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December 22, 2015

Suzanne Ise, Housing Officer, AICP
 City of Sunnyvale CDD, Housing Division
 456 W. Olive Ave. / PO Box 3707
 Sunnyvale, CA 94088-3707

Re: Orchard Gardens Construction Bidding

Dear Suzanne:

With regard to the selection and bidding processes for the construction of the Orchard Gardens project. As we have discussed, First Community Housing (FCH) normally negotiates its contract with a general contractor (GC) early in the project development. We also commonly negotiate design-build contracts with mechanical, electrical and plumbing subcontractors in order to bring them during the design phase of the project. We are planning on doing so on the Orchard Gardens project.

The reasons that we choose these processes, is that it allows the contractor/s to contribute to the design of the project resulting in an efficient, buildable design and dramatically reduces change orders. While First Community Housing has pioneered this approach, it has now become common practice within the industry. The value engineering provided from the GC and design build subs from project inception allows savings that are typically unavailable on hard bid projects. The hard bid usually takes place shortly before construction using complete drawings. These drawings are either submittal plan sets or full permit drawings. This is too late for many value engineering suggestions. Additionally, having one read of the final plans, versus participating throughout design development, results in a significantly reduced knowledge of the project, which in turn, often results in mistakes and change orders. It also commonly results in a more adversarial relationship between the GC, the owner, and the architect.

Ensuring that one achieves fair pricing, even without bidding, is achievable with sufficient supporting expertise, appropriate contract structures and use of the right contractors.

We believe we have sufficient expertise and oversight to ensure that we are getting fair prices. First, FCH has an in house Director of Construction who is an experienced contractor and estimator. He participates in each project from the start of design through construction and occupancy. Second our tax credit investors and lenders also independently hire outside third party consultants that provide value engineering recommendations, price evaluation, construction contract comments and construction administration. In addition; to ensure that the city of Sunnyvale is confident of construction pricing, we are happy to hire an independent consultant to confirm fair pricing and provide value engineering.

We believe the most appropriate contract form for a negotiated contract is the Cost of the Work, Plus a Fee, with a Guaranteed Maximum Price (GMP) form. We negotiate the Fee, Overhead and General Conditions with the contractor. The normal industry range for all three is 11-14% with 14% being a hard maximum set by the Tax Credit Allocation Committee. The variance depends on factors such as project size and project complexity. We work with the GC in negotiating any design build contracts. If any design build contract proposals appear high we may bid that trade out to additional subs in that trade. The industry is quite aware of our approach. If the design build sub is not selected, we usually pay them a reasonable pre-negotiated fee for any design services that they provided. All other trades are competitively bid by at least three subs. We work with the general contractor in selecting the lowest responsible bid. The Fee/OH and Profit plus all sub bids and a contingency amount are then totaled for the gross maximum price.

As we have recently discussed, an additional third party consultant can be hired by First Community Housing to further ensure the city's confidence that the contract price is reasonable and provide additional value engineering. We will suggest three possible consultants and the city may select one. Three possible consultants are:

- 1) Roy Buis, Buis Construction Services
P: 408.436.7800
E: roy@buis-cs.com

- 2) Dave Doerkson, GTG Consultants
P: 312.202.0606 ext.115
E: ddoerksen@gtgconsultants.com

- 3) Dan Mountsier, Pinion Property Company
P: 408.590.4702
E: dan@mountsier.com

In Summary, we have a procedure for obtaining construction pricing and contracts that has been very successful over the last twenty years. We are confident that we will obtain fair pricing while minimizing change orders and maximizing efficient design and value engineering.

In addition, we can hire a third party consultant to confirm the scope of work and pricing. If you have any additional questions or need any additional information, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Geoff Morgan". The signature is fluid and cursive, with the first name "Geoff" being more prominent than the last name "Morgan".

Geoff Morgan
President
First Community Housing