



Q&A: Cost Estimating and Cost Management Launch

October 2008

Q: Why is the department launching the initiative now?

We recognize there are still important pieces that currently are nearing completion, such as the manual and training. We also recognize that this effort will require a significant investment of work in a short period of time.

But it is also imperative for Mn/DOT to implement this process on projects that will enter the 2010-2013 STIP. Implementation of the cost estimating and cost management process and guiding principles is critical to our goal of delivering projects on time and within budget.

As a department, we must do better at identifying known project costs, exploring the possible financial impact of remaining risks, and managing our costs once our projects enter the STIP, as well as communicating the assumptions that are part of the estimate.

Doing better at these tasks will make it easier for the Legislature and taxpayers to understand what a project is or isn't and what assumptions and factors influence project costs. Clearly documenting what we do allows us both to be transparent and accountable. Ultimately, it will help project managers and districts deliver the projects – without the delays or cost escalations that have occurred in the past.

The department began the Mn/DOT Cost Estimation Process Improvement and Organizational Integration Project for that reason. Because of its importance, Mn/DOT management established a vision for the project “to manage and control costs through a department-wide priority on cost estimating and cost management, reliable and accurate estimates, statewide uniformity and consistency, improved communication and credibility with external stakeholders, and clear accountability.”

This initiative, along with work to improve the way that we scope projects, has provided us with a foundation to move toward our goal of achieving accuracy, accountability, and consistency in cost estimation and cost management efforts during planning, scoping, design, and letting.

Q: What will be implemented?

We are asking districts to implement key aspects of the scoping and cost estimating and cost management initiatives. These include:

- Completion of a scoping report or the front sheet of a scoping report if layouts and plan sheets are finished
- Establishment of an estimate file, which will contain all documents related to estimates, assumptions behind estimates, and updates to estimates

- Development of a total project cost estimate, which takes into account all project costs and provides estimate totals for engineering, construction, and right of way
- Application of risk and contingency, which includes identifying what you know and what you don't know about the project, assessing the risks, and determining a contingency amount for those risks
- Documentation of the estimate and estimate assumptions
- Review and approval of scoping report, total project cost estimate, and contingency use by district management
- Completion of one-page estimate communication summary for each project

The document titled *Implementation Requirements* outlines the details of what we are asking districts to implement.

Q: How does this apply to projects that already have been scoped and have cost estimates?

We are asking districts to implement several key concepts of the cost estimating and cost management process, which include the development of total project cost estimates and a closer assessment of risks and application of a contingency amount to account for those risks as part of the estimate.

Even if an estimate has been completed, we want districts to review the previous scope, look closely at any remaining risks, and determine whether it makes sense to apply a contingency amount to the total project cost estimate. For example, if a scope suggests that soil conditions may be a factor, the next step would involve an assessment of the potential financial impact on the project.

Development of a total project cost estimate also is new. Total project cost estimates, which include a comprehensive list of project-related costs, will allow Mn/DOT to communicate project costs more accurately and consistently both internally and externally.

The total project cost estimate consists of the base estimate, or the estimate for all known project costs at the time of the estimate, plus contingency, or the amount that reflects the estimated costs of the remaining risks to the project.

More information about total project cost estimate is available at the scoping and cost estimating web site: www.dot.state.mn.us/cost-estimating/index.html.

Q: What will happen if these estimates are higher than previous estimates?

We understand that assessing risk and applying an amount for contingency may change estimates for some projects.

It is better to understand now the risks that may impact the project cost before those projects enter the 2010-2013 STIP than to find out later during the project development process. Knowledge early in the process will help districts in making the necessary adjustments.

We know that estimates will not be perfect, especially in the beginning, but by applying the concepts of total project cost estimate and risk and contingency, they will be better. Ultimately consistent application of this work will help the department more effectively manage its transportation program.

Q: How do the Cost Risk Assessment and Value Engineering (CRAVE) workshops fit with the launch?

The Chapter 152 Bridge Program includes 13 major bridges and approximately 110 other bridges. We are conducting Cost Risk Assessment and Value Engineering (CRAVE) workshops only for 11 major bridges, with the other two either under construction or close to letting. The workshops include a risk assessment and peer review combined with value engineering.

In addition to the 13 major bridges, we ask that districts focus on applying the cost estimating process and guiding principles on the 55 Chapter 152 bridge projects in the 2010-2013 STIP.

Q: When will all this take place?

Approved scoping reports and total project cost estimates for all Chapter 152 bridge projects in the 2010-2013 STIP are required by December 1, 2008, to allow for final completion of the Chapter 152 Bridge Plan by December 15, 2008.

Approved scoping reports and total project cost estimates for all other projects in the 2010-2013 STIP are required by February 13, 2009, to allow districts time to review the STIP with the ATP and MPO.

Q: Why is this estimate important?

The total project cost estimate that accompanies the scoping report is the baseline cost estimate. According to the cost estimate and cost management guiding principles, project managers will manage project costs during the design phase within that baseline cost estimate.

Q: What resources will be available to help districts and offices?

We have asked districts and offices for their ideas on the resources that will help them complete their work. We will provide additional information about resources within the next few weeks.

Q: What is the status of the training, manual, and implementation plan?

The manual and other tools will be available in November, and the training will follow after districts complete their approved scoping reports and total project cost estimates. The implementation plan contains a series of actions that the department will continue to complete or work on during 2009 and beyond.

Q: Who can we call for questions?

Contact Mike Ginnaty at 218.846.3604 or mike.ginnaty@dot.state.mn.us with questions and visit the scoping and cost estimating web site at www.dot.state.mn.us/cost-estimating/index.html for information and updates.