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Approach to Cost Management

We pride ourselves in hiring the best professionals in every service field we provide. Our mindset is that if we treat and pay our staff better than anyone else in the industry, they will have no reason to ever leave. It is hard to find good people, and if you find them, you'd better keep them. We employ diverse professionals who not only have experience in cost estimating, but also in construction, bid negotiations, constructability, construction contracting, etc., which greatly benefits our clients in that we look at every project from multiple angles and perspectives to ensure that we always provide our clients with estimates that are well thought out and representative, to the best of our ability, of the owner's dreams/wishes and the designers' intent.

Our estimators are certified by the governing body of the estimating profession here in the United States, AACE International, and as such are certified in understanding estimating processes and procedures and provide service of a high professional standard.

Over time we have had several Indefinite Quantity Indefinite Delivery Contracts (IDIQ's) which each can produce a number of tasks. We're accustomed to reacting on short notice and providing cost estimates and/or budgets on multiple tasks under one contract. Some tasks large and some small. We are always at the ready for tasks that may come up at any time and that require short turnaround delivery. We've been doing this for a long time and the way we set our team up is such that the tasks or requests come in through a central point of contact, assisted by a second individual in case the main point of contact is unavailable. The task then gets disseminated amongst the various estimators depending on the type of project. If it is a mechanical or electrical heavy project, it would be led by our senior MEP estimator and if it is architectural, structural or civil heavy, it would be led by one of our senior A, S, C estimators.

Whether an estimate is due in two weeks, one week or a few days, we are always ready to perform and can produce an estimate in a short amount of time, while always ensuring that our clients receive an estimate that accurately reflects the drawings and/or anticipated scope, concise and clear, separated into whichever packages or layouts our clients may require for any specific submission.

At Axias, 90% of our work comes from repeat clients, which speaks to our character, integrity, reputation and effectiveness. We like to think that once we earn a client's trust, we have a client for life. Over time we have figured out what works and what does not. Our leadership and staff take great pride in what we do. We understand that our clients have other options as well and thus do not take any relationship lightly. We work on them and through constant communication and relationship building we create a "two-way trust system" where it becomes second nature to pick up a phone and ask questions openly and frankly and have constructive conversations about any project.

Feasibility Budget Preparation

The feasibility budget cost estimating on most projects begins with the preparation of a Project Control Budget (PCB), generated from existing cost data that we have for similar facilities, initial design concepts and program information. This stage of cost control is designed to align the program with available funds, and to allocate them appropriately to the multiple components of the budget.



The budget developed can be represented as a triangle, or circle as represented in the graphic above, that balances the three elements of the cost of a building, as follows:

- **Scope:** the program required and design intent
- **Performance:** the experience of the building, its look and feel, quality levels and sustainability/energy use characteristics
- **Budget:** the available funding to accomplish the objectives

Having a balanced alignment between these three elements that reflects the aspirations of all stakeholders is key. Projects really have to start right to finish right, so getting this balance correct at the outset, then maintaining it as the project progresses, is critical to the project achieving its original objectives.

To develop the budget or Cost Model, we employ a proactive approach to information gathering. We work closely with the design team in order to ensure that the Cost Model developed adequately reflects:

- The required program mix (affects Scope)
- Building massing and geometry (affects Scope)
- Expectations of the design team and the Owner for quality of materials and engineering systems (Performance)
- Sustainability and other energy conservation goals (Performance)
- Logistical constraints and conditions existing at the site (Budget)
- Potential access and staging restrictions (Budget)
- Anticipated schedule for construction, phasing and swing space requirements (Scope and Budget)
- All probable contractual and procurement conditions (Budget)

The intent is to uncover and consider many of the potential cost drivers prior to the commencement of the design phase.

Once this data is collected, we prepare preliminary quantities for all the building components. These quantities are measured directly from the documents or by utilizing experience and a system of control quantities established from similar projects. The final step in the process is the establishment of appropriate unit prices. This is achieved from a number of resources. The first such resource is our experience in general price levels within the market and our exposure to costs presented by numerous subcontractors and contractors. The second resource is direct quotes from subcontractors and suppliers.

The third and final resource is building the unit rate up from first principles (i.e. a process whereby labor rates, productivity factors and overhead costs are combined with material costs and equipment costs to determine a unit rate).

An important aspect of our service, particularly during early stage cost planning, is benchmarking against other comparable projects. The benchmarking of the project provides an initial indication of how the building compares to others. It helps highlight the unique design or programmatic aspects of the building. This helps in identifying areas that differ or are unexpected and that can be researched, explained or reviewed. We anticipate close interaction with the Owner and the design team throughout the design process, and, subject to approval, to interact with them, asking appropriate questions and contributing our expertise on a continuing basis as the design progresses.

In order to accurately prepare an estimate, it is important for the team to be familiar with the site location. We typically will visit the site to review the constraints under which the work will be performed. The costs and restrictions of working in the location, such as staging areas, traffic control and availability of parking will be factored into the estimate. The impacts of likely ordinances that might restrict work or deliveries to certain hours or otherwise restrict the phasing and scheduling of construction work will also be assessed.

The budget can be developed in two formats at this stage. The CSI format will present the trade breakdown and will help procurement decisions and tracking. The elemental/ systems format can also be prepared to enable benchmarking, and to reflect design decisions and tracking. The elemental format is important to help ensure that a balanced approach is established for the cost model, and that all systems of the building are adequately represented. This typically shows costs for the foundations, structure, enclosure, interior fit-out, MEP systems, site work and general conditions and fee. Particularly at this early stage, design options are still being explored, and the exact system and associated trade are being compared. For example, a CMU exterior wall can be compared with a glazed curtain wall option, and an appropriate design solution developed that falls within the budget for exterior wall. This systems-based cost model serves as a basis for design cost control for the remainder of the design. As such, the cost model must be reasonable and achievable, reflect the functional requirements of the program and building, and balance the aspirations of the owner within an acceptable budget for construction. If the initial cost model exceeds the funds available for construction, we will assist in the development of a program and design that are aligned with the budget and develop a corresponding cost model. The final budget driven cost model can become a target for the cost of each individual building system during the design stage.

In preparing the cost model we can ensure that risks that may impact the project are identified and addressed. We identify the level of risk (high, medium, low), assess the likelihood of the risk occurring, and establish a value (time as well as cost) associated with the risk. As risk generally carries a cost premium, it is important to identify the stakeholder best able to bear the risk. We can also identify the risk management strategy for each issue and make recommendations to the Owner so that each risk is effectively controlled and mitigated, without excessive contingencies or other premiums. Each estimate will contain a contingency allocation that identifies and prioritizes specific areas of potential cost volatility and reflects the risk analysis. We will continually track these items to dynamically manage the budget and mitigate any potential impacts by providing viable corrective actions.

Of course, the cost of a new building is not limited to the construction cost, and an important part of our approach in establishing budgets and aligning expectations is in developing appropriate soft costs, if requested. We can draw upon our extensive experience and resources to develop a comprehensive itemization of soft cost items, including design fees, insurances, furniture, fittings & equipment, project management and other professional services. If required we work closely with the Owner to develop appropriate budgets for each of these elements that reflect the Owner's requirements, culture and approach.

Our service will be highly interactive with the Owner and other appropriate stakeholders, and will be performed through meetings, presentations and active dialog. At the conclusion of this phase, a great deal of knowledge will have been gained by all parties, and it is important to

capture this knowledge so that it forms a basis for the design process going forward. The Axias cost report format has been specifically developed to capture and present this knowledge in this way. It will clearly capture all the knowledge and expertise described above, and present it in a concise format that explains how budgets were developed, assumptions made and agreed, and how the underlying risks are reflected. This document will serve as a key resource for the team as we move into the next phase.

Design Stage Estimates

We have focused a large part of the narrative for our approach on the Preliminary Budget Preparation, because it represents our firm belief in the need for accurate and early budget development that aligns expectations and reflects the realities within which the building will be designed, procured, constructed and operated. Time spent in establishing this budget and the early stage will pay off now as the actual design work commences. The cost model developed both in CSI and systems format will provide a foundation for cost control and management throughout the design phases, providing a yardstick to measure design options and evaluate approaches. For example, there is a key interplay between the exterior enclosure and the mechanical systems of the building, and investments made in one system should result in savings in the other, ensuring the overall cost remains in budget. During the conceptualization phase, criteria design phase and detailed design phase, we will continue to work as an integral member of the design team helping ensure an optimal design within the established budget. The elements of the process are similar to those used to establish the budget, with risk assessment, benchmarking, market analysis continuing to play a key role in our service. However, the level of quantification and the level of pricing are more detailed as the level of design information becomes more defined, and the interactions become more distinct and specific. Contingencies will reduce as risks are mitigated and controlled, and design solutions are finalized. At the completion of each design stage Axias will prepare a Change Analysis report that outlines the changes that have taken place between each design phase. We will make recommendations for cost reductions and opportunities to gain better value.

Further, at every step of each phase Axias performs an internal quality control process which maintains a series of verification points to ensure that consistent methods are applied, and mistakes are avoided on all projects. All projects are completed within the framework of a project specific management plan, tailored to the specific needs and objectives of that project, matching deliverables and process with appropriate staffing.

Particular attention is paid to the identification and mitigation of risk. All projects are assigned a peer reviewer who has particular expertise in the required building type for this contract. This reviewer will work in concert with the project team to ensure quality and identify risks and will have the ultimate sanction on releasing reports to the Owner.

At each design stage we can reconcile our estimate with the Construction Manager (CM), if one has been retained by the owner. Our approach is to bring the depth of knowledge gained from over one hundred projects a year in the local market, our strong expertise in the building type nationally and our understanding of program and cost drivers, and blend it with the perspective of the CM. This will ensure that the estimates accurately reflect the design, construction and market, with no hidden contingencies or excessive amounts to reflect unknowns or risks. The reconciled estimates will ensure that the Owner is able to negotiate a GMP from the best possible position, in full knowledge of all factors and conditions.

Construction Phase Cost Control

During construction the focus shifts from predictive cost estimating to reactive cost management of any changes in the work. Changes arise from a number of different sources—unforeseen conditions, owner-generated changes, drawing errors and omissions, code issues or contractual claims. Also, changes can arise from on-going proactive cost management, either generated by the design team or the general contractor, where one of the parties proposes a better-value substitution (sometimes known as Value Engineering Change Proposals or VECPs).

Project Approach & Process

For all reviews of changes, we can first assist the owner in establishing the ground rules in the contract documents (covering mark-ups, sources of data such as NECA and so forth), agree a format with the general contractor, and require the general contractor to first review change proposal from subcontractors before compiling and forwarding to the owner. Changes should also be reviewed by the design team for entitlement—is it really a change to the scope and are there any credits due? We then review the pricing against the contract and industry norms, leading to an independent estimate or assessment for presentation to the general contractor, and subcontractors involved. Wherever possible the value of the change should be agreed before the work is installed, otherwise the owner's leverage to agree a fair and reasonable price is greatly diminished.