

# Dallas Business Journal

## Back to the well

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## Antidote for slowdown? School work

BY CHAD ERIC WATT | STAFF WRITER

North Texas voters will decide on May 10 the fate of five school district bond issues and another for the City of Fort Worth that collectively represent nearly \$3 billion in new construction work.

Statewide, school districts, community colleges, cities and other governmental agencies are asking voters for permission to issue nearly \$9.2 billion in bonds for capital projects, according to research by the Austin-based government procurement consulting firm Strategic Partnerships Inc.

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## BONDS: Some general contractors avoid public work completely

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If approved, the projects will create a sizable boost for the local construction market at a time when private developers appear to be getting antsy about a slowing economy and tightening credit markets.

The state's two largest proposals are in North Texas: Dallas Independent School District's \$1.35 billion bond issue and Lewisville school district's \$776 million request. Plano, Ennis and Azle school districts also are seeking voter approval for multimillion-dollar spending programs. Since 2005, Fort Worth and nine suburban school districts have passed bond packages totaling more than \$3.4 billion.

The work has managed to keep construction companies busy D-FW employment in that sector has climbed 3.5% in the 12 months ending in March. And, while the number of residential construction permits fell by 21% in that time, the value of nonresidential construction contracts ticked up 2.6%, according to the Federal Reserve Bank of Dallas.

### The money is there

The confluence of bond offerings is partly due to state law changes that restrict school districts to one of two election days each year, notes Rob Collins, a public finance attorney at Vinson & Elkins LLP.

And, while subprime lending and related securitization work has bogged down other corners of the bond markets, the appetite for school district bonds remains healthy, Collins said.

In the case of public-sector work, there's no question whether builders will get paid — it's more a question of when.

"You know the money's there," said Craig Morris, vice president of the Dallas-based construction firm Cadence McShane Corp. "The money has to be in place before they can start work."

Cadence McShane split its work roughly 60% private sector and 40% public sector in 2007. This year is shaping up to be close to a 50-50 split, Morris said.

### A tougher customer

Still, many contractors prefer private work. That's because contractors and private developers are more naturally aligned in terms of completing a job quickly, efficiently and correctly because the developer and contractor both have their own money at stake, said Scott Griffith, a Dallas attorney specializing in construction law.

In public-sector projects, the project manager will draw a salary regardless of deadlines or getting paid.

"If the project doesn't get built on time, it's not going to affect them personally," Griffith said. "You have to pay your subs and suppliers, but you're dealing with someone who's still getting paid."

And when problems crop up, contractors have fewer recourses when they're dealing with a government client.

Specifically, builders in Texas can't file a mechanic's lien to encourage the government to pay up. Contractors can sue to get paid, but if they do, they can't ask the government to cover their attorney's fees, which is typically available in private disputes. And once a contractor sues, it is precluded from doing any other work with the government it's suing, said Griffith, a partner in the law firm Griffith Nixon Davison PC.

"I have a lot of (general contractor) clients who refuse to do work on public-sector projects, absolutely," Griffith said.

Fewer contractors working on public jobs can lead to lower quality and less competition for work.

"At the end of the day, it's bad for the taxpayer," Griffith said.

### Streamlining a bureaucracy

DISD recognizes that, says architect Craig Reynolds, who leads two school-construction industry committees that aim to improve how the school district works with contractors, architects and engineers.

Reynolds began that work in 2002 at the outset of Dallas schools' \$1.37 billion bond package.

"We knew last time, that with a \$1.37 billion project, it was going to take all hands on deck," said Reynolds, a partner in Brown Reynolds Watford Architects Inc.

The Dallas school district used 27 general contractors on the 2002 projects.

Some 61% of the construction dollars, or \$572 million, were handled by locally owned contractors. Still, four of the five biggest contractors in that round of work were large, out-of-town operations. And 12 of the largest 25 general contractors, as ranked in the *Dallas Business Journal's* 2008 Book of Lists, didn't participate in that effort as general contractors.

Some of those top contractors simply are too big for school work, and others were at the time busy with work from suburban school districts.

Cadence's Morris says DISD is naturally a tougher customer than those suburban districts because of its size and the nature of its work.

### System improvements

The school district is looking for ways to repair its reputation among contractors, engineers and architects from a tumultuous bond package in 1992 that turned off many builders from public work.

In response to that, the school system has



### WHERE THE WORK WENT

Local general contractors handled 61%, or \$571 million, of the construction spending from the Dallas Independent School District's 2002 bond package. Still, four of the top five general contractors are based out of town. Here is a listing of the top 10 contractors from that bond package.

CONTRACTOR	NO. OF PROJECTS	VALUE OF PROJECTS
3i/IE Dunn Construction Co., Kansas City, Mo.	8	\$94.1 million
McCarthy Building Cos. Inc., St. Louis	3	\$75.7 million
Turner Construction Co., Dallas	5	\$73.9 million
Adolfson & Peterson Construction, Minneapolis	6	\$73.2 million
Satterfield & Pontikes Construction Inc., Houston	5	\$68.7 million
Rogers O'Brien Construction Co., Dallas	6	\$65.2 million
Sedalco Construction Services, Fort Worth	4	\$54.6 million
Ratcliff Constructors LP, Dallas	5	\$53.7 million
Thomas S. Byrne, Fort Worth	1	\$50.6 million
MDI Inc. General Contractors, Coppell	9	\$46.3 million
<b>PERCENTAGE LOCAL</b>	<b>73%</b>	<b>61%</b>

SOURCE: Dallas Independent School District

revamped how it handles project disputes and requests for additional funds.

In the 1992 project, any change request of more than \$25,000 had to go before the school board. Those requests are handled more quickly now, Reynolds says.

Heading into its second billion-dollar building program of the decade, the school district has continued looking for ways to streamline that work.

The school district has worked to standardize what its program managers expect, said Phil Jimerson, DISD's executive director of construction services.

Additionally, the district is working to pay invoices within 10 days of receiving them. Although pay requests have to go through several layers before landing at the school district, it is now paying 93% of those requests within 10 days, Jimerson said.

"The success of our program is directly tied to the quality of contractors willing to work with us," Jimerson said. "We're really blessed with the number and quality of firms willing to work with us."

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### BOND BONANZA

On May 10, five D-FW school districts and the City of Fort Worth will ask voters for permission to issue \$2.9 billion in bonds to build new schools, upgrade and renovate existing schools and, in Fort Worth's case, repair and upgrade local roads.

ENTITY	PROPOSED AMOUNT
Dallas ISD	\$1.35 billion
Lewisville ISD	\$776 million
Plano ISD	\$490 million
City of Fort Worth	\$150 million
Azle ISD	\$98.8 million
Ennis ISD	\$48.9 million