

CENTENNIAL CONTRACTORS ENTERPRISES, INC.
PRESENTING TO THE SPECIAL JOINT GENERAL LAWS SUBCOMMITTEE STUDYING
THE VIRGINIA PUBLIC PROCUREMENT ACT

VIRGINIA GENERAL ASSEMBLY

JULY 9, 2013

I. INTRODUCTION

Centennial Contractors Enterprises, Inc. (“Centennial” or the “Company”) appreciates the opportunity to speak before the Special Joint General Laws Subcommittee Studying the Virginia Public Procurement Act (“Subcommittee”) in connection with its study of the procurement laws and practices in the Commonwealth of Virginia in the increased utilization of Job Order Contracting (“JOC”) throughout the state.

Centennial, a Virginia company, employs seventy-eight Virginians across the state, renovates and builds hundreds of thousands of square feet of buildings affecting thousands of Americans, and pays hundreds of thousands of dollars annually to the Treasurer of Virginia in taxes. Centennial complies fully with both the laws and spirit of the procurement laws here and in all jurisdictions where we have the privilege of working.

Centennial appreciates the objective examination of the procurement laws of the Commonwealth to keep pace with the development of new, non-traditional procurement methods such as Design-Build, Public Private Partnerships, Procurement Cooperatives, and – of particular importance to Centennial – Job Order Contracting (“JOC”). The Company supports the reform as a necessary step to promote efficient government procurement and full and open competition among eligible businesses.

Centennial believes that progressive procurement laws, that allow the Commonwealth and its municipalities to use innovative construction procurement methods, would save the taxpayers’ money, improve government efficiencies and expedite project deliveries. Centennial recognizes that traditional construction procurement methods continue to have their place, but JOC helps procurement officials respond quickly and efficiently to maintain and renovate aging infrastructure and respond to emergencies.

Centennial supports procurement laws that place limits on JOC – provided those limits are reasonable and permit the Commonwealth’s and its municipalities’ procurement personnel to meet the unique needs in their jurisdictions and optimize the procurement vehicle.

II. CENTENNIAL’S BACKGROUND

Centennial started as a traditional building developer and built many office buildings in Northern Virginia, including many of the buildings in Tysons Corner. Centennial also has experience using traditional construction acquisition tools in executing new construction and large renovation projects for K-12 school districts. In 1991, the Company made a strategic decision to specialize in JOC and ultimately became one of the largest JOC contractors in the country. Since its first contract at the Pentagon, Centennial has now placed over two billion dollars in renovations under JOC programs with federal, state and local government agencies.

Centennial has always been a Virginia company, and its Executive Management proudly calls Virginia home. Our Company is headquartered in Reston, Virginia, and Centennial has additional offices in Fredericksburg, Newport News, Petersburg and Chantilly. Our footprint, however, extends nationwide and into ten other states.

Centennial possesses a tremendous amount of experience and expertise in working under publicly funded JOCs for the provision of renovation and small new construction services at the federal, state and local levels. JOCs account for more than seventy-five percent (75%) of Centennial’s annual volume.

In addition to the Company’s extensive past performance with the Federal government, Centennial also has over fifteen years’ experience helping school districts (K-

12), cities, counties, universities and state governments to capture and utilize the value of JOC on behalf of their stakeholders.

In 2012, Centennial awarded nearly \$25 million dollars in subcontracts to more than 250 Virginia firms. These subcontractors employ hundreds of people and spend millions of dollars to purchase equipment and material at Virginia stores and suppliers.

Centennial's business model results in over eighty percent (80%) of its total subcontractor awards being made to local, small and/or disadvantaged companies.

In recognition of our efforts recruiting and developing small businesses, the Small Business Administration (SBA) has twice awarded Centennial with the Dwight D. Eisenhower Awards for Excellence.

Centennial believes JOC's benefits are welcomed by the Commonwealth and its municipalities.

III. JOB ORDER CONTRACTING

JOC is a method for procuring construction services that uses long-term, indefinite delivery, indefinite quantity (IDIQ) contracts, delivered on an on-call basis through firm, fixed price delivery orders based on pre-established unit prices. When used by the government, JOC contractors **competitively bid** against each other for the framework contract, often based on which contractor would provide the *best value* to the purchaser.

Agencies use JOC for minor construction, renovation, small new construction and infrastructure upgrades. JOC helps owners who need to complete multiple small and medium sized projects simultaneously, quickly, and easily.

The size of the contract impacts the cost effectiveness of JOC. The larger the contract, the greater number of projects are performed by the contractor's staff, thus

reducing the indirect cost per project to the tax payer. In addition, subcontractors can offer more competitive pricing when there is a consistent flow of work through the contract. Material discounts are greater on the larger volume of work under a JOC contract. All of these savings to the tax-payers are realized when the JOC contractor develops its coefficient for the competitive bid.

To perform the work, the contractor usually reaches out to local businesses because it is impractical for the JOC contractor to keep the necessary number and variety of skilled tradesmen on its own staff. Instead, the JOC contractor relies on a diversified subcontractor base within the owner's community. This helps the JOC contractor keep its costs low and predictable, and lets the owner's funds stay in the community and circulate through its local economies.

IV. CENTENNIAL'S RECOMMENDED CHANGES TO THE VIRGINIA PUBLIC PROCUREMENT ACT

Centennial believes that the \$2 million annual limit set by VA. CODE ANN. § 2.2-4302.2(B)(5) is too low and reduces the cost effectiveness and potential benefit that JOC can provide to the agencies and municipalities within the Commonwealth. Centennial supports a limit, but believes it should be a minimum of \$5 million per owner. This is especially true of the localities with larger populations just as the General Assembly recognizes¹ within Planning District 8 as they have unique needs when it comes to architectural, engineering and construction services. Centennial would like to see this higher limit in place prior to the effective date of VA. CODE ANN. § 2.2-4302.2 (July 1, 2014).

¹ Defined in VA CODE ANN. § 2.2-4302.2(C)(2) as "Any locality or any authority or sanitation district with a population in excess of 80,000."

The benefits of a higher limit are recognized during the development of the coefficient and are passed on to the tax-payers at the time of bid:

- 1. Lower bid coefficient, or multiplier, against the contract unit prices, resulting in a lower overall price per project.** A significant component of the bid coefficient is the general contractor's management personnel cost to execute the work. A minimum staff size is required for an on-call JOC contract to provide the required project scoping, safety, quality and placement of the work. At a \$2 million contract value per year the minimum required staff is under-utilized. At a \$5 million contract value the projects can be staffed with the optimum number of personnel required to meet all contract requirements and provide the benefits of JOC. This results in a higher percentage of the funds being spent on the direct cost of the work, reducing the percentage cost of the management personnel and resulting in a lower bid coefficient.
- 2. Subcontractor cost is lower on larger JOC contract volumes.** Most subcontractors working on JOC contracts are local small and disadvantaged businesses due to the small project sizes being performed. Once a JOC program is established, many small businesses have a consistent flow of work. This consistent flow of work results in lower costs that are passed on to the taxpayer.
- 3. Material volume discounts.** Purchasing power increases on larger contracts, resulting in lower costs.

4. **Ability to meet small and /or disadvantaged business goals.** Due to the small project size, a JOC contract provides the perfect platform to achieve desired business goals. The larger contract limit increases the available dollars to be distributed to local small and/or disadvantaged businesses.
5. **Projects “on the shelf” ready for execution.** An on-call JOC staff provides owners with the scope and estimated cost of projects that are planned to be built. Several projects can be scoped, estimated, negotiated and placed “on the shelf” pending final approval. The higher limit allows the quick execution of multiple projects that are “on the shelf” as they are finalized and approved.
6. **JOC is diverse and can meet the needs of multiple departments.** A single owner can use the JOC for work in their parks, streets, utilities, building facilities and for emergency construction needs. As the JOC program becomes a valuable tool in the owners’ acquisition strategy, a low contract value would reduce the ability of each department to utilize and receive the benefits of the JOC.

Centennial also believes that the language in VA. CODE ANN. § 2.2-4302.2(C) relating to a “project fee” creates confusion for JOC and may inhibit the implementation of JOC due to uncertainty. The owner awards a JOC Contractor a firm fixed price construction contract for each specific project based on the compilation of the sum of all the individual tasks from a unit price book multiplied by the bid coefficient. There is no “project fee” used in the development of each individual project price or submitted with the initial JOC contract. Thus, Centennial would like to see the General Assembly act to strike the reference to “project fee” for JOC from VA. CODE ANN. § 2.2-4302.2(C) before it is scheduled to take effect on July 1, 2014 because it does not apply to this type of procurement vehicle.

Centennial appreciates the Subcommittee's time and the opportunity to appear before the Subcommittee to contribute constructively to this important debate. As a JOC pioneer, Centennial hopes to have the opportunity to work directly with the Subcommittee in its efforts to successfully implement JOC into the Virginia Public Procurement Act.