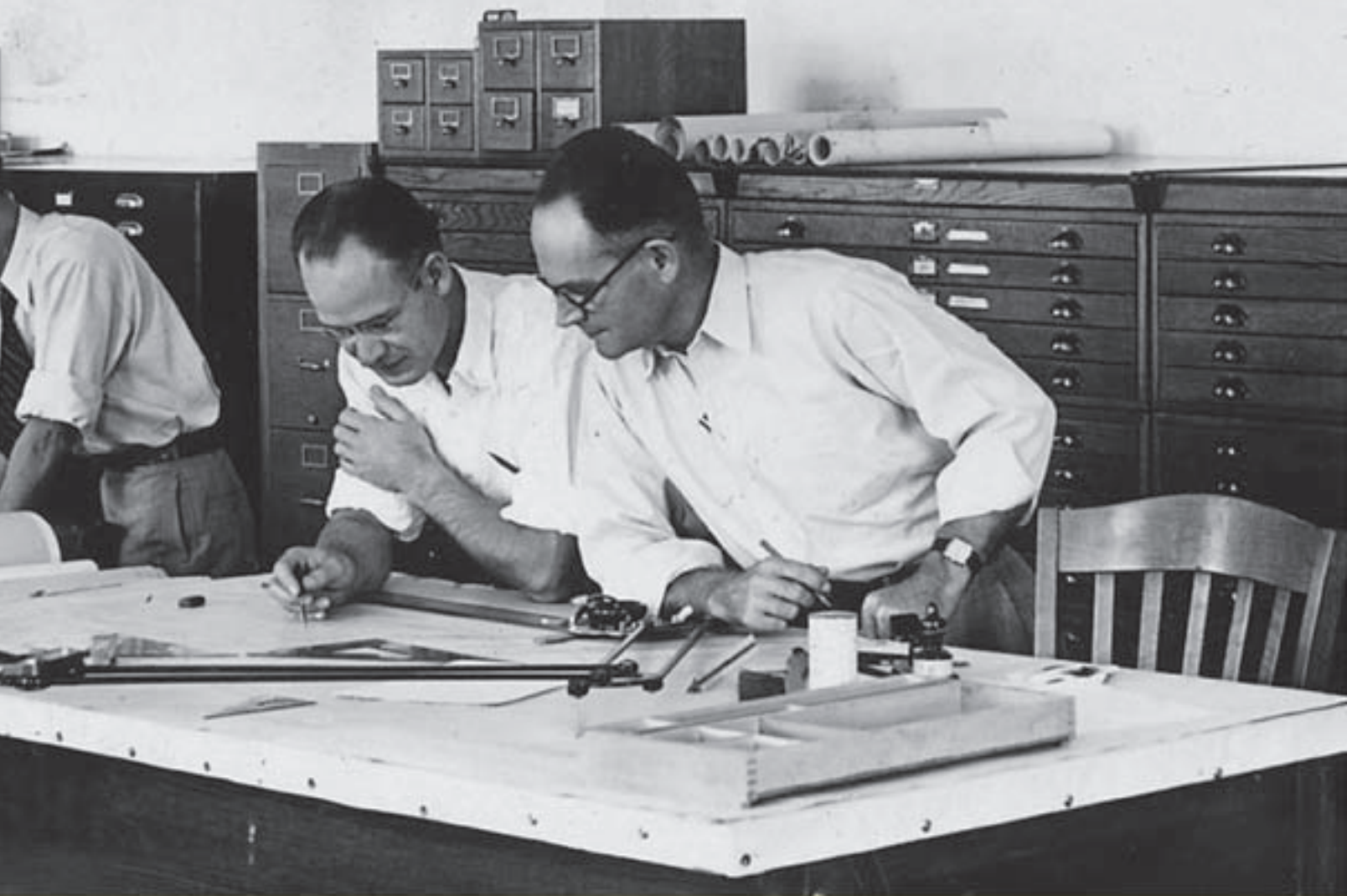


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WHAT'S IT COST?

Steadily improving construction markets, better global economic conditions and rising energy costs resulting from a colder winter contributed to steeper increases in construction prices during the winter and spring of 2014. Data from the government and two private research sources shows inflation in construction costs is outpacing that for consumer prices and producer prices in general, rising roughly three percent versus the overall inflation of two percent.

The Bureau of Labor Statistics (BLS) reported June 13 on inflation for May. The producer price index (PPI) for final demand declined 0.3 percent in May and rose 2.0 percent compared to May 2013. The PPI for final demand construction, which measures all types of projects, was up 0.1 percent in May and 3.2 percent over the previous 12 months. The overall PPI for new nonresidential building construction, which measures the completed price of five categories of buildings, increased 0.1 percent for the month and 3.3 percent since May 2013.

Reed Construction Data's RS Means Division reported May 22 that building construction costs increased 0.4 percent in the first quarter of 2014 and 3.0 percent over the first quarter of 2013. This data follows an increase of 0.3 percent in the fourth quarter of 2013. The Means index is a mix of material, labor and equipment costs to build nine structure types based on data it gathered in 30 major cities. The average wage for 20 skilled construction trades rose 0.4 percent in the first quarter and 2.5 percent from a year earlier.

Consultant Rider Levett Bucknall reported on June 9 that its National Construction Cost Index increased 1.15 percent in the first quarter of 2014, the most since mid-2008, based on data it collected in 12 cities. The increase accelerated slightly from 1.0 percent in the last quarter of 2013 and totaled 3.7 percent over the past four quarters. The index tracks the bid cost of construction, including costs of labor and materials, general contractor and subcontractor overhead costs and profit.

Associated General Contractors of America posted a detailed breakdown of construction prices and costs following the BLS announcement. Among the highlights are: PPI for new warehouse construction slipped 0.1 percent in May and rose 1.9 percent over 12 months;

PPIs for offices rose 0.1 percent and 3.1 percent, respectively; the indexes for industrial buildings and health care buildings climbed 0.1 percent and 3.6 percent each; and schools, 0.1 percent and 3.9 percent. PPIs for new, repair and maintenance work on nonresidential buildings by electrical contractors rose 0.1 percent and 1.7 percent; roofers, 1.5 percent and 3.6 percent; plumbing contractors, 0 and 4.6 percent; and concrete contractors, 0 and 1.3 percent. The PPI for inputs to construction—an average of the cost of all materials used in construction plus items consumed by contractors, such as diesel fuel—was flat in May and up 1.6 percent over 12 months. Among the major construction materials, hot-rolled structural steel shapes (11 percent) and insulation materials (8.4 percent) experienced notable one- or 12-month price swings. **BG**

PERCENTAGE CHANGES IN COSTS		May 2014 compared to		
		1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices				
Consumer price index (CPI-U)		0.3	1.3	2.0
Producer price index (PPI) for final demand		-0.3	1.1	2.0
Construction final demand		0.1	0.5	3.2
Costs by Construction Types/Subcontractors				
PPI for all inputs to construction		0.0	0.8	1.6
Residential buildings		0.0	0.8	1.6
New warehouse construction		-0.1	0.6	1.9
New school construction		0.1	0.5	3.9
New office construction		0.1	0.5	3.1
New industrial building construction		0.1	0.3	3.6
New healthcare construction		0.1	0.5	3.6
Concrete contractors, nonresidential		0.0	0.2	1.3
Roofing contractors, nonresidential		1.5	3.1	3.6
Electrical contractors, nonresidential		0.1	-0.1	1.7
Plumbing contractors, nonresidential		0.0	0.4	4.6
Costs for Specific Construction Inputs				
#2 diesel fuel		-0.5	-1.5	3.1
Asphalt paving mixtures and blocks		1.3	0.2	1.7
Cement		0.7	4.1	5.7
Concrete products		-0.1	0.7	3.4
Brick and structural clay tile		0.5	0.5	3.2
Plastic construction products		-0.7	0.3	1.5
Gypsum products		-0.7	-5.3	3.8
Lumber and plywood		1.0	1.1	5.5
Architectural coatings		0.5	0.3	0.0
Steel mill products		-0.1	-0.1	3.4
Copper and brass mill shapes		2.7	-2.7	-2.0
Aluminum mill shapes		1.5	2.2	3.2
Fabricated structural metal		-0.2	2.2	1.1
Prefabricated metal buildings		1.2	0.6	5.4
Asphalt (at refinery)		4.4	7.8	4.1
Iron and steel scrap		-3.7	-5.1	9.2
Source Bureau of Labor Statistics, Updated June 13, 2014				
Compiled by Ken Simonson, AGC Chief Economist				



When the housing bubble popped in the second half of 2007, America was handed a rather large bill for the collective fiscal sins of the previous three years. Paying that bill has been painful and protracted; however, the obligation was one that in hindsight, we should have seen coming.

One of the unfortunate victims of the mortgage crisis and recession is the American education system. When housing prices fell, public schools lost revenues because most schools derive their funding from property taxes. Virtually every state in the Union found itself with a budget deficit, many with shortfalls that could have resulted in default. Private schools saw their endowments decline precipitously and donors disappear. At all levels, schools suffered while America – and the world – deleveraged from its debt hangover.

But, within a couple years, as American consumers and government reduced their indebtedness and began to operate like normal, the educational systems remain under stress. Polarized politics have made fiscal governance more difficult. Neoconservatives like Grover Norquist and the Tea Party movement have shown the ability to negatively alter elections for politicians who vote to increase government spending or taxes. Public school boards have responded by becoming more fiscally conservative. Private schools and universities have had their own bubbles, building student-centered facilities in an effort to compete for enrollment. The majority of educational systems have obligations for operating expenses, pension contributions and debt service that are unsustainable under the status quo.





Education Market Update





Penn State's \$2.6 billion, five-year master plan is the largest facilities investment in the school's history. Photo courtesy Penn State Office of Physical Plant.



As if to prove that Murphy's Law applies universally, these fiscal woes will soon be compounded by a cyclical decline in enrollment growth – in many cases an actual decline in the number of students.

Operating a school district or university is more complex than the average household but the basic principles are similar. When expenses outpace income, you try to raise more of the latter and cut the former. When cutting expenses, the nonessential spending goes first. And capital spending falls into the nonessential category in most cases. School districts have to pay their teachers; colleges have to heat the dormitories; the new buildings can wait. Even before 2014, the time for balancing budgets with deeper cuts had come and gone.

Within metropolitan Pittsburgh, construction spending on all levels of educational projects declined in the years following the Great Recession. Adding to the decline due to the fiscal factors was the moratorium on PlanCon reviews at the Department of Education, ostensibly to re-evaluate the process. This perfect storm of negative factors resulted in stagnation and then a steep spending decline in 2012. While the total contracting value rebounded to the highest total in a decade in 2013, it's worth noting that almost one-third of that total came from four large projects, including the \$95 million Scott Hall at Carnegie Mellon.

A new paradigm will need to emerge before construction can catch up to the ever-growing pent-up demand for maintenance and modernization.



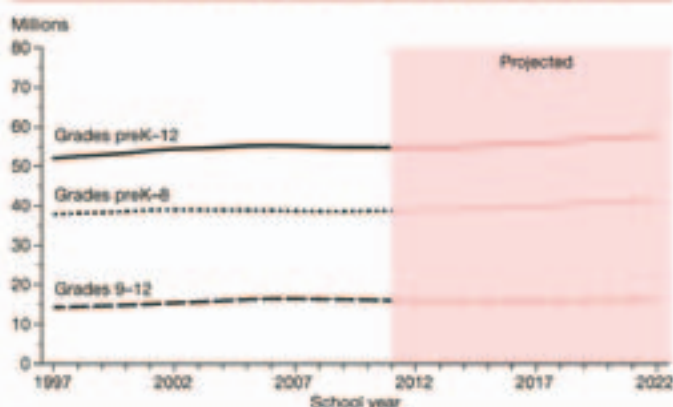
The Higher Ed Divide

Within the higher education market, there are divides between the have's and have not's. The most obvious is between publicly-funded and private colleges and universities; however, there exists a gap between most public schools and a few fortunate institutions.

For the most part the private colleges and universities have invested and raised funds successfully. Washington & Jefferson University built more heavily in the early 2000's but is working with a multi-million dollar capital plan for the coming five years. Duquesne University continues its expansion along Forbes and Fifth avenues that follow the construction of its Power Center. The Des Places Dormitory was completed in 2013. Waynesburg University saw its enrollment almost double and built a handful of new buildings throughout the last ten years. Grove City College raised almost \$90 million and replaced its main academic building and student center, adding a new residence hall, Christian activities building and modernizing and expanding its STEM facilities. In Oakland, Carnegie Mellon expanded two of its science halls and built a state-of-the art computer science in the Gates-Hillman complex. New buildings for the arts and sciences have appeared at St. Vincent and Seton Hill.

Yet for all of these success stories there were others that simply lost the arms race. Many of the winners in the facilities build-up were the beneficiaries of wealthy alumni or even global business giants (see Bill Gates or David Tepper). Colleges that did not have such support and chose not to build were the fortunate ones, even if their austerity hurt recruitment. The less fortunate institutions were those that built on the hope of future support or dreams of improved enrollment. These colleges and universities are facing a difficult fiscal future. It's more than conceivable that there will be defaults or closings in higher education before the decade is out. Few, if any, of the institutions in Western PA are in this category but many of the region's private colleges will be more conservative in capital spending as demographic support for secondary education dwindles over the next decade.

Figure 1. Actual and projected numbers for enrollment in elementary and secondary schools, by grade level: Fall 1997 through fall 2022

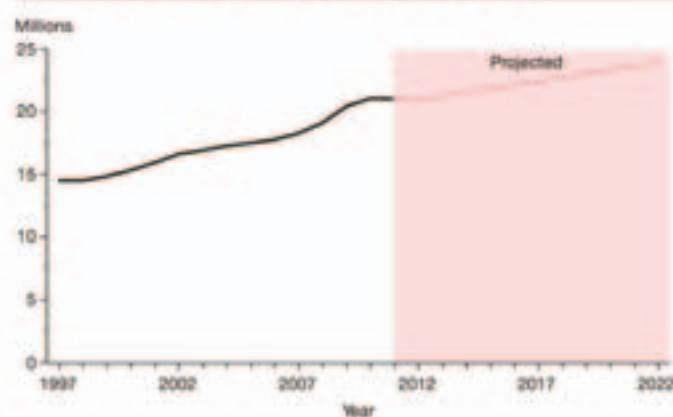


Beginning in 2017, colleges will see a decline in their pool of applicants as the cohort of 18-22 year-olds shrinks as the Echo Boomers age beyond their college years. Enrollment in post-secondary institutions increased 45 percent during the 14-year period from 1997 to 2011, but is only projected to increase 14 percent from 2011 to 2022, with much of that increase occurring before 2017.

Douglas Lee, president of Waynesburg University, expects to respond to the changing landscape by establishing and communicating how the mission of his university has relevance today, not by following the crowd. "We have to make the university as strong as possible," Lee asserts. "Each institution has to stand as an individual in this era. I don't think there is a hard and fast way to do things in this environment."

Public universities have seen a shift in enrollment already in Pennsylvania. The State System of Higher Education (PASSHE) was a significant buyer of construction services for the past 20 years.

Figure 16. Actual and projected numbers for total enrollment in all postsecondary degree-granting institutions: Fall 1997 through fall 2022





Approval rates of CA bond measures		
Year	% Approved	% Defeated
2014	79.55%	20.45%
2013	77.78%	22.22%
2012	80.71%	19.29%
2011	70%	30%
2010	73.50%	26.50%
2009	50%	50%

“Historically, we received \$65 million annually for capital projects.”

PASSHE schools were part of Gov. Ridge’s “Fast Start” economic stimulus program after the 1991 recession and in the recent decade many PASSHE schools used the bond-issuing mechanism of non-profit university foundations to fund construction of student centers, residence halls and convocation centers. Looking ahead, neither of those channels looks promising.

“We’re hanging in there,” replies Robert Unger, director of construction management for PASSHE. “Historically, we received \$65 million annually for capital projects. During the last two years of the Rendell administration that amount was increased to \$130 million. Gov. Corbett cut it back to \$65 mil-

lion. The reduction meant that we had to fund some of past years’ projects in the current year.”

Unger says that PASSHE expects to get back to using the \$65 million entirely to start new projects in Fiscal Year 2014-2015 but cautions that available resources will be dependent upon the outcome of the budget negotiations. Regardless of the resulting budget, it’s clear that a shift in planning has occurred for PASSHE institutions as state universities have been among the first to experience the declining enrollment trend.



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"The student centers and rec centers have fallen out of favor because the universities are sensitive to raising fees or adding debt," say Unger. While student housing still offers opportunity from the balance sheet perspective, falling enrollments are eroding the business case. "Western Pennsylvania universities did housing over the last 10-15 years but the Eastern universities are just getting into the swing of it. The declining enrollment has hurt them."

There are also four universities that receive public support outside PASSHE: University of Pittsburgh, Penn State, Temple and Lincoln University.

Of those four, the university that will stand out from the rest for its construction program is Penn State. Since the mid-1990's, Penn State has undertaken an ambitious billion dollar expansion and modernization program, focused mostly on the University Park main campus but invested throughout its Commonwealth system. As its five-year master plan has rolled over, each iteration has grown and changed, with the current plan topping \$2.5 billion by the end of 2018.

The most recent spate of major projects was driven by large gifts from donors supporting athletic facilities. Most prominent among these was the \$100 million Pegula Ice Arena, but major projects also focused on expanding the Intramural Building, up-

grading Beaver Stadium and Bryce Jordan Center. Through the next planning cycle, the focus of construction will shift to the older academic buildings.

"There will be fewer athletic projects and more renewal and renovation projects versus new construction," explains John Bechtel, assistant director of design and construction, at Penn State's Office of Physical Plant. "Our focus is on the older infrastructure and buildings, taking care of our aging buildings."

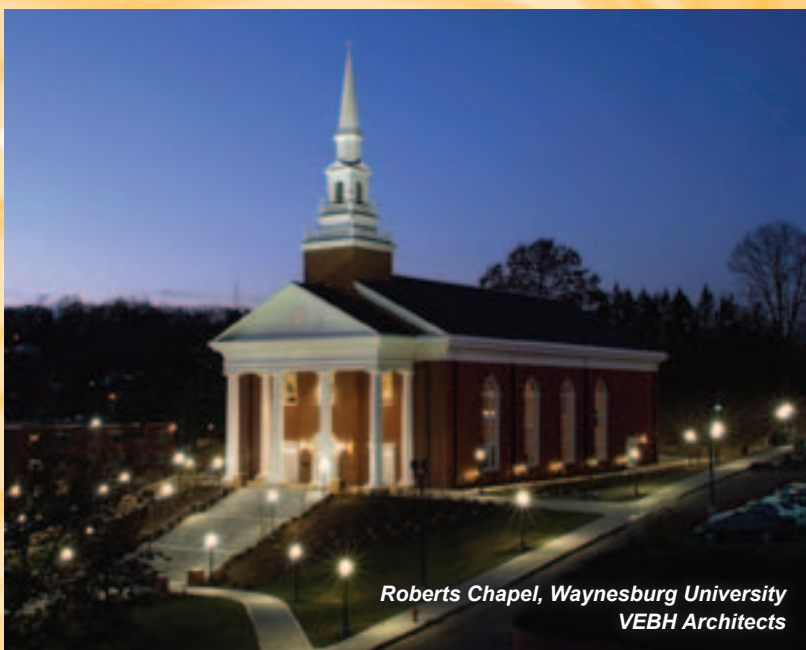
Penn State has also been pioneering alternative and progressive delivery approaches. It has been pushing the envelope for building information modeling and experimenting with true integrated project delivery agreements. Currently, the university is in the process of using design/build to deliver major projects, including a \$45 million residence hall in Abington, a \$28 million residence hall at Brandywine and a \$30 million new North Residence Hall at University Park.

The other bright spot for public higher ed is the re-emphasis on community colleges as an alternative to four-year degrees. Community colleges are increasingly seen as an opportunity for a more relevant and economical education, especially in light of spiraling student loan debt and an economy that is oversupplied with college grads. One by-product of the escalating



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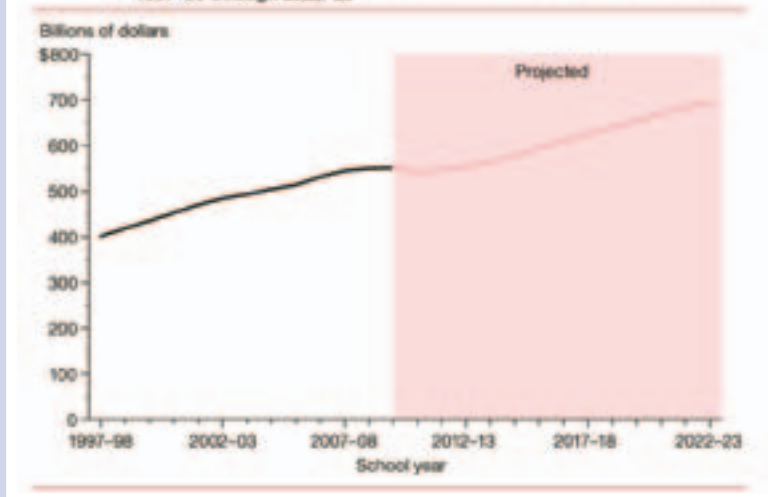
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Figure 13. Actual and projected current expenditures for public elementary and secondary schools (in constant 2011-12 dollars): School years 1997-98 through 2022-23



higher ed construction programs has been a steady increase in tuition and fees. For a number of economic reasons, the financial model of the past decade or so has become unfeasible for the student of the future. With manufacturing rebounding in the U. S., industry is finding an insufficient supply of workers with technical skills. The climate is ripe for community colleges to thrive and enrollments are growing even as four-year institutions have seen declines.

Community College of Allegheny College (CCAC) has benefited from this sea change, particularly as the workforce shortages have arisen in the emerging energy sector. CCAC constructed its new Leroy K. Irvis Science Center in an atmosphere of uncertainty about the viability of a community college science program. The educational marketplace has shifted in favor of CCAC since then, however, and the college has become the focus of more workforce and technical education.

At the moment, CCAC's major project in the pipeline is a new North Hills campus. The college is examining options for both new construction and adapting existing facilities in the northern suburbs for the \$40 million investment.

The K-12 Conundrum

Like the higher education sector, K-12 education faced both fiscal and demographic challenges after the recession of 2009. Unlike with higher ed, however, K-12 is overwhelmingly publicly-funded and faces a mandate to expand educational services if enrollment expands. If more students enroll in a public school district, those taxpayers expect their children to be educated.

A lot of conditions aligned very positively after the school construction drought of the 1970s and 1980s. Two principal factors

pushing a school construction boom in the mid-1990s were the favorable demographics of the Baby Boomers' children and the normalization of interest rates. The former fueled the need for larger and better spaces. In Western PA, the child-rearing Boomers drove significant growth in Pittsburgh's suburbs, creating more demand for schools. Interest rates that moderated close to the historic normal range around seven percent gave school districts the chance to issue long-term bonds that weren't burdened with heavy interest payments.

From 1995 through the early 2000s, nearly every large school district in the region undertook a major capital program, as did smaller districts with reasonable fiscal prospects (as well as a few with poor prospects). As that wave receded, the interest rate rollback in 2004-2005 gave school districts the chance to refinance earlier debt to find additional capital. Even after the financial crisis and recession – which damaged school revenue sources – long-term interest rates fell again and acted as an incentive for schools to make needed repairs or expand at little financing cost.

While it's true that the demographic makeup of the district should be the primary motive for construction, it's clear that the allure of historically low interest rates has created more potential supply than demand.

At the national level, elementary and secondary enrollment increased five percent between 1997 and 2011 and is projected to increase six percent between 2011 and 2022. Those increases are somewhat uneven however, as the largest cohort of Echo Boomers aged and moved through the system. Between 2011 and 2022, for instance, enrollment in grades 9 to 12 is projected to increase one percent. Given the extended nature of demographics, it would be logical to assume that the construction boom of the 1990s accounted for the advancement of the students born in the 1980s and 1990s; however, planned expenditures on public elementary and secondary schools are expected to grow 27 percent over the next 13 years, reaching nearly \$700 billion.

In Western PA, the demographic changes were in line with the overall makeup of the country but school districts have not planned to continue construction to the degree that appears to be true in other states. That may be because of more conservative thinking by educational leaders but it may also be because of the severe problems with the Commonwealth's primary mechanism for supporting local school construction.

Bond issues make it possible for school districts to do needed construction and finance the work over 20 years or longer, planning that growth in tax base will cover the debt service. The state of Pennsylvania plays a key role in supporting construction



by reimbursing a share of the school district's construction costs, based upon the relative wealth of the community the schools serve. That reimbursement comes at the end of an 11-step review process that includes studying the feasibility of the project, all stages of design, bidding and construction. The process is known as PlanCon, an acronym for Planning and Construction Workbook. PlanCon has never been popular but its protracted and outdated steps – which still mandate plans be submitted on microfilm – are not the problem. The problem is that PlanCon can't pay its bills.

The money that is reimbursed during construction of PlanCon-approved projects is allocated as part of the state's budget. During the final years of the Rendell administration, funding for PlanCon projects grew from \$296.5 million to \$330 million in 2009-2010. In Gov. Corbett's first budget, in 2011, that figure was cut to \$296.2 million and has remained there ever since. That amount is proposed for 2014-2015. By the Pennsylvania Department of Education's (PDE) estimate, \$296 million is roughly \$30 million less than is needed to meet the current annual obligations.

PlanCon funds were allowed to be used to reimburse districts for their obligation for charter school leases. The Legislature had also created incentives for green schools, adding as much

While it's true that the demographic makeup of the district should be the primary motive for construction, it's clear that the allure of historically low interest rates has created more potential supply than demand.

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as ten percent “bonuses” to the reimbursement for qualifying schools. Those funds came from PlanCon. By 2012, it was apparent that the system was not functioning and the decision was made to put a one-year moratorium on PlanCon, beginning November 1, 2012. The moratorium has yet to be lifted.

Since the moratorium was imposed, there has been an effort to reform the PlanCon process. Rep. Seth Grove (R-York) has sponsored HB2124 in an effort to create funding for the additional money needed to get current with reimbursements and to create a new process for approval. Called the Accountability and Reducing Costs in Construction Process (ArCon), it would reduce the number of review steps from 11 to five as well as mandate automation and set certain standards for reimbursement. The legislation has been called for vote three times without passage. With a \$1.4 billion budget deficit, the additional \$100 million sought in HB2124 has little chance of appropriation. Therein lies the rub.

“There’s nothing wrong with improving PlanCon but what good is ArCon or whatever new process there is if the funding isn’t there,” notes Georgia Glass, director of marketing and business development for Architectural Innovations.

State reimbursements of construction costs aren’t the only answer to the funding problems and by no means did reimbursement pay all the bills. But the share of the cost that qualifies for reimbursement was enough to make many projects feasible. In growing districts, reimbursement helped cover expansion as enrollment growth and tax

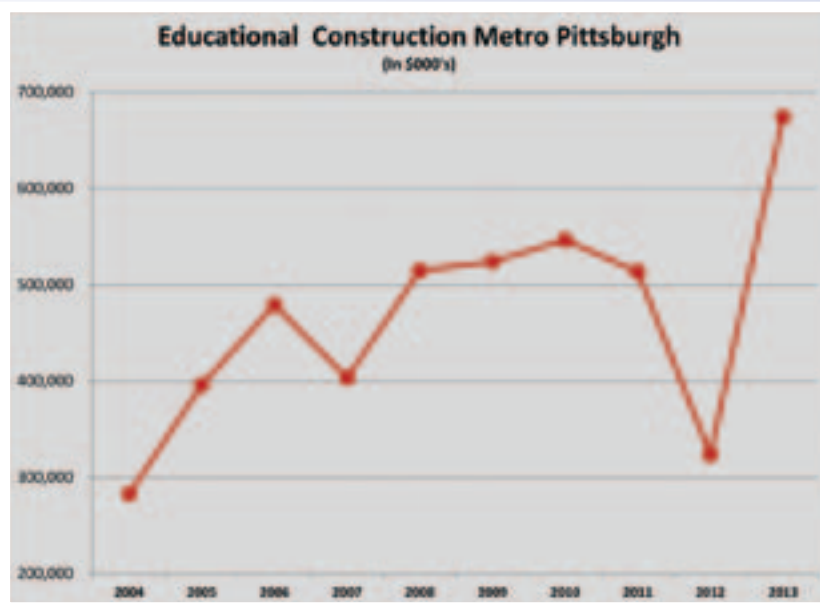
Mt. Lebanon’s High School is the largest K-12 project started in Western PA. Photo courtesy PJ Dick Inc.



revenues caught up. In poorer districts, the higher level of reimbursement made the difference that allowed facilities to be maintained and upgraded.

According to Timothy Eller, spokesman for PDE, there are currently 354 projects that are in the PlanCon pipeline at one of its 11 steps. Approximately 200 are stuck at Part G, the last step before approval is granted and payment of reimbursements begins. Many of these districts have been stuck just short of approval for two years. What makes this latter status so critical is that construction contracts are awarded at Step F, so virtually all of these 200 are under construction or completed. PDE estimates that \$105 million is needed in order to “catch up” reimbursements on those projects.

The PDE estimates the total of its obligations for all 2,200 projects ac-



Lower funding and changes to PA’s PlanCon system caused a significant decline in construction projects in 2011-2012.



DREAM BIG WORK HARD

Among the possible solutions for sustaining investment in public education is the creation of private partnerships for public schools. The Pittsburgh Promise is a private partner working with the Pittsburgh Public Schools to improve education one student at a time.

Executive Director Saleem Ghubril says that more than 70 corporations support the Pittsburgh Promise financially – eight invest more than \$1 million – and share at least part of the vision of the Promise.

“We have to get urban education right. If we don’t, we will all suffer the consequences,” he says. “Pittsburgh Public Schools is the largest system in the region and has the largest number of graduates. As a business person looks at it, those people will be customers and employees or they will be people we support through social services.”

The Pittsburgh Promise was founded in 2007 and is funded through corporate support, foundations and many individual gifts. Thus far the group has awarded 5,000 scholarships, some as much as \$40,000 for a four-year degree. According to Julia Shepherd, events and research manager, the aim of the Promise is to change the culture of education and the programs begin well before the application process.

continued on page 30

tively being reimbursed or in the pipeline is \$2.3 billion, with \$1.2 billion needed for the 354 projects stuck in PlanCon limbo. Those payments will be doled out over as much as 20 years but with new projects in backlog awaiting the moratorium’s end, it’s not obvious that the \$297 billion – or even the \$397 billion Rep. Grove proposes – can sustain reimbursements.

The Legislature has empowered a task force to study reimbursements as part of a reformed basic education funding formula and Acting Secretary of Education Carolyn C. Dumaresq has floated various ideas, some of which aren’t politically feasible.

“The Secretary has addressed ideas to solve the problem. None of them is endorsed but all are on the table,” says Eller. “We can continue as is and have a shortfall permanently or we can totally fund the \$1.7 billion with a line item appropriation or we can change the way projects are funded, up to the point of getting out of the reimbursement business completely. That’s the extreme position and I don’t think that’s one that is politically acceptable.”

Eller related two solutions that are more practical and could realistically resolve PDE’s dilemma. One is to make a one-time payment to districts that would be steeply discounted from the total reimbursement, but which would come at the beginning of the project. With proper fund management, a district could take 30 cents on the dollar and make that upfront payment fund debt service for 20 years. Another interesting option is for an annual “pre-imbursement” to be paid to all schools, whether or not they have a project planned. That money would go to a reserve account that would fund construction when adequate reserves were raised.

School districts have limited means for raising funds. For the most part, districts rely on property tax revenues that are collected as a percentage – or millage – of the value of the homes in the area. Schools benefit from higher property values or higher millage assessments. The current political climate rewards officials who can boast of not raising millage, so most school boards pray for appreciation and new sales (or better still, forced reassessments of home prices) as sources of revenue growth. Officials can’t control market conditions or the economy or some judge’s decision; therefore, if their citizens’ taxes go up without adding to the millage the fault isn’t that of the school board. The problems come when values decline – as they did in many places during the recession – or when the costs of operating and growing outstrip the taxes.

In a cash-strapped state with political leaders averse to raising taxes, the prospects for finding a way to pay for needed construction may lie with the voters. It has worked that way in states with worse conditions than Pennsylvania.

When the housing crisis hit, there may have been no state that suffered more than California. Not only was it home to large numbers of foreclosures, but the recession left California with huge operating deficits and larger debts. Decades before, California had ad-



opted a system whereby many major issues – certainly those involving taxation and public debt – were decided by referendum. Since the recession more than two-thirds of the school bond referendums have been approved, with the trend now at 80 percent.

During the recent benchmarking trip to Denver led by the Pittsburgh Regional Alliance, visitors from Pittsburgh heard how civic leaders in Denver used referendum and took advantage of the centrist majority to create funding for education and transportation upgrades. Denver voters agreed to new taxes by a large majority – primarily sales and usage taxes – that funded public improvements, including school construction. Conventional wisdom holds that Pennsylvania's citizens are more conservative and less diverse than Colorado's but if the results from State College are any indication, the residents of the Commonwealth may have the will to support such revenue increases.

State College Area School District has wrestled with one of the largest capital programs in the state for almost a decade. Just prior to the recession the district bid contracts for a new high school that came in during a period when few bidders would go to Central PA for a \$50 million project and few locals had that capacity. The bids came in high and school directors fell. By this year, that capital program had grown to \$115 million. Opposition to the projects had been strident at school board meetings whenever the topic was on the agenda but voters chose by a four-to-one ratio that the project should proceed. The bond referendum capped the debt at \$85 million but was also clear that taxes would be raised to meet the obligation. As of late June, State College Area was in the market for a construction manager.

The Outlook

One of the truisms of the stock market is "the trend is your friend." The trend is decidedly not friendly for businesses making their living in educational con-

struction. There are some niches that are friendly for specialty design firms or contractors but it's impossible to buck the long-term trends of demographics. By the same token, those trends will play out and reverse again.

Out of the difficulties being experienced in higher ed, community colleges have a chance to rebound. The problems in K-12 public education have been a boon to charter schools – al-



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"Students begin hearing about the Promise when they enter Kindergarten and there are different benchmarks along the way that we call the Path to the Promise," Shepherd explains. "Students know what their reading or math goals are for fifth grade, for example, so they understand what kind of progress they should be making."

The eligibility standards raise the bar in many Pittsburgh neighborhoods but are clearly achievable. To qualify, a student needs to maintain a 2.5 grade point average and a 90 percent attendance record.

Pittsburgh Promise is also focused on secondary education other than a four-year undergraduate degree. The organization has been involved with several workforce development organizations, including the ACE Mentor program for the design and construction fields. Pittsburgh Promise also recently reached an agreement with Community College of Allegheny County to fund students pursuing a technical degree. The program begins with the students final two years of high school and follows through by funding the two-year associate's degree at CCAC. The program dovetails nicely with the larger trend of growth for community colleges and meets one of the Promise's primary goals.

"At our base, the Pittsburgh Promise is a workforce development program," says Shepherd.

Ghubril explains that the Promise has three main goals. "The first is to drive hard and lean on the school reform movement. Second is to be a community and economic development tool: if urban kids are lagging, the region is lagging. Third, we want to infuse the region's workforce with prepared and diverse talent that is homegrown. The fourth thing we do is the driver for the other three: make higher education accessible for all students."

though the fiscal equation for those institutions may be changing – and to other private schools. In Pittsburgh, the last few years have been kinder to the parochial schools. In the fall, the new Cardinal Wuerl North Catholic High School will open in Cranberry Township. Central Catholic is embarking on a capital campaign that will see a new \$8 million STEM building and a field house added to the campus. And Vincentian Academy plans to spend \$12 million over five years updating and expanding its facilities.

For the most part, however, the rest of the decade will be challenging for educational institutions and the companies that serve them. The tougher conditions have caused larger school architects to become much smaller firms. Competition for construction management services has widened to include a number of small, owner representative companies. Perhaps the most notable characteristic is the fierce bidding that is following any significant opportunity.

Construction has started this spring on a number of the awaited projects. Among those are the \$27.6 million Freeport Area Middle School, the \$26.6 million Fox Chapel High School, and the \$20.7 million Penn-Trafford High School. In addition to the State College project, the pipeline of K-12 schools includes the \$40 million Montour PreK-4, the rebid of a \$40 million program for Forest Hills School District in Sidman and expansion projects for South Park and South Fayette that are planned for somewhat closer to \$20 million.

Even at long-time active institutions like the University of Pittsburgh – which still has an ambitious master plan – construction activity has slowed. Construction is wrapping up on the latest phase of upgrades at Benedum Hall and is underway at the \$27 million Clapp-Langley-Crawford Complex. The highlights of the coming construction cycle include only a \$7 million modernization of the elevators at the Cathedral of Learning and a renovation of Hillman Library. As has been the case for most of the past five years, all of these projects were funded primarily by the Department of General Services.

The opportunities during the next couple of years are as likely to come from consolidation as expansion, particularly in rural school districts. Assuming that projects submitted to PlanCon at the moratorium deadline moved through design since 2012, there should be roughly 75 school projects ready to bid throughout the state in the fall/winter of 2014-2015.

Dan Kiefer, director of preconstruction services for Massaro CM Services, may have described the conditions succinctly when he assessed the market. "The school districts that have money and are moving forward are moving forward with a full-blown team of architect and construction manager," he says. "Those without money are looking towards the election and hoping for a change in PlanCon." 



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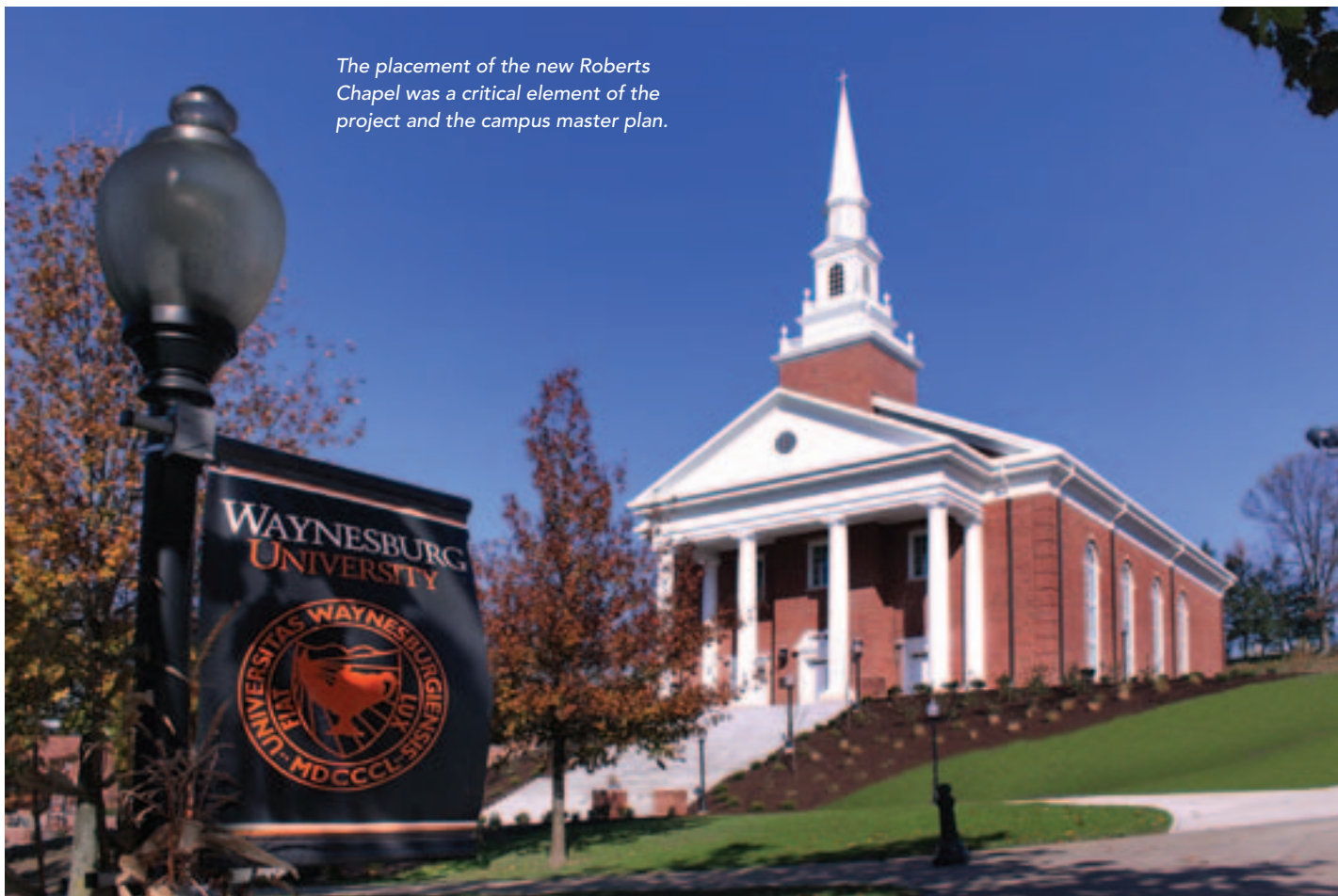
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The placement of the new Roberts Chapel was a critical element of the project and the campus master plan.



Waynesburg University Expansion

The change from college to university can be recognition of how a higher education institution has already evolved into many colleges over its history. In the case of Waynesburg University, the process was part of an intentional strategy to grow the institution's enrollment and matched up to a master plan that would re-shape the campus and the town that surrounds it.

Waynesburg University's transformation started in the late 1980s and over the

years the school has worked with several architects and contractors, usually seeking competitive bids. Since 2005, Waynesburg has relied primarily on a team led by Volpatt Construction and VEBH Architects. Two of those projects, Willison Residence Hall and the Stewart Science Building, had challenging circumstances that motivated Waynesburg's leadership to think outside the box. As with most successful programs, Waynesburg University's evolution was led by a strong and committed leader. The university's president, Douglas Lee,

is quick to refer discussion about the campus expansion to his predecessor, Timothy Thyreen, who is now chancellor of the university.

"What we were trying to accomplish was to move the university back to its founding mission," explains Thyreen, who was president of the university from 1990 until 2013 and guided Waynesburg through its transition from college to university. "Waynesburg was founded by abolitionists and the Cumberland Presbyterian Church."

The Center for Research and Economic Development.



Waynesburg University's growing enrollment dictated a new men's dorm be planned and built in less than 18 months.



Thyreen says that the college had two beautiful buildings in Miller Hall and Hanna Hall that were part of the campus since nearly its founding in 1849. By the 1980's, when enrollment was as low as 675 students, Waynesburg's campus was home to numerous private single-family homes and streets that weren't part of the college's property. Part of Thyreen's charge was to create a unified campus that could act as a magnet for the enrollment growth that was planned.

"I had the good fortune to meet Carl Johnson of Johnson Johnson & Roy," recalls Thyreen. He explains that Johnson taught him the role that architecture could play in creating a sense of community and place. Johnson also had a presentation quirk that played into the hands of a college president.

"[Johnson] liked to do water colors of the plan. Master plans are drawn so that you're looking at them from above. Donors don't understand that," he says. "I rolled up his paintings and took them to meet with alumni and

donors. The paintings allowed them to see what the campus would look like."

Over the course of the next 15 years a number of projects were done to move Waynesburg University into its master plan. After the economy recovered from the 2001 recession, however, the pace of construction and change accelerated.

Volpatt Construction had identified Waynesburg as a campus on which it would like to work. The college's vice president at the time, Roy Barnhart (since retired), liked Volpatt's resume of university experience and added the contractor to its list of qualified bidders. In early 2005, Volpatt was included on the list of bidders for a new building to support the college's business and economics education, the Center for Research and Economic Development (CRED). Volpatt succeeded in submitting the lowest proposal and completed the 15,000 square foot CRED building in 2006.

As the university's plans unfolded, enrollment began to grow significantly. A new Pollock Residence Hall had added 70 beds in 2005, but two years later the need was growing more rapidly. During the winter of 2007,



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Such an aggressive schedule required more certainty during planning and a different way of hiring the contractor.

then-President Thyreen began planning for a much larger expansion of living space. In February of that year, he approached the university's board of directors about the project. With the board informed, Thyreen set about getting VEBH on board to do the early planning so that he could get final approval of a more concrete program by May 2007. His plan was to have the additional 150 beds ready by the fall of 2008. Such an aggressive schedule required more certainty during planning and a different way of hiring the contractor.

"[Willison Hall] was in my head and no one else's still in April of 2007 and we had to open in 14 months," Thyreen recalls. Because of past projects, both Thyreen and the architect believed that Volpatt Construction should be involved during the earliest stages if the project was to succeed. Although Waynesburg had bid most of its projects, Thyreen had no concerns about

negotiating with Volpatt. "They had worked on some projects in other buildings that we felt very good about and their on-site person was someone I was very comfortable working with."

"Prior to this, everything at the college had to be bid, and due to the number of incoming freshman and the number of beds that they needed, Waynesburg needed it done for the following fall," recalls project architect John Reid. "By the time they notified us that they needed a new dorm the only way we could do it was by fast-tracking it and picking a contractor up front. I think they chose Volpatt because of the success of CRED. At that same time there were other construction projects going on that we were not the architects and Volpatt wasn't the contractor and from the owner's standpoint those jobs weren't going as well."

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"CRED was a very good project from our standpoint. We had the right superintendent on the job. The owner got along with him very well. We had minimal change orders on the project," says Ray Volpatt Jr., the company's president. When discussion started on the dorm, Roy came to me and said they had to have this done for August of 2008 and hadn't even started the drawings on it. We gave them a fee proposal and told them we would be up front with the general conditions and that any savings would go back to the owner, but that we would break out the line items and get competitive subcontractor bids. Roy's response to me was that he wanted the same superintendent as on CRED and that if that was the case, we would get the job."

The schedule on the dormitory was the key to the success of the project. Waynesburg was going to accept 150 additional students in Fall 2008 and there had to be a place to house them. Volpatt prepared a schedule and told Waynesburg that it had to get started on construction by June 1 or it couldn't ensure that the building would be ready in time. Even at an accelerated pace, VEBH couldn't finish the full design by June so Volpatt worked from the site and structural design and began construction through the foundations for the building. As might have been expected, those first stages of construction produced the project's major surprise.

"There was supposed to be a storm drain running through the center of the site but when [Volpatt excavated] it was more like a river. It was an open sewer that carried the stormwater for the whole borough," explains Reid. "What was supposed to be a pipe had to be a six foot by ten foot high stone culvert. We had to redesign the foundations around it and build a structured slab for the floor above it."

Through the stressful planning process, the university leadership would form a strong working relationship with the architect and contractor. As owner, Waynesburg University set the tone by quickly evaluating situations as they arose and providing timely decisions. Often times in fast track projects, both the architect and contracting teams can produce the work in an accelerated fashion but delays come from slow decisions. That wasn't the case with Willison Hall.

Willison Residence Hall opened on time for new students in Fall 2008. The successful working relationship between the team was appreciated but like most institutions, Waynesburg felt a measure of comfort by encouraging competition. Even as construction was wrapping up on Willison, the college returned to a design-bid-build model and put an addition to its Eberly Library out to bid. A year later, the same was true for the new Roberts Chapel.

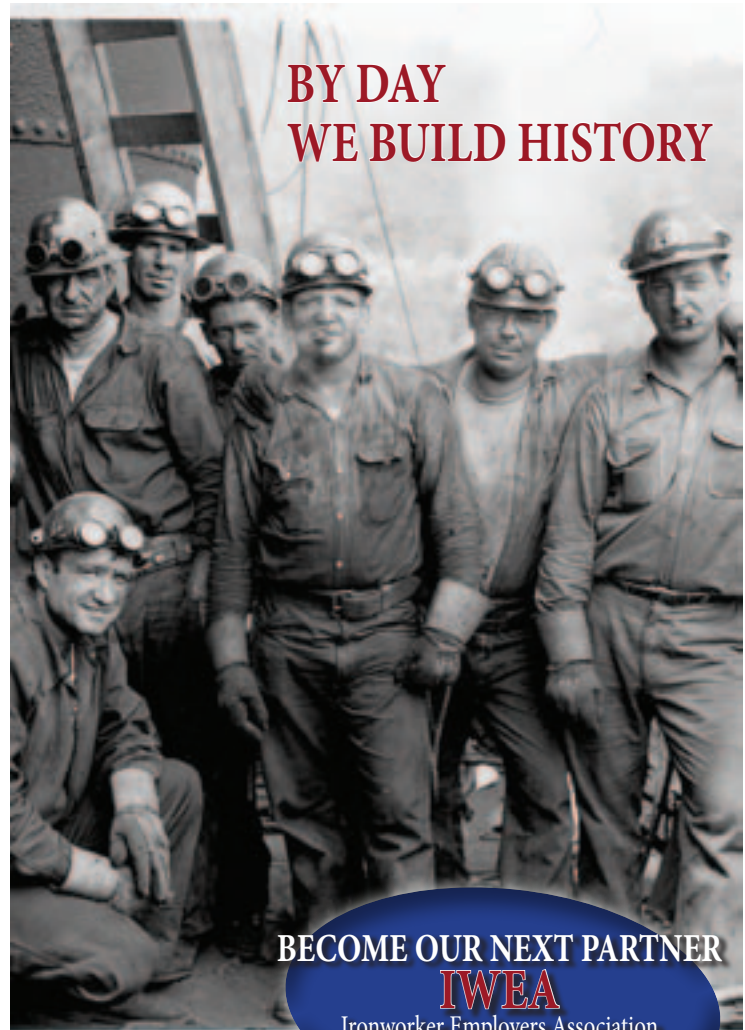
Roberts Chapel was an important architectural element to the campus master plan. The building was sited at the top of a hill near the highest point on campus. With its exterior lighting, Roberts Chapel is a central nighttime landmark in the Williamsburg-like architecture of Waynesburg University, yet the site was the project's principle obstacle.

"Roberts location was the challenge. It sits on a hillside in the heart of campus," explains Mike Uhren, Volpatt's senior manager. "The difference in grade from the steps in the front of the building to the floor level at the back of the chapel has to be 30 feet."

Through the stressful planning process, the university leadership would form a strong working relationship with the architect and contractor.

In addition to the grade change, test borings showed the presence of pyrite and coal seams from past mining. To mitigate those conditions, the design called for overexcavation of eight feet beyond the depth of the foundations, with concrete poured to fill in the void. The project gave Volpatt a chance to demonstrate its craftsmanship and it gave VEBH the challenge of blending colonial form with 21st Century function.

"If you go into that building the quality of the construction speaks for itself," marvels Dan Engen, VEBH principal. "If you touch the woodwork in the chapel you can feel the quality. And yet it's a high tech building. We have ice storage in the building. It's a very green building."



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The interior of Roberts Chapel combines colonial architecture with 21st Century technology.

"The acoustics in Roberts are unbelievable," says Volpatt. "They can have their orchestra rehearsing in the basement and you don't hear it in the sanctuary right above."

Both Volpatt and the principals at VEBH view Waynesburg University as a repeat client, even though neither expects to be handed work. Like most businesses, each would enjoy having no competition, but each realizes that is unrealistic and immaterial to how their working relationships should function. Ray Volpatt says that attitude has guided their approach since his company's first projects at Waynesburg.

"The feeling in our office was that if we were negotiating this \$8 million dorm, we better be the low bidder on the library,"

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laughs Volpatt. He says Roy Barnhart regularly told him that other contractors had visited the campus marketing their services. He also understood why Roy told him about the visits. "That's part of the story. We had to continue to be successful bidding the projects at Waynesburg to keep the work on campus. And then when this Stewart Science Building came along it seemed to make sense to them to continue to working with us because of the success we had with them on the other projects."

Stewart Science Hall is a 1960s-era, 60,000 square foot building that had become obsolete as a teaching laboratory. Its architecture is of its time, rather than that of the balance of campus. Waynesburg University asked VEBH to study the feasibility of renovating versus building a new

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building. Like in past, the architect believed that a contractor's input was critical to the planning process.

"It was similar to [the dorm] in that they needed someone on board very early. Once the decision was made to renovate the Stewart Science Building we did a master plan for the phasing and we needed to talk with someone who understood construction sequencing so we could figure out what could be accomplished when," says Reid. "That whole process of how we can keep people in this building over five years when we have such a short duration over the summers to get a lot of work done was extremely difficult. "

The decision to renovate Stewart Hall or to build a new building turned on a variety of factors. Mike Uhren points out that Volpatt's estimates for each option were close but that the cost of new construction would have been less. But taking a new construction direction also would have created an up-front funding need and likely would have delayed construction while more than \$20 million was arranged. A multi-year phased project was more easily managed from

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a fiscal perspective. And ultimately, not all of the factors were objective.

"When a building is named for a former president who served faithfully from the 1920s to the 1960s, you can't just tear it down," notes Thyreen.

Summer 2014 marks the second year of renovation for Stewart. A stair tower/elevator addition of 5,000 square feet was done during the first year and the building will ultimately be gutted and rebuilt from systems to finishes. Each summer brings new problems that could not have been foreseen but the team – which includes virtually the same subcontractors who have bid on all of Volpatt's projects at Waynesburg – continues to solve them in the same manner.

It's clear from speaking to both Reed and Uhren that the two are comfortable solving problems together. Working on projects like Stewart can strain an architect-contractor-client relationship because of the many opportunities to dispute unforeseen issues that arise. Reid says that that kind of friction doesn't exist.

PROJECT TEAM

Waynesburg University	Owner
Volpatt Construction Co.	General Contractor
VEBH Architects	Architect
Commelec Inc.	Electrical Contractor
SSM Industries Inc.	HVAC Contractor
McKamish Inc.	HVAC Contractor (Roberts Chapel)
Bruin Roofing	Roofing Contractor
J. J. Morris & Sons	Interiors Contractor
Patrinos Painting	Painting Contractor
Southwest Aluminum & Glass	Curtain Wall
River City Glass	Glazing

"By the time that there's a question or a problem, their superintendent has already figured out a way to solve it that is cost effective. There isn't any 'the architect got this wrong' in those meetings," he says. "Volpatt comes to those meetings prepared to be part of the solution."

Volpatt Construction and VEBH have several repeat clients in common and the cooperation between the companies goes back to working relationships between Ray Volpatt Sr. and Lou Valentour. At the center of the working relationship is a shared value that each company, and its leaders, places on assuming their clients problems and solving them. At Waynesburg University, neither company has been a lock for the next job. While Volpatt has been asked to bid on projects, VEBH has found other architects handling projects at the same time it was designing the Willison Hall or Roberts Chapel. Each year seems to have brought another opportunity back to VEBH.

"I think the reason we have remained is that we listen. We've tried to respect the design aesthetic of the campus, weaving our projects into the existing architecture so the whole campus looks unified," notes Engen. "We didn't try to build our own personal monument to ourselves and what's inside the building is designed with intelligence. That's ultimately what we're about anyway. Everybody says they provide service but [John] has spent virtually his whole career working at Waynesburg."

Volpatt doesn't have 15 years experience working at the university but Ray Volpatt Jr. believes the administration at Waynesburg University has come to rely upon his people.

"They trust that we're going to give them the right answers. That we're going to treat them well. They know they're going to get quality construction," he says. "In the end they like our people that work there." **BG**



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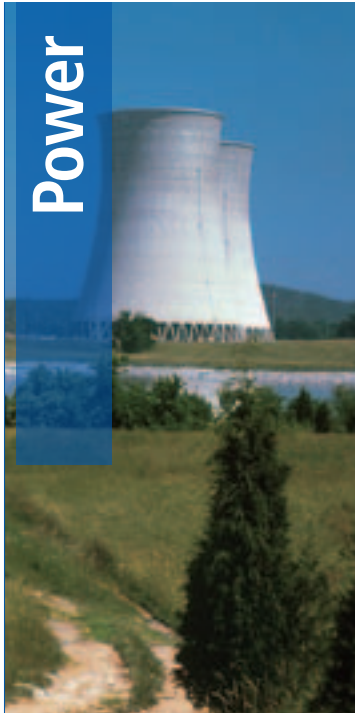
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McLean Architects

By Deborah Knox

Three generations spanning more than 80 years of specialization in the K-12 sector gives McLean Architects an historical perspective that few firms can offer. Keeping the business viable during market swings has led to some diversification, but education is their core work and Owner Dave McLean tries to stay ahead of trends to keep his 11 person firm busy. And busy they are.

"The original firm, Button and McLean, was founded in 1932 and was one of the largest firms in Pittsburgh until the 1950's," said Dave McLean, great nephew of the founder and current Principal and Owner. Then, Victor Graves, a nephew of the founder, joined as managing partner from 1959 until 1998, when Graves & McLean was established with Dave McLean. After Victor Graves passed away in 2011 he converted the name to McLean Architects. During Graves' tenure, the work was 80-90% in education, with some municipal work, and by the end of Graves' stewardship they had diversified a bit so that work was 60% K-12, with the remainder in medical and private commercial and residential work.

While Dave has been with the family firm for most of his career, as a young architect, he explored the field. He graduated from the University of Notre Dame, earning a Bachelor of Architecture degree in 1982, and as part of that program, he studied and lived in Italy for a year. The Notre Dame program has a classical concentration, and traveling around Western Europe "has a way of getting into your blood," he explained. "In Europe there's a sense of permanence – more than just the architecture. He also said it gave him a "significant respect for proportion," and referenced the work of Andrea Pollatio as an inspiration.

After college, he returned to the family firm as an intern and completed his IDP (Intern Development Program) requirements, passed his exams and became a registered architect. "This is a family firm, so it was a wonderful advantage," he added. Unfortunately, in the early 1980's the region's school enrollments were down and school funding decreased, so there wasn't a



David McLean

Three generations spanning more than 80 years of specialization in the K-12 sector gives McLean Architects an historical perspective that few firms can offer.

lot of school work. McLean researched other sectors and discovered that the healthcare sector was "exploding," as private and public funders were pouring money into hospital expansions, new equipment and technologies for cancer treatment. He became the in-house architect for Forbes Health System – a branch called Med-Builders, and worked with them for five years.

His next career shift in the late 1980's was into the public housing sector. HUD was allocating funds to renovate the aging Allegheny County public housing stock, spending approximately \$30 million per year for renovations. Dave became a Staff Architect, and later Director of Planning and Development for the Allegheny County Housing Authority – and he was only 30 years old at the time.

"The amount of work was incredible. At any given time we would have three or four \$12 million projects running at the same time," he explained. A lot of the work involved renovating housing that hadn't been updated since the 1940's.

He returned to Graves and McLean, and they completed two renovation housing projects, Homestead Apartments and the McKees Rocks Terrace, that had been designed and built by their parent firm in 1942. They renovated the Homestead Apartments again in 2000.

Now the firm's portfolio is quite varied. Because they're on the South Side, they have relationships with the business district. "We had the opportunity to design the Carson City Saloon in an historic, former bank building," he explained. "It has a classical façade, built

in the mid 1800's that they couldn't change, but we did some very interesting things on the inside with finishes and the vault, and built a mezzanine. Then, a few years later they returned to design an outdoor rooftop serving area. Because they couldn't just put up a railing and deck, they had to drop the old 1800's roof trusses to drop a new roof level down. "

Even with those segues into other sectors, K-12 remains the firm's core, and the firm is Architect of Record for several school districts – West Mifflin, Upper St. Clair, Jeanette, Avella, Central

Greene and the Parkway West Career and Technology Center, a vocational-technical school that covers several districts in the western part of our area.

"We are busy with those districts all the time," he explained. They have a lot of seasonal work when kids are out of the building, such as renovating auditoriums and classrooms. Their school projects include a lot of sports facilities and related site design - fields, tracks, athletic complexes. All of those projects have significant site considerations, such as integrating stormwater issues. They constantly work to incorporate more innovative permeable pavements and natural landscaping.

ON THE BOARDS

At Central Greene School District they are renovating an auditorium and designing security upgrades. They are also analyzing demographic data for the district to possibly consider consolidations or other changes.

They're designing a microbrewery in Bethel Park, Spoonwood Brewing Company, due to open in September. "It's a really exciting bar-restaurant project," explained McLean. "We've had to learn how beer is made - and the design has glass walls so both patrons and passers-by will be able to see the brew area."

They have two municipal projects underway: a Public Works building under construction for Jefferson Hills Borough and a new Public Works building and salt storage facility in design for Ross Township. He added, "These projects are increasingly technology-intensive. What's noteworthy is that with the winters that we've had, our clients are thinking carefully about how they handle their salt storage since salt prices are volatile. If they can purchase it at the right time, they don't have to buy when they are in dire need. So many districts were stuck last year" due to salt shortages during the prolonged cold winter.

One current residential project is the Gordon Farm in Waynesburg. It's an historic property, developed in 1843. A Virginia family bought a large stone home that has a Palladian plan. They're restoring and adding on to the residence to make it work for modern family life.

McLean said the staff enjoys their residential work because it has a different intensity. "People will make quick decisions about their business architecture, but that same person will want design care for their own home. For large projects, the architect is managing a team. "On a residential project, if you relax and give it the time that it needs," the outcome is very satisfying for the owner and architect. He added, "When I was a little kid dreaming of becoming an architect, those were the kinds of projects I imagined."

He discussed the advantages of keeping the firm small, with highly skilled staff. "If [a client] is hiring the firm, they are hiring you. We always tell clients you get the first string here. We do not take work on that we can't handle directly" and McLean handles all of the client contact personally. The other advantage is that decisions can be made quickly, and they work closely with their contractors.

So what are market trends today? Right now in the short term, districts are very challenged from a budget perspective and the governor "has the purse strings tied for now." There are capital improvements that districts need to make, and make them carefully. "We're talking about roof and flooring replacements, those kinds of things," he explained. Several districts are considering program consolidations or closing buildings. He added that the natural gas industry has affected the regional economy from a demographic and funding perspective, as some suburban and rural areas have grown.

Another trend is the evolution of special education programs. "Schools need more space for special education programs. There are great programs for kids who are mainstreamed but need special assistance and there are a range of services in a well-designed school to nicely integrate those services through design," he said. Life skills special education rooms have a full bath including shower and changing areas, as well as washers/dryers and kitchen areas for both functional and instructional use. These designs require input from special education curriculum directors, teachers, and student aides.

His K-12 clients are still using a traditional model with the primary grades being taught with an emphasis on teacher-student interaction. "It's at

the middle school level that technology now serves to allow more independent learning and discovery," he added. "We are finding that districts are changing grade configurations to allow younger grades to access distance learning and web-based curriculum. Traditional middle schools were grades 6-8. Because of comfort with technology, we're finding 5th and even 4th graders entering the middle schools. The design challenges are blending the primary and middle school models - so the younger grades can benefit. Smaller-venue theatres, for example, serve young middle schoolers better for performances and plays than larger, more intimidating auditoriums."

The design trends also result in needed building upgrades, such as technology centers. "Those kids are tech savvy on their own. They are growing up in a digital world and are able to benefit from technology at a younger age. That's the most important trend," he explained. "The programs are pulling kids into sophisticated technical training and all that goes along with that. It's stunning." 

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Financial Perspective

What is My Business Worth? The Keys to Valuing a Closely-Held Business

By Robert J. Zahner, CPA CVA and Kelly L. Bianco,
ASA, CBA, CPA, ABV, CFP

Many entrepreneurs have spent a lifetime building their businesses, and for some, those businesses represent their largest personal asset. It makes sense, then, that owners want to know the value of their businesses. Rather than seek the advice of a professional, however, too often business owners speculate about what their business is worth. More often than not, owners tend to overestimate the worth of their businesses.

A business valuation can provide an owner with not only a precise valuation, but also a greater understanding of the factors that influence value. Given enough time, an owner can utilize this information to achieve a successful exit of their business, whether that exit consists of passing ownership on to the next generation in the most tax advantageous scenario or maximizing after tax proceeds in a sale to an outside buyer.

So what are the factors that influence value? Risk and reward. Reward is measured by return, which typically corresponds with a business's profit. While past profitability is certainly relevant, it is important to remember that buyers are more interested in the future returns that will be generated by the business. Buyers will analyze the last three to five years of historical performance, all with the goal of determining how the company will perform in the future. Analysis of trends in revenue, margins and expenses reveals operational and competitive conditions that drove the results. For example, fluctuations in a contractor's revenue might be driven by economic downturns in their end markets. Squeezed margins might be a result of increased competition in bidding jobs or an ineffective estimating department. Clearly, financial performance is inextricably linked to the strength of the business's operations. For this reason, buyers place a great emphasis on the company's background and operational profile.

Company Background and Operational Profile

Company background has a large impact on business valuation. Is the company fairly new or well established with a long history? Neither is necessarily always favor-

able or unfavorable to value, but a newer, unproven company is often considered riskier than an established company. Conversely, an established company may simply be scraping by year after year or sustaining itself with constant capital contributions from its owners.

Other factors influencing value include risk arising from concentration. Too often, businesses are reliant on a few key employees or a significant customer. A diverse and complementary management team is much more attractive than a business reliant upon just one key individual. And, a company that sources over half of its revenue volume from one customer forces an investor to consider what would happen if that customer went out of business or if the company-customer relationship soured. Would the business be able to continue?

Finally, a company's competitive landscape and market position also help to determine its value. Fierce competition in markets and industries with low barriers to entry, as well as small market share can depress value. Conversely, competitive advantages and strong market positioning increase value.

Industry Analysis

No company conducts business in a vacuum, therefore industry-wide factors must also be taken into consideration. Current conditions, as well as short and long-term industry trends, impact the overall business risk of the specific company being analyzed. All reasonable threats and risk factors as well as industry opportunities are considered.

Financial Analysis

The factors discussed above are primarily qualitative factors, but specific financial analysis of the subject business is very quantitative in nature. As outlined previously, although business valuation is a forward looking concept, historical financial statements are useful in telling the story of where the company has been and where it is trending. Historical financial statements provide a strong basis for valuers and investors to understand the company. Trends in revenue volume, profits and margins are important quantitative metrics.

A company that has consistently increased revenues each year, and forecasts the same in the future, will be worth much more than the company that has consistently fallen short of forecasts. Alternatively, consider a company whose revenues and profits have been quite volatile. This fluctuating performance makes forecasting difficult, leaving buyers with a greater sensitivity to risk.

Of particular importance to many contractors is how the recent recession impacted value. A slip in revenue, margins and/or income from operations during a global recession does not in and of itself paint a negative picture of the company. Many contractors weathered the recession better than their competitors, rebounding to pre-recession revenue volume more rapidly and with a leaner cost structure.

A company's balance sheet is also important in analyzing its value. Is the company highly leveraged? Does it have the liquidity to meet its short term commitments? What amount of cash is tied up in receivables and unbilled work in progress? All of these items influence risk and the cash flow generating capacity of the company.

Adjusting the financial statements is a critical exercise in the financial analysis of a company. Many items can distort private company financials. Owner compensation becomes a key issue to consider in valuing a company. In assessing this, a buyer asks, "What would I have to pay to replace the owner?" An understanding of the owner's role, expertise, and time spent in the business are all key factors that need to be considered. Other items that distort profits include accelerated depreciation, related party rents, and above market fringe benefits such as vehicles, travel, meals and entertainment.

Valuation

Once all of the above factors have been taken into consideration, a buyer, or appraiser, is poised to determine value. There are three approaches to valuation; the asset approach, the income approach and the market approach.

The Asset Approach

A contractor's balance sheet often reflects property, plant, and equipment at net book value, which is original cost less depreciation. Given the benefits of accelerating depreciation, rarely does the value listed on the balance sheet correlate to the "real value." Under the asset approach, the assets are reviewed and marked to fair market value. Liabilities are netted against the adjusted asset value to derive the indicated fair market value of the business.

The Market Approach

Most people are familiar with multiples: whether it's an earnings multiple or a revenue multiple. These multiples are the foundation of the market approach. The market approach relies on prices paid in transactions of comparable private or public companies. The prices are divided by a variety of metrics: revenue, EBITDA (earnings before interest, taxes, depreciation and amortization), EBIT or earnings, to derive multiples. Once a population of multiples is accumulated, the appraiser analyzes the results to arrive at the appropriate multiples for the subject company.

The Income Approach

The last approach to valuation is the income approach. As already stated, valuation focuses on two key points, risk and expected company performance. The income approach incorporates both. The future returns are forecasted and brought to a present value using a rate of return that is adjusted for the business's specific assessed risk. To determine the appropriate rate of return, buyers assess the rates of return being generated by alternative investments. Historically, large public companies generate a 10% rate of return. Small cap investments must provide an additional 6% to induce investors to assume the risk associated with their small size. Considering that most private companies are substantially smaller than those traded on the public exchanges, an additional premium is often warranted. Overall, most companies with revenues less than \$200 million have equity rates of return that range between 18% to 25%. Given that debt is a cheaper source of capital, the overall weighted average cost of capital is reduced.

What business owners need to take away from the above discussion is that value is not only a quantitative exercise. Choices that influence risk and return have a dramatic impact on value.

With this knowledge, business owners can consciously manage their companies in a fashion that reduces risk, maximizes profits, and increases value as a result.

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Legal Perspective



Predictable Uncertainty: The Aftermath Of Mechanics' Lien Litigation In The Wake Of The Bricklayers Case

By Robert J. Bluming, Esq.

As a young attorney, I had the privilege and benefit of being trained by one of Pittsburgh's most accomplished construction lawyers, the late Jack W. Plowman. When learning the mysticism of mechanics' lien practices, I recall the mantra he extolled: "Mechanics' liens are creatures of statute in derogation of the common law." I still like the way the phrase just rolls off the tongue.

But, what does the phrase really entail and, importantly, how did the case of *Bricklayers of W. Pa. Combined Funds v. Scott's Dev. Co.* reverse that orthodoxy in a manner that will expand mechanics' lien litigation.

In order to analyze the impact of *Bricklayers*, we have to distinguish the difference between statutory law and common law. Statutory law is the intent of the legislature

embodied in written laws called statutes. Statutes remain within the purview of the legislature and cannot be changed or modified by courts.

Common law, on the other hand, is the Darwinian result of ever-developing court cases guided by the precedent of past decisions. Common law doctrines are often re-configured by the courts in a dynamic process of reviewing and applying the law as a function of current social, political and legal policies in any particular period of time.

Mechanics' Lien Laws (MLL) cannot exist unless enacted and embodied in a written statute. There is no such thing as the common law right of mechanics' liens.

Often, courts construe statutes to effectuate their legislative intent if there is some ambiguity or incompleteness in the wording of the statute. After all, it is impossible to set forth in a few written words a framework that can resolve every conceivable set of future facts, circumstances or legal theories.

When construing statutes, courts take two approaches, "strictly" or "liberally." "Strict" statutory construction means that the court must scrutinize the precise wording of the statute and presume that the legislature intended nothing further; no more nor less than the everyday plain meaning of the words themselves. It further means that the claimant must "strictly" comply with the statutory requirements.

Conversely, the practice of "liberal" construction of statutes allows courts to consider moreso the purpose of the statute and the overarching goals of the legislature in enacting the statute, recognizing substantial compliance with the statute.

The two forms of statutory construction can often make the difference between a case staying in court or being dismissed. In circumstances of strict statutory construction, courts are more likely to dismiss lawsuits that do not rigidly comply with the precise words of the statute. In a liberal construction of a statutory case, courts are more likely to forgive claims that on their surface do not meet the exact words of the statute, but nevertheless substantially comply with the perceived statutory goals.

MLLs have always been viewed as being in derogation of the common law. That means that MLLs give unique, almost superpowerful, rights to claimants on construction projects that they would never have in normal commercial transactions. For example, one could ordinarily assume that when a project owner and a general contractor enter into a contract, if the contractor is not paid, the contractor would have a right to sue for payment and obtain a lien upon the owner's property. MLLs, however, go beyond that normal expectation and provide lien rights to subcontractors (and, since 2007, in Pennsylvania, to sub-subcontractors). Thus, the statute gives lien rights to parties who never signed a contract with the project owner.

A reverse example of the extraordinary features of MLLs is the waiver of the right to file a mechanics' lien. Again, in a contract between a project owner and a general contractor, one might assume that the general contractor can waive its right to file a mechanics' lien if it so chooses. However, under certain circumstances, the general contractor has the right to waive the mechanics' lien rights of its subcontractors and sub-subcontractors without them even consenting to the waiver.

Normally, in a commercial transaction, contractual rights would be limited to those terms and conditions set forth in the contract between the two parties. Tom Waits once sang that "the large print giveth and the small print taketh away." MLLs both giveth and taketh away rights to and from parties who are not in privity with the person whose rights are being affected.

Because MLLs bestowed and curtailed powers and rights to persons not in privity with those affected, they were always considered to be in derogation of the common law. When construing statutes in derogation of the common law, Pennsylvania courts have always followed the road of strict construction. Thus, for over a century, parties who did not meet the exact terms of the MLLs in their claims and pleadings were dismissed from the courthouse.

In Pennsylvania, only "contractors, subcontractors and sub-subcontractors" have the right to file mechanics' liens against the owner's property. The statute expressly says that other "persons" who provide labor and materials to a construction project are not entitled to file a mechanics' lien claim.

The issue in *Bricklayers* was fairly straightforward. A general contractor on a project for Scott's Development had failed to pay the union benefits that were owed to the Western Pennsylvania Combined Funds and Laborers' Combined Funds for its employees. The Trustees of the Funds asserted MLL claims against Scott's Development's property, arguing that the employees were "subcontractors" for purposes of filing a mechanics' lien claim, and that the Trustees stood in the shoes of those "subcontractors."

The Pennsylvania Superior Court, in 2012, ruled that the Trustees were entitled to file the liens and met the definition of "subcontractor" within the meaning of the statute. On April 17, 2014, the Pennsylvania Supreme Court re-

versed that decision holding that the Trustees did not qualify as "subcontractors" for purposes of filing a mechanics' lien claim.

In order to understand the two Courts' rulings on the precise issue, it is a relatively simple exercise in reading the opinions as to how each appellate panel viewed the status of subcontractors, employees and union benefits fund trustees. The Superior Court felt that they were all somewhat the same; the Supreme Court disagreed.

The focus of this article is not the isolated issue of whether union benefits fund trustees can file MLL claims or not. Rather, the nucleus of this article is a distinct, separate bold ruling by the Superior Court; one that went unaddressed by the Supreme Court.

The Superior Court, in its opinion, undertook a tortuous analysis of Pennsylvania common law and statutory law comparable to sleuthing through "The Da Vinci Code." The court examined caselaw from 1901 to 2006; dissected the precise words of the MLLs of 1901 and 1963; and analyzed the Statutory Construction Act of 1972; the Joint State Government Commission 1964 Report on the MLL of 1963; and the 1874 and 1968 Pennsylvania Constitutions.

After exhaustively decoding the cryptic and intertwining words of those precepts, the Superior Court made the following pronouncement: "For these reasons, the 'derogation of common law' precept violates the commands of [the Pennsylvania Statutory Construction Act] and should no longer be used in connection with the Mechanics' Lien Law of 1963."

WOW!!! In that ruling, the Superior Court turned 113 years of MLL jurisprudence on its head. Actually, no . . . the Superior Court dropped on its head from 20 stories the creed that all construction lawyers and jurists had worshipped for 121 years with legal predictability and certainty being the casualties. Henceforth, courts are now to apply the doctrine of liberal construction in mechanics' lien cases, and will look for "substantial" compliance with the MLL, and not "strict" compliance.

In its reversal of the Superior Court, the Supreme Court never addressed, touched or whispered a word about the Superior Court's proclamation that the Pennsylvania MLL was no longer in derogation of the common law, ignoring the detonation that had occurred in the lower court.

This author foresees many significant construction industry legal and practical ramifications from the foregoing rulings. With the Superior Court's holding remaining as legal precedent, all mechanics' lien claims, cases, theories, claimants, etc. will now be given review by the courts for "substantial" compliance. This means that even more MLL claims will be filed, particularly in light of the 2007 Amendments that opened the torrent of MLL litigation.

If a claimant were previously in doubt as to whether their MLL claims could be asserted, so long as they now have a reasonable, good faith legal position (or arguable ex-



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tension of existing law), they will be able to pursue those claims against project owners' properties.

This also means that project owners and general contractors must employ greater diligence in their construction project management to ensure that downstream subcontractors, sub-subcontractors, vendors, materialmen and others are being paid from the distribution of project proceeds.

There is another quirk to the two appellate courts' decisions. Under the 2007 Amendments, no-lien agreements are now only enforceable against subcontractors if the general contractor posts a payment bond on the project. The Supreme Court ruled that union benefits funds cannot file MLL claims. However, if a valid no-lien agreement is recorded and the general contractor posts the requisite payment bond, most likely the union benefits funds could file a valid payment bond claim. That paradox arises from the fact that most payment bonds refer to "persons" providing labor or materials to projects, and not the word "subcontractor." That irony itself requires that project owners and general contractors now look carefully at the terms of the payment bonds posted in connection with no-lien agreements.

The Superior Court's ruling regarding the statutory nature of the MLL, and the Supreme Court's disregard for that entire issue, extend light years beyond the result for the union benefits funds. So long as the Superior Court's edict holds, there will be ever-expanding classes of claims and claimants pursuing MLL actions. The legal battlefield of mechanics' lien warfare is now ripe for further onslaught. As Marc Antony foretold in "Julius Caesar, "Cry 'Havoc' and let slip the dogs of war."

Robert J. Blumling is the managing partner of Blumling & Gusky, LLP. He has been recognized for his accomplishments in construction law by Best Lawyers In America and by Pennsylvania SuperLawyers. 

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MBE/WBE Company Spotlight



"My education and training as a civil engineer was about factors of safety piled upon factors of safety," says Winston Simmonds with a chuckle. "My background as an engineer is at odds with what it takes as an entrepreneur. Engineering is somewhat counterintuitive to running a construction company."

Simmonds is a Toronto-born civil engineer who followed a successful career path working in the kinds of pursuits that one would expect an engineer with a passion for transportation to follow. After graduating from Ryerson University in 1989, Simmonds worked for Canadian Pacific Railroad but found the job was more about freight logistics than engineering. He worked next for the Toronto Transit Commission on the rail car renovation program and then in 2000 took a leap in his career by moving his young family to Seattle to work on the design of the Seattle Transit Authority's new 14-mile system.

"I had worked on old systems before and wondered what idiot had designed some of the things we had problems with," he jokes. "Well, I wanted to be one of those idiots!"

In 2004, Simmonds had the itch to round out his experience by managing the day-to-day operations of the Allegheny County Port Authority and moved to Pittsburgh. During his nine years at the Port Authority, he took on more operations responsibility and eventually

was involved in the management of the North Shore Connector project. There he got the chance to work with the Trumbull/Obayashi Joint Venture and talk about the business with Trumbull's president, George Mezey.



Winston Simmonds

As the Connector project wound down, Simmonds found he was thinking about his next challenge. He knew that he was happy in Pittsburgh and had long considered the possibility of owning his own business. In mid-2011 he came back to some of the people like Mezey and Brayman's Steve Muck that he'd met to talk about what he was planning. He was surprised that each person encouraged him to pursue his business idea, especially since Simmonds planned to start a general contracting business. He knew he would pursue MBE certification and had been curious about what his potential clients would need.

"I asked them what they needed from the DBE subcontractors that they worked with," he says. "The feedback I got was that there were a lot of suppliers and service companies but not many general contractors."

The company he founded works primarily in the heavy/highway and infrastructure sector. Simmonds Construction Services acts as a general contractor for smaller bridge structures but mainly works as a subcontractor handling foundations, culverts and other concrete structures, site and heavy industrial electrical construc-

tion. Because of his experience, Simmonds has taken on some pure construction management service projects and performs inspection and project management.

Simmonds Construction has built an 85-foot rails-to-trails pedestrian bridge for Ligonier Township, a 26-foot aluminum arch culvert for Clay Township and a concrete box culvert in North Fayette Township. It has also acted as a subcontractor to heavy/highway contractors like Brayman and Trumbull Corp.

Having most of his time working for construction project owners, Simmonds has the benefit of that perspective as a contractor, something few construction company owners have. While not every owner will have the same

As he looks to the future Simmonds is intrigued by opportunities to expand his involvement in the projects he does. "In heavy and highway work you self-perform so much of the work, maybe as much as 80 or 90 percent. The more of the project you control, the more value you can bring to the customer and the more competitive you can be," he observes. One of the opportunities he sees is for manufacturing and fabricating some of the elements Simmonds Construction Services installs, like the sound walls and precast structures they subcontract currently.

Winston Simmonds sees growth as his primary objective as a business owner. He tries to remain mindful of the purpose of his growth plans. Outside of his role at

**"AS AN OWNER, I ALWAYS TRIED TO
FOCUS ON WHAT WE WERE TRYING TO
ACCOMPLISH," HE SAYS. "THAT WAS NOT
TO CUT DOWN MORE TREES BUT TO GET
SOMETHING DONE."**

focus he did, Simmonds approaches work situations with the expectation that his client's motives are similar to those he had.

"As an owner, I always tried to focus on what we were trying to accomplish," he says. "That was not to cut down more trees but to get something done."

As a business owner, Simmonds is focused on growing his business organically and absorbing the lessons that the first years in business teach. While he may view his engineering background as counterintuitive to entrepreneurship, the discipline of that training has been a boon to his ability to manage the operations with less-than-optimal staffing.

"I learned to estimate from the ground up, to break down the project into all the activities necessary to complete it," explains Simmonds. "What equipment do I need for those activities? How many people do I need to complete each of those activities? And the big thing is the production. That's what drives the job."

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Simmonds Construction Services, he works on the board of directors for the Childrens Museum and Junior Achievement.

"The goal is to grow the company and make money, to put it in simplest terms; but it's how you grow that makes you different" he notes. "I want to employ more people from the community. I want to invest in people. I've been very lucky and I feel like it's my duty to give back." 

Trend to Watch



(Re)Introduction of Lean Construction

By Jon O'Brien

Every few years it seems as though the construction industry harps on a new buzzword – partnering, sustainability, BIM, collaboration, Lean, etc. Lean? It appears that a retread has made its way back into the buzzword cycle. Back in the late 1990's, the Lean Construction Institute (LCI) was established, propelling the topic of Lean in the construction industry. Shortly after LCI was established, locally the MBA was also launching a group – the MBA Young Constructors. In its first year of existence, the YC hosted an educational session on Lean Construction.

"Lean Construction was the big topic of the day when the Young Constructors (YC) was being launched," said the YC's inaugural chairperson Jim Frantz, President of TEDCO Construction. "This was the YC's first event and we wanted to host something that would get the industry talking."

Attendees left the YC educational event talking, but perhaps not in the manner that would be expected by its hosts. A few individuals who attended this event recalled the discussion of the day afterwards focused around what exactly is Lean and how does it differ from what currently happens in construction. They left being unable to explain how it differs from traditional construction.

Since the late 1990's invasion of lean management principles into the construction industry, many viewed it more as an academic focus and not so much of a practical tool for the industry. "The Lean articles I read and seminars that I attended were good but I think Lean for construction is part academic exercise and part everyday occurrence on a construction project. The good contractors out there incorporate 75% of Lean principles already but they may not realize it," said Eric Cartwright, vice president of corporate construction and real estate at UPMC.

In the academic world Lean Construction is defined as a philosophy based on a combination of operational research and practical development in design and construction with an adaption of Lean manufacturing prin-



ciples and practices to the end-to-end design and construction process. Lean construction is concerned with the alignment and holistic pursuit of concurrent and continuous improvements in all dimensions of the built and natural environment: design, construction, commissioning, maintenance and recycling.

"To simply state it, Lean is a focus to minimize time in activities. You want to look at what you're doing as a function of time and work towards eliminating waste," said Randy Hartsock of Massaro Corporation.

In the practical sense of Lean, it is about managing and improving the construction process to maximize the delivery of value to the client with no waste, which can be achieved by early team involvement to understand what it is that's being built, and to build it right the first time. The following are some examples of Lean in action, comparing conventional construction with Lean.

In the traditional approach the construction team is prepared to catch scope changes during construction, whereas on the Lean project the scope may change during the project but it is expected to be fewer due to team input during preconstruction to address such items as constructability for example.



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In the conventional setting, project managers are the sole planners and in Lean the managers are the first planners, with the rest of the field crew filling in as the last planners to get input from the entire team.

Push techniques are employed in traditional construction where information is delivered to the team and on a Lean project pull techniques allow for the flow of information to move upstream and downstream.

Those few listed items highlight some major points that builders are using to incorporate Lean principles on projects. These principles highlighted the Lean process the first time Lean was rolled out in the late 1990's. However, this time the use of Lean Construction may be catching on due to the discussion of Lean outside the normal industry circles and by the education process. Earlier this spring, The Orlando Sentinel newspaper published an article on a 23-floor apartment in downtown Orlando that was expedited due to Lean, which they describe as a method dedicated to ridding the construction process of waste, as work schedules are drawn so that nobody is left waiting on others. The article stated that the Lean approach allowed for the project to be completed months ahead of schedule and "millions of dollars cheaper than a conventionally built tower."

Other ways that the Lean movement is picking up momentum this time is that construction firms are really analyzing the Lean principles to see how they can incorporate them in their operations. "I have gone to a few seminars on Lean, plus I've read a ton on it, and I feel if we incorporate some Lean techniques that we can become more efficient," said Bill Derence of Mascaro Construction. "For example, going to the field leadership and getting them involved by pulling information can greatly assist in building our schedule."

On the design side, Lean is also picking up momentum this second go-round: "Twelve years ago, when Burt Hill joined the Lean Construction Institute, I attended workshops and learned a lot and brought some good information back to the firm, but the thing I remember most back then was that in a room

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full of people I would be the only architect," said John Brock, vice president Mid-Atlantic for Stantec (formerly Burt Hill). "From those rock solid workshops I brought back some rock solid techniques that allowed us to work better with the builder and the owner. Most importantly, we employed a work plan that involved a look back and look aheads, and this engaged the team. The most important thing is that owner engagement – by truly getting the owner involved early we limit redesign."

As is the case with many topics, education plays a role in the process. A few years ago the Associated General Contractors of America (AGC) introduced its four-part Lean Education Program. Since its inception 26 AGC chapters have offered at least one of the Lean courses and over 1,500 professionals have gone through one of the courses. As for the college campuses: "Lean is slowly working its way into the jargon of the next generation as college students are talking about it," said Jen Landau, an advisor at the University of Pittsburgh Construction Management Program. "While we don't have a class devoted entirely to teaching Lean Construction, Lean discussions are taking place in the classes."

At the Master Builders' Association, the MBA is preparing to host a contractor roundtable session after summer to see what direction the association should go in concerning Lean Construction. Lean champions from other parts of the country are going to attend to discuss real-life examples of how implementing Lean made their companies more efficient. According to the AGC this is the major difference between Lean Constructions from a decade ago and today – back then the consultants and academics preached its value and now peers are educating each other to improve the industry together.

Jon O'Brien is Director of Communications, Master Builders' Association, and he can be reached at 412-922-3912 or jobrien@mbawpa.org. 

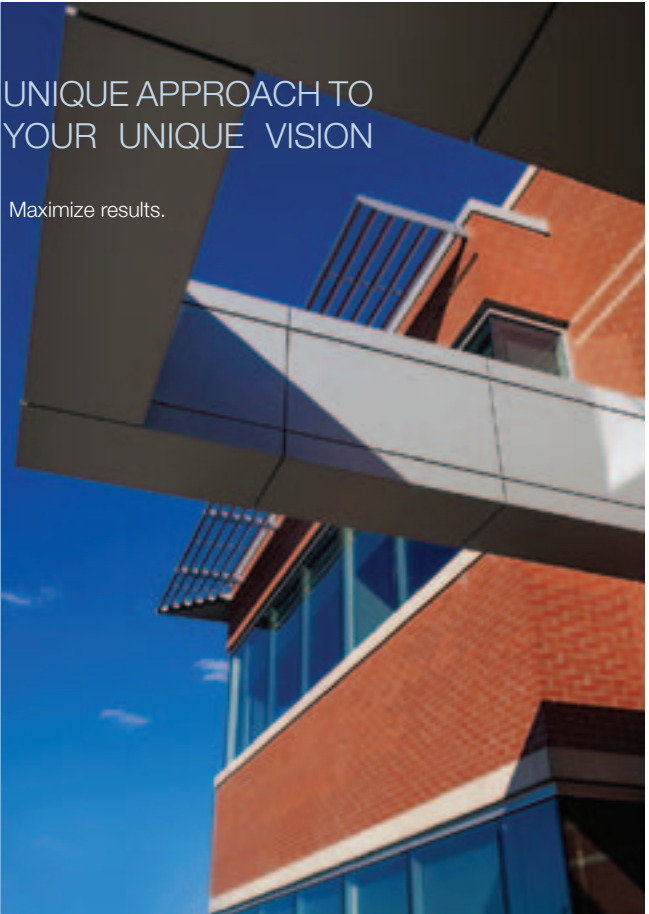
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Collaboration by Design: Hornbostel's Legacy at Carnegie Mellon

By James W. Yanosko

It's always dangerous business to take a person from some point in the past and assign thoughts as to how they would think about something happening today. Sensibilities and motivations are constantly evolving. Trends come and go and only some of them return. What was a standard practice a hundred years ago may have no place in the present.

That being said, if Henry Hornbostel was to somehow take a stroll through the campus of Carnegie Mellon University (CMU) in the year 2014, he would likely be pleased with what he saw. The architect whose vision and influence is apparent everywhere you look would see an administration, a faculty, business leaders, foundations, trustees, alumni and a student body creating and innovating in and around the very buildings in much the same way he did at the turn of the last century.

The Carnegie Mellon University predecessor institution, the Carnegie Technical Schools, was founded by Andrew Carnegie in 1900. The industrialist and philanthropist, who wrote "My heart is in the work" at the time when he donated the funds, had a vision for a great vocational school that would be open to the sons and daughters of

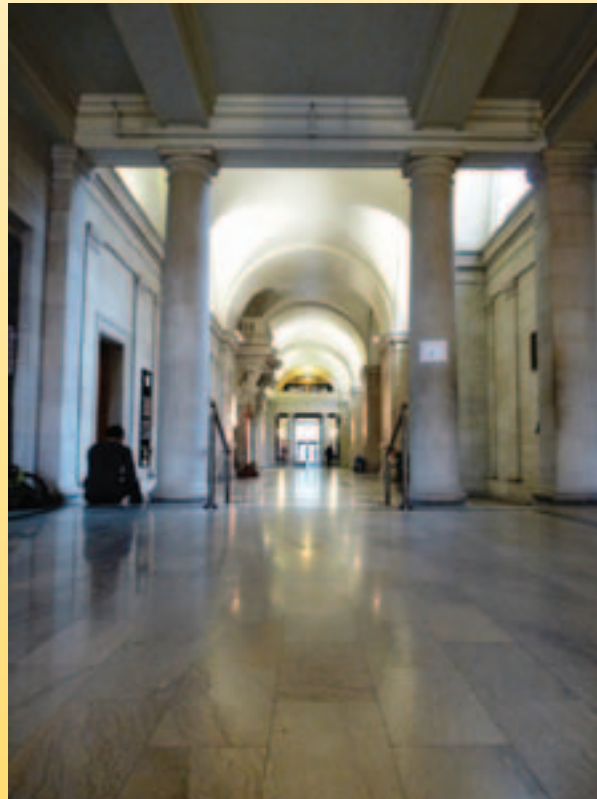
working class Pittsburghers. The added benefit of course, was that area mills would have a steady supply of qualified workers. There were real world problems that needed solving and Carnegie wanted to foster an environment where the best minds from diverse backgrounds could come together and pursue a quality education, create and discover new applications and methods and then apply that knowledge to serve society.

The designs of a promising young architect named Henry Hornbostel, of the firm Palmer & Hornbostel, were chosen over many prestigious design firms in a 1904 competition.

Hornbostel's master plan made the best use of the oddly contoured parcel of land. The buildings themselves as well as the layout are in the Beaux Arts style of architecture, which was one of the leading styles of the day. The classical looking buildings with captivating patterns, and shapes in the details, utilized the latest construction methods and materials of the period. It is this balance between the old and the new and figuring out innovative solutions for real-world problems that is still evident everywhere you look at Carnegie Mellon University.

Hornbostel's most enduring legacy at CMU may be his determination to have his design serve a greater vision of a classical education. He believed that an education needed to be rounded by exposure

to the arts and sciences in addition to whatever technical lessons were imparted. More importantly, he was able to convince Carnegie of that aim.



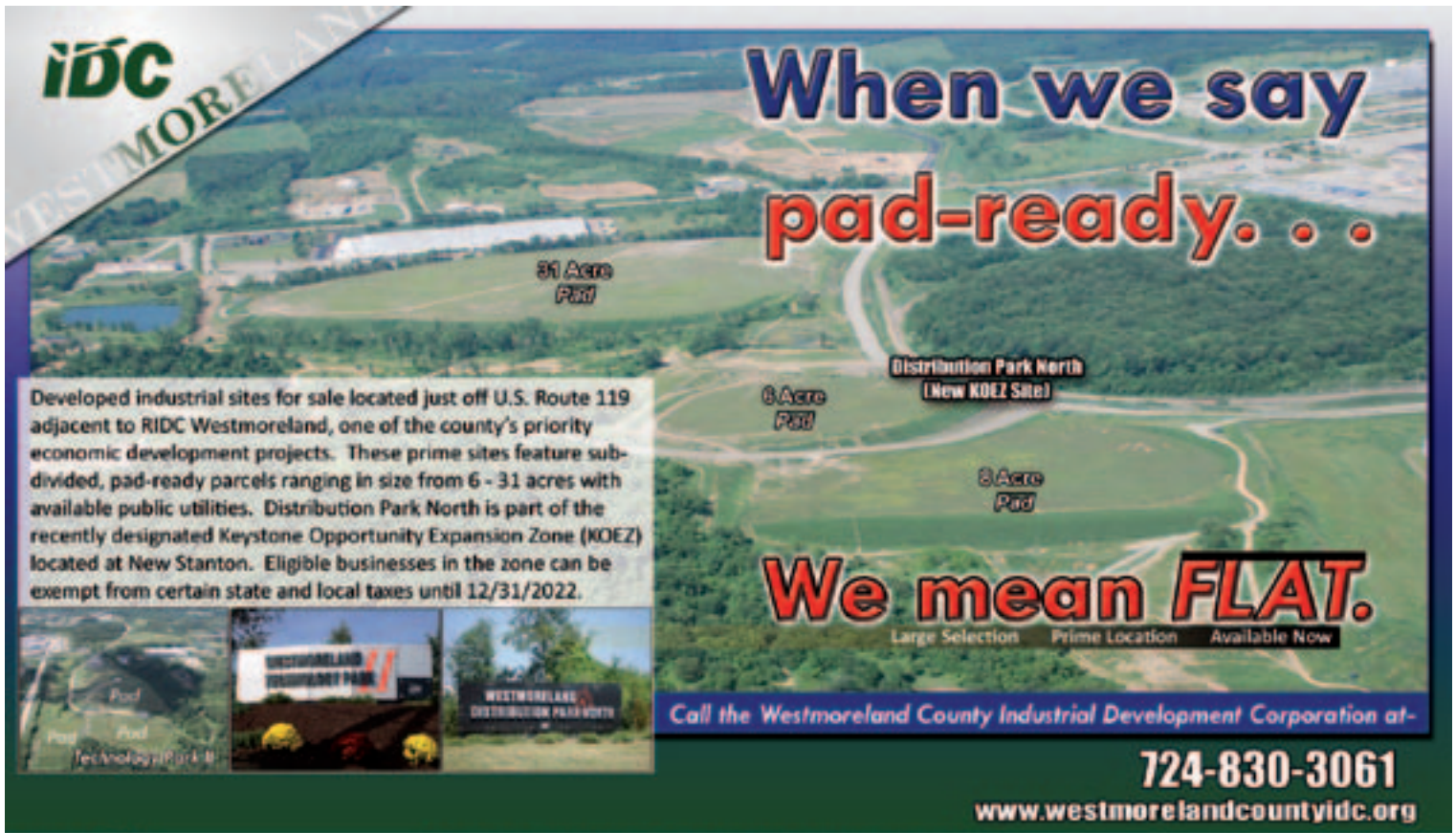


To a stranger walking on campus, the exterior of the building will most certainly grab your attention. The five niches on the west side of the structure are breathtaking and the story of how it took nearly 80 years to complete all five of them is expansive in itself.

"Carnegie was a frugal Scot but Hornbostel convinced him that a man couldn't be a good steel mill manager without exposure to the arts," explains Stephen Lee, AIA, head of CMU's School of Architecture.

One of Hornbostel's most important designs at CMU is the building now known as the College of Fine Arts, which contains the Architecture, Art, Design, Drama and Music Schools. This building, originally known as the School of Applied Design sits at an elevated location on the campus ensuring the importance of the disciplines discussed inside.

To a stranger walking on campus, the exterior of the building will most certainly grab your attention. The five niches on the west side of the structure are breathtaking and the story of how it took nearly 80 years to complete all five of them is expansive in itself. As you stand and admire the intricate stone work representing the different chapters in architectural history, Medieval, Greek, Roman,



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Renaissance and non-Western, it is highly likely that you will be drawn inside the building by the sweet sounds of a violin, harp or piano. Upon entering the building your eyes will be drawn upward to the sprawling, intricate murals on the ceilings which celebrate the history of the arts.

The building itself has an almost earthy feel to it. Creating in a space such as this almost becomes second nature. The students walking the halls are of a particularly exceptional variety and considering many of the famous alumni who have performed in this building this makes sense. A very brief list of these artists includes Ted Danson, Stephen Bochco, George Romero, Jonathan Borofsky, Jack Klugman, Albert Brooks, Michael McKean, Holly Hunter and Andy Warhol.

Maddy Varner, a first year Art Major from Columbus, Ohio, said "There is a history to the building and you can see the way the students have affected it over the years. There are nooks and crannies everywhere and you can see how students and professors have left their mark behind. My favorite part is the collaborative process. You find people with different disciplines working together. Everyone has a different skill set. When you work like this you achieve some amazing results. This is a reflection of what CMU is trying to accomplish."

Steve Lee believes the architecture of the College of Fine Arts contributes directly to that collaborative atmosphere.

"The most spectacular space on campus is the Great Hall of the College of Fine Arts," Lee asserts. "There are three different cardinal entrances that allow students to see and be seen. The large stairwells encourage students to congregate and exchange ideas."

Lee describes the building's academic function over the years, pointing out that for many years the College of Fine Arts contained the schools of drama, architecture, arts and music. He recalls his early years of teaching when he would pass actors rehearsing and musicians practicing on his way to his classroom in the building. Lee believes that additional sensory exposure benefits his students and feels the same benefit himself even today.

"What the College of Fine Arts has that Gates does not is that at any given moment of the day there is an auditory connection of students practicing music," he says. "Hornbostel must have believed architects had massive bladders because he designed no bathrooms on the second floor. That gives me a chance to go up to the third floor, where I can see the art that students have displayed."

The Frank-Ratchye STUDIO for Creative Inquiry at Carnegie Mellon University is located on the first floor at the north end of the building. Originally it was a library. The CMU website describes the studio as "a laboratory for

atypical, anti-disciplinary and inter-institutional research at the intersections of arts, science, technology and culture." The room itself contains an amazingly intricate and detailed plaster ceiling. Slightly out of place on the ceiling are smoke detectors as required by code. After that you see modern desks, a bright red comfortable looking couch, the latest Mac monitors, high end audio equipment, sound panels on the walls and a huge screen taking up nearly an entire wall itself.

Margaret Myers is the Associate Director of the STUDIO. She said about working in the building, "It is a joy and a privilege. It pleases me to work here every day. When there is something wrong with the building you can feel it and there is always something new to discover. I have my grandson in here sometimes and once he looked up at the ceiling and noticed an owl in the decorative plaster. I've been working in this studio for 25 years and I never noticed it before."

Striking a balance between the past and the future is a constant challenge for current and future construction projects at the campus. Currently under construction is the 100,000 square foot Sherman and Joyce Bowie Scott Hall. Jendoco Construction Corp. of Pittsburgh is the Construction Manager. Other firms collaborating on this project include OFFICE 52, Portland, OR - Design Architect, Stantec, Butler, PA - Architect of Record, Arup USA, Inc., New York, NY - Integrated Engineering, Jacobs Consultancy, Inc., Tarrytown, NY - Lab Planning, Jacobs Engineering Group, Lake Oswego, OR - Cleanroom Design and Davis Langdon, New York, NY - Cost Consultant.

The North Wing and the Courtyard are the two unique components of the project. The new building will house wet and dry laboratories, collaborative and office spaces, a café and a 10,000 square foot clean room facility which will become the new home for Nano Fabrication.

Next up is the new University Center Addition on the other side of campus. This proposed \$22 million, 45,000 square foot addition will include an enhanced recreation space, a black box theater for student performance groups and a new front entrance on Forbes Avenue. Mosites Construction is the construction manager for the University Center, which is being designed by Cannon Design Group.

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Jim Yanosko is a project manager for Mare Solutions, Inc., a Service-Disabled Veteran-Owned Small Business in Pittsburgh. 



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INDUSTRY & COMMUNITY NEWS

Mascaro Helps CF Make "Great Strides"

Over 50 Mascaro employees and family members braved the cold on May 1 to participate in the 2014 Cystic Fibrosis Great Strides Walk. Through generous donations and Mascaro Con-

struction sponsorship, the team raised over \$15,500 for the North Shore Great Strides walk.



Members of Mascaro's team raised \$15,000 to fight Cystic Fibrosis.

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March of Dimes Honors James Kunz and Mascaro Construction

The March of Dimes held its 4th Annual Transportation, Building and Construction Awards Luncheon on May 22 at the Westin Convention Center Hotel. James T. Kunz, Jr., business manager of International Union of Operating Engineers Local 66 was honored as Labor Leader of the Year. The J&L Tunnel Modification project for CSX Transportation, which was built by Mascaro Construction, was selected as Transportation Project of the Year. Also honored were Astorino for the West Penn Hospital Labor & Delivery Department Renovation as Building Project of the Year; and UPMC Health Plan CEO Diane Holder was given the Service to Humanity Award.



Honoree Mascaro Construction, represented by Michael, Jack and John Mascaro Jr., with Jim Kunz from Local 66.

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(From left) Steven Massaro, Astorino's Bob Ward and Gus Just with Bill Marshall from Allegheny Health Network.



Tony Malanos and J. R. Bittner from Mosites with Hill International's Dave Briskey (right) at the March of Dimes luncheon.



(From left to right) Jason Sigal from Rycon, Ron Gessinger and Rich Yohe from Easley & Rivers and Massaro's Rob Modany.



(From left) PJ Dick's Justin Jones, Adam Ramsey and Dave Thomas from Wyatt Inc.



AIM Construction's Tim Belanger (left) and John Bessette (right) flank UPMC's Aaron Bennett and Chris Jaeger.

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Lisa Wampler (left) and Lori Azzara from Cohen Seglias Pallas Greenhall & Furman PC with Gary Stiles, Keystone Spring Service and Danny Cerrone, Clark Hill PLC at the MBA YC Golf Outing at Olde Stonewall.



The Nehnevajsa family enjoys the MBA's Safety Appreciation Night at PNC Park. From left are Tony, daughter Layce, Susan and Mike Nehnevajsa, MICA president and vice president of Easley & Rivers Inc.



Matt Jameson from Babst Calland with Tom Landau at the NAIOP Golf Outing at Laurel Valley Golf Club.



evolveEA's Marc Mondor (left) with Dr. Robert Sroufe from Duquesne University and James Construction's Craig Stevenson at GBA's Inspire Speaker Series, May 15 at Phipps Conservatory.



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AWARDS & CONTRACTS

Excelsa Health selected **A. Martini & Co.** as design/build contractor to create a medical mall at its Frick Hospital in Mt. Pleasant. Davis Stokes Collaborative PC is the architect for the \$9 million renovation. Construction will begin on the first phase, a \$2 million reworking of the emergency department entrance, in summer. Excelsa also released A. Martini & Co. to build an access road and do preliminary site work for its new outpatient facility in Latrobe.

Dollar Bank awarded **A. Martini & Co.** contracts to renovate its private banking offices in Sewickley and the Dollar Fourth Avenue branch in downtown Pittsburgh.

Volpatt Construction was awarded a \$260,000 contract for renovations to the Hamburg Theater, the first phase of City Theater's \$7 million capital program on the South Side. Renaissance 3 Architects is the architect.

St. Clair Hospital awarded **Volpatt Construction** a contract for renovations to its IMC at the hospital's main campus in Mt. Lebanon. The architect is VEBH Architects.

Volpatt Construction was the successful contractor on the \$280,000 Carlow University Tiernan Hall music campus room renovation. Lami Grubb Architects is the architect for the project.

Landau Building Company was recently awarded a project at UPMC Presbyterian Shadyside to relocate the Dermatology/ Dermatopathology Administration Offices from the Presbyterian South Tower to the Medical Arts Building Fifth Floor in Oakland. The project will renovate existing office areas and the existing break room with standard UPMC finishes and transform current storage and lab areas into new laboratory areas and a new reading room.

Village Green selected **Rycon Construction** to build the new \$36 million Morrow Park City Apartments in Shadyside. The 272,000 sq. ft., six-story, wood frame complex was designed by BKV Group and is expected to be complete by late fall 2015.

In addition to the shell space, **Rycon Construction** is also responsible for the 136,000 sq. ft. interior fit-out of the Noble Energy offices at Southpointe II Town Square. The total value of the projects is over \$40 million.

Rycon's Special Projects Group is completing multiple renovations at UPMC McKeesport including work at the women's center and the radiology and mammography departments.

At Carnegie Mellon University, **Rycon's Special Projects Group** is completing various upgrades including NREC garage modifications, 4914 Fifth Avenue window replacements and Margaret Morrison flooring replacements.

Rycon's Special Projects Group recently completed the demolition and is about to begin the interior fit-out of the Highmark Charleston medical office building. The project, valued at over \$1.5 million, was designed by Stantec and is scheduled for completion by the fall.

Engineering News-Record (ENR) magazine recently named **Rycon Construction, Inc.** to its list of the Top 400 U.S. Contractors for the second year in a row. Every May, ENR magazine lists the top 400 general contractors in the U.S. The list ranks the contractors based on gross revenue from the previous year developed by a range of construction services performed.

TEDCO Construction is the construction manager for the University of Pittsburgh Medical Center CCBH/Askesis tenant improvements to 100,000 square feet of space in the Heinz 57 Center. Integrity Design Associates is the architect for the project.

PJ Dick was selected to provide Construction Management at Risk for the construction of the new 295,000 square foot Tepper School of Business. The scope includes utility work, parking and the Tepper Quad Site Development. The architects for the project are Moore Ruble Yudell and Renaissance 3 Architects.

PJ Dick was selected to provide construction management services for the demolition of the UPMC Presbyterian Hospital's South Tower.

Freeport Area School District awarded an \$18,743,000 contract to **Massaro Corporation** for the general construction portion of the \$27.6 million new middle school. The 110,000 square foot structure was designed by HHS DR Architects & Engineers.

Construction began on June 11 on the new 110,000 square foot, 10-story Holiday Inn Express & Suites located on Pittsburgh's North Shore. Federal Street Hospitality Associates, L.P. awarded **Massaro Corporation** the general construction contract to build the hotel located directly across from the Marriott SpringHill Suites. This is the third hotel where Massaro has partnered with Kratsa Properties (an affiliate of Federal Street Hospitality Associates). The \$13.3 million hotel is expected to be complete by August of 2015. The project architect is JMAC Architects.

Massaro Corporation was awarded The Orchards at Foxcrest project via a negotiated process to perform preconstruction and construction phase services in Chester, WV. The Orchards at Foxcrest is a senior living community offering comfortable retirement living for an array of lifestyles. Construction plans include adding 11 residential units at approximately 7,300 square feet to an existing structure, and a new free standing, three-story administrative building of 14,000 square feet. An extensive site package, loading dock, and new emergency entrance are also part of the \$5.5 million project.

A ground breaking event marked the mobilization of **Massaro Corporation** at the Garrett County Memorial Hospital expansion project. The project includes a 16,000 square foot addition and 45,000 square foot renovation of the existing hospital located in Garrett County, Maryland. The \$17 million project is slated for a December 2015 completion date. Noelker and Hull Associates is the architect on this healthcare project.

Castlebrook Development Corporation awarded **Massaro Corporation** the Uptown Apartments project located near CONSOL Energy Center. Construction is slated to begin in July of 2014 on a 69 unit LEED Certified apartment building. The site is located on the 1600 block of Fifth Avenue and will be the first new construction apartment building in the community in more than 50 years.

Massaro Design Build, LLP was awarded the UCP/CLASS interior fit-out project located in Swissvale, PA. The 7,000 square foot renovation will transform a former daycare center into program area for the non-profit providing classrooms, an assembly area, art room, IT, a teaching kitchen and more. The \$776,000 project will be complete at the end of July, 2014.

Massaro Design Build, LLP is providing services to PSSI Stadium Corporation at Heinz Field. The project includes the design and construction of two new storage rooms on the club level for additional food storage facilities. This project is the second of its kind Massaro has performed in the past few years.

Massaro Design Build, LLP was awarded four projects by Auberle, a faith-based Catholic non-profit organization whose mission is to help troubled children and families heal themselves. Each project includes the design and construction of a secure entry area in four separate buildings in McKeesport, PA.

Providence Presbyterian Church in Robinson Township selected **Nello Construction** as contractor for its \$2.5 million, 400-seat sanctuary addition. The 8,904 square foot addition was designed by Desmone & Associates Architects.

dck worldwide was awarded a new \$53.7 million task order from Naval Facilities Engineering Command Pacific for the design and construction of a new Aircraft Maintenance Hangar at Andersen Air Force Base, Guam.

Three **dck worldwide** projects received GCA awards in April from the General Contractors Association of Hawaii. The Kaiser Permanente Koolau Clinic Expansion & Addition received an Award of Excellence in the Renovation & Remodeling category; the Command & Operations Center project at Naval Station Pearl Harbor & Pearl City Peninsula received an Honorable Mention in the Design-Build category; and the University of Hawaii Information Technology Center was awarded the Excellence for Building Construction, more than \$40 million, and was the Grand Award Winner.

Mascaro received a Notice-to-Proceed from Allegheny Health Network to provide interior renovations for Triangle Urological Group.

The Pennsylvania State University signed a contract with **Mascaro** for renovation of Forker Lab at the Shenango campus.

Mascaro is the trade contractor for the civil and structural steel packages for the Penn State West Campus Steam Plant Conversion project.

Mascaro was the successful bidder on a four-story, 88,500-square-foot state office building for the West Virginia Department of Administration in Clarksburg. Alpha Associates is the architect. Mascaro was also the low bidder on the \$16.8 million renovation of Building 770 at the West Virginia Regional Technology Park in Charleston.

Carnegie Mellon University awarded two contracts to **Mascaro Construction**. One is for the conversion of Clyde House to a 34-bed dormitory. The other is for Heinz College, Phase II Additions and Renovations to Hamburg Hall.

Jendoco Construction was selected as the Construction Management partner for the renovation of the Michael Baker Science and Engineering Building at Penn State Beaver. Jendoco will work collaboratively with Penn State and architect/engineer Stantec to provide the campus with an attractive and cutting-edge teaching facility that will allow the campus to further enhance its already strong STEM curriculum. To the extent possible, the project team intends to utilize Integrated Project Delivery (IPD) concepts and techniques during all stages of the project.

PNC Realty Services has selected **James Construction** to renovate the One PNC Plaza 15th Floor Cafeteria. The architect on the project is DLA+ Architecture.

James Construction was the selected contractor to design, engineer, and construct the 7,040 square foot Training Facility in Jefferson Hills. Associated expanded parking, storm water management, and sanitary sewer improvements are also included in the awarded project from EQT Corporation. 

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FACES & NEW PLACES

Jendoco Construction is pleased to announce that **Bill Hawk** has joined our Project Management Staff. Bill has a Bachelor of Science in Structural Design and Construction Engineering from Penn State University and adds 25 years of project management and development experience including industrial, commercial, healthcare, senior living and education projects to our team.

Jendoco Construction staffers Kathy Neilson, Administrative Assistant, Bill Hawk, Senior Project Manager and Brennen Garrison, Assistant Project Manager, earned accreditation as LEED Green Associates from the Green Building Certification Institute.

Dan Dean was named general superintendent at **Dick Building Co.** He is responsible for managing all field operations of projects in the commercial, institutional and healthcare sectors.

Rycon Construction, Inc. added **Kevin Shaffer** as BIM coordinator / project engineer in the Building Group. He served in the United States Army Reserves and received a master's degree in construction engineering and management from

the Illinois Institute of Technology as well as a bachelor's degree from The Pennsylvania State University and brings over seven years of construction industry experience to the Rycon team. Shaffer recently achieved Certificate of Management-Building Information Modeling (CM-BIM) credentials from the Associated General Contractors of America.

Rycon Construction is pleased to announce the addition of two summer interns: **Justin Delmaster** and **Michelle Couste**. Justin will assist Rycon's estimating team in the Building Group while Michelle will join the Morrow Park construction team.

Greg Jack was hired as an MEP coordinator at **PJ Dick Inc.** **Tyler Bock** was hired as a project engineer and Ryan Haught was hired as a project manager in **PJ Dick's** special projects group.

Massaro Construction Group (MCG) has promoted **Demeshia Seals** to the newly created position of executive vice president and COO. She will be responsible for all day-to-day operations at MCG, reporting to president and CEO Joe Massaro III. Ms. Seals joined Massaro in 2011. Ms. Seals has an MBA and a BS in chemistry from Mississippi State University. She is a graduate of Leadership Pittsburgh 2013 class. She serves on the boards of the Sarah Heinz House, Goodwill Industries, and on the Development Committee for Junior Achievement. She is also a mentor for at-risk youth.

Matt Dukovich was hired in June 2014 as a project engineer for **Massaro Construction Management Services, LLC**. Matt interned with Massaro for three summers prior to being hired. Matt graduated from Bowling Green University with a Bachelor of Science and Technology degree in Construction Management.

Vivian Anderson is now the office manager for **Massaro Restoration Services, LLC**. Vivian comes to Massaro with a wealth of bookkeeping and administrative experience working in a variety of positions throughout the past 28 years. In addition to her many years of experience, Vivian served our country as a Personnel Administrative Specialist in the United States Air Force.

Ty Hunter was hired by **Massaro Corporation** as a site superintendent. Ty has more than 34 years of experience in the construction industry. His project experience spans the gamut of industries such



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as multi-level office buildings, advanced technology manufacturing facilities, high-end residential lofts, parking structures, schools, and medical facilities throughout the United States. Ty recently relocated to Pittsburgh.

Mascaro hired Jonathan Ou as a project engineer. Jonathan completed three co-op rotations with Mascaro. He has a civil and environmental engineering degree from the University of Pittsburgh.

Tony Lester, who completed two rotations as an intern with Mascaro, became a full-time member of the Mascaro team. Tony has a civil and environmental degree from the University of Pittsburgh.

Chaz Ott joined Mascaro as an MEP Coordinator. With a degree in mechanical engineering, Chaz is assigned the Penn State Steidle Building Renewal project.

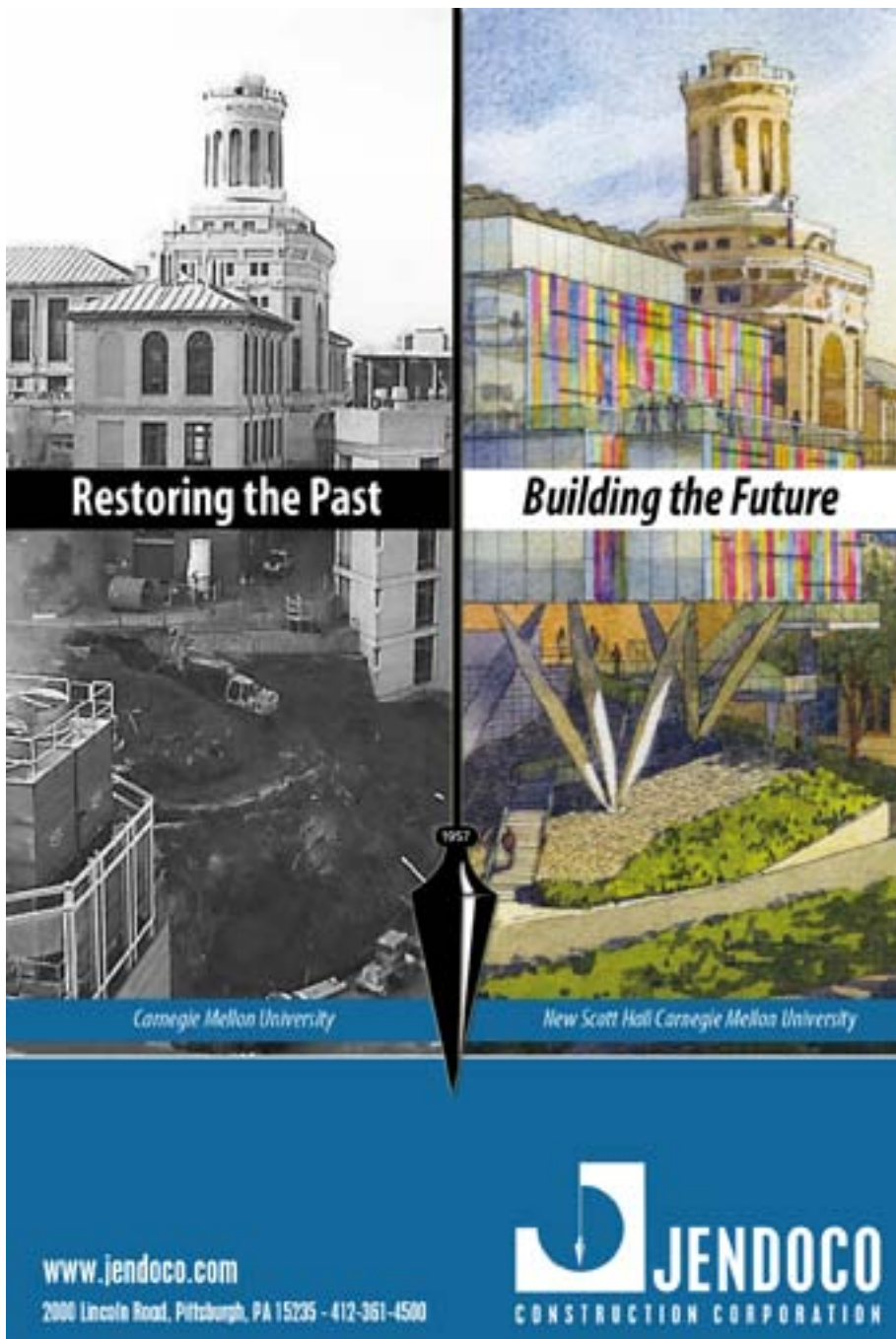
Tony Lester and Jonathan Ou, project engineers at Mascaro, passed their LEED® Professional Examination and received their LEED® AP BD+C credentials.

David Lyon was recently appointed Vice President and in charge of the Commercial Construction Group at McKamish, Inc., where he has served as a Project Manager for 10 years. He will be responsible for all commercial construction work.

Kathryn Angliss joined Meyer, Unkovic & Scott's Litigation and Dispute Resolution Group. Prior to joining the firm, Ms. Angliss served as a Law Clerk to The Honorable Christine A. Ward in the Commerce and Complex Division of the Court of Common Pleas of Allegheny County. She earned her law degree from the University Of Pittsburgh School Of Law in 2011.

Stephen Chesney joined Meyer, Unkovic & Scott's Employment Law & Employee Benefits and the Construction Law & Litigation Groups. Prior to joining the firm, Mr. Chesney worked in the construction industry as a member of the Heat and Frost Insulators Local Union #2. He served three terms as an executive board member and eight years as a Trustee for the Heat and Frost Insulators Local Union #2 Pension and Annuity Funds. He received his B.S. in Communications and Information Technology, cum laude, from Duquesne University in 2009. In 2013, he received his J.D. from Duquesne University Law School.

The Rhodes Group recently promoted James Turner to Senior Consultant. Turner assists in the analysis of multi-million dollar claims related to the construction of complex oil and gas, industrial and power generation facilities. 



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★ Shotgun
Tee Time: ★
11:00A.M.



MBA

One day a year, western Pennsylvania's top general contractors, construction managers, specialty contractors, and service and supplier companies unite on the golf course for comradery and to benefit the educational initiatives of the MBA. The time is now upon us to register for this year's most popular MBA members-only event. For registration details please visit www.mbawpa.org. If the date does not work, you can still have a presence by purchasing a tee sign to benefit the MBA Educational Fund. The following are some benefactors from this fund:

- The University of Pittsburgh Annual Scholarship (CAP & MBA have distributed over \$100, 000 on Pitt scholarships over the years)
- Numerous Safety trainings are held during the year for free or for a nominal fee
- MBA Green Builders Committee events and trainings are subsidized by the MBA
- BIM Education Program (due to the MBA subsidizing toward this training, we are able to offer it for the lowest price in country)
- MBA Affiliate Member Seminars are frequently held with no charge for attending
- Supporting the ACE Mentor Program of Western PA

Not a member of the MBA, but you want to be included in this event?
You could purchase a tee sign to show your support or you could inquire about joining to be a part of the association that is

Leading the Industry & Building the Region!

To request membership information or to be a supporter for this MBA Golf Outing, please contact the MBA at 412-922-3912 or jobrien@mbawpa.org.

www.mbawpa.org

Thank You, Mascaro Construction & Walnut Capital

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Call Karen Kukish at (412) 837-6971
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Closing Out

Higher-Ed In The Future...Is it Growing, Shrinking, Or Just Flipping Over?

By Paul Knell, FAIA

Higher education is facing new challenges today as never before. Economic fluctuations, globalization, gaps in educational achievement, and expanding technologies are significantly impacting the mission of our learning institutions. Educational leaders and planners must reconsider the fundamental mission of higher education and seek new solutions that match the aspirations of the next generation of students. There are several emerging trends that will directly influence the future of higher education.

Expanding the Meaning of 'The Campus'

Seventy percent of our higher-ed institutions now offer some sort of distance education for their students. In 2013, distance learning courses accounted for more than 21 million registrations nationwide. The on-line educational programs at Pitt, CMU, Duquesne and other local universities are expanding. The teaching footprint of these institutions is no longer bounded by Forbes Avenue, but extends all across our region... and all around the world.

Driven largely by technology and the interconnected world-wide economy, a recent phenomenon has been the globalization of higher education. Many prominent U.S. universities have been part of the international desire to extend the American educational experience to global locations. By example, the global foot print for Carnegie-Mellon University has been extended to 16 learning sites around the world including its growing campus in Qatar and the design of new universities in Singapore and Brazil.

It has long been understood that our universities are not just learning destinations but regional assets that contribute synergistically to our quality of life. They help to attract young people with innovative ideas and new ambitions. With global campus locations, they bring an international perspective to our communities. These institutions are more than educational resources; they are major contributors to the energy of our regional economy, culture, and life style.



Paul Knell, FAIA

and universities will be expected to deliver more education in less space – to increase their learning per square foot. The fiscal part of this is straightforward: there will be less funding to support the academic mission. Our educational institutions will need to seek new funding sources or find better more effective ways to spend the revenues at hand. This will also directly impact the way we plan and design our universities. As designers and builders we will be requested by our higher education partners to do more with less.

Another aspect of this phenomenon is educational accountability. Under-educated college graduates are just not cutting it in the current marketplace. The cost of higher education is at an all-time high and, for many students, college debt has become an unrealistic burden that will take decades to repay. To be fully accountable, colleges and universities must find ways to respond to their constituents by demonstrating that deep and meaningful learning takes place in their facilities. They must be properly and adequately training their graduates to meet the demands of the future marketplace. Stronger metrics that accurately assess learning are needed to assuage concerns about the accountability of higher education in tough economic times. Even with an improving economy, academic accountability will be the future standard for our institutions of higher learning.

Doing More With Less

The belt tightening and down-sizing that corporate America has experienced is also impacting higher education. In the future, colleges

A New Collaborative Learning Model

The inbred technology and learning traits of the next generation of students will re-define the classroom of the future. Today's students have already been labeled as Digital Natives because they have grown up as the new masters of social media and digital communication. They will not be interested in the traditional large lecture hall format for learning, but instead prefer informal small group discussions and more one-on-one instruction. Some educators refer to this as the 'flipped' classroom model in which the delivery of direct instruction is reversed. In this model, educational content is not delivered live in the lecture hall but on-line, and students only meet directly with instructors in small groups or individual work sessions.

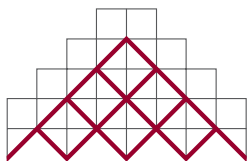
In our higher education design practice, we are seeing a diminished emphasis on the traditional classroom and a greater demand for small group study rooms and collaborative learning/social spaces. We are planning for more dispersed technology with interactive spaces in all campus buildings, from libraries to residence halls and even sports facilities. This is evidence of the transformation of the college campus into a more student-focused, collaborative, and technologically-enriched learning environment.

We expect these themes to directly influence the future of our learning institutions. As this transformation continues to evolve, we as educational leaders and planners will have a meaningful role in the re-visioning of higher education.

Paul Knell is senior principal at WTW Architects and was named a Fellow by the American Institute of Architects in February 2014. He has been the planner/designer on more than 100 student centers and has received 42 design awards for student life projects.



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