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How the public was left in the dark about tens of millions of dollars in cost overruns at the University of Pittsburgh's Petersen Events Center

The money pit at Pitt / First of two parts

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By Bill Heltzel and Bill Schackner, Pittsburgh Post-Gazette

Sitting high atop the University of Pittsburgh campus, the Petersen Events Center has been lauded by Pitt officials as the home of the "finest collegiate basketball arena on any campus in the country."

But there is another aspect of the arena's story that isn't promoted in the university's brochures.

From concept to completion, the Petersen's price tag more than tripled, from \$35 million to \$119 million. The taxpayers' share, after Pitt originally had promised to take no more than \$13 million in public money, increased fivefold to \$66 million.

Costs could climb still higher. Two years after the facility opened, Pitt is fighting an architect and two contractors who say they are owed another \$2.3 million.

As the expense of the project was steadily rising during the two years of construction, neither Pitt nor the state, which oversaw the work, acknowledged the increase. They continued to maintain publicly that it was a \$69 million project. Yet official documents show that they had known for some time that it would be more expensive.

Their estimate at the time of groundbreaking, based on the primary construction costs, appears to have excluded equipment as obvious as the massive center-court scoreboard, systems that would heat and cool the building and even the fees for designing the building and managing construction.

With those costs added in, state and university officials knew when construction began in June 2000 that the center would cost at least \$84 million.

And spending continued to soar after that. Construction cost overruns eventually reached 34 percent, a rate that industry experts say is two to four times the norm.

The extra expenditures were caused largely by administrative practices that encouraged and even rewarded mistakes and inefficiencies. The Petersen ended up with an unwieldy 25 prime contractors, for instance, and in the rush to meet deadlines, architectural drawings were often incomplete when they were submitted, leading to inaccurate construction bids and work delays.

Gov. Ed Rendell's administration, which has inherited the project, says



John Beale, Post-Gazette
From concept to completion, the University of Pittsburgh's Petersen Events Center more than tripled in cost from \$35 million to \$119 million, according to research by the Pittsburgh Post-Gazette that included analysis of thousands of project documents. The amount paid by taxpayers for the project grew fivefold to \$66 million.

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it would have done things differently.

"The management techniques utilized on this project were a choice made by the prior administration," read a statement released by the governor's office. "It is not a model that the Rendell administration would implement or recommend."

State officials said they could not explain why many crucial project decisions were made. The key people, particularly General Services Deputy Secretary Merle Ryan, are no longer employed by the state. "Ryan is the only guy who knows what the answers are," General Services spokesman Frank Kane said.

Neither Ryan nor the Pitt officials who worked with him would talk with the Pittsburgh Post-Gazette for this story. Some of Pitt's top administrators did discuss the project two years ago, around the time they acknowledged that the project had reached \$96.4 million, and a Pitt spokesman said the university didn't feel it needed to say anything further.

Today, the Petersen is a popular hub of campus life, reflecting the university's aspirations and its athletic prowess. But it also illustrates the way complex public works projects can mushroom, and how little taxpayers are told about how that happens.

The Post-Gazette searched thousands of project documents to answer one central question: Why did the cost of building a basketball arena escalate so sharply?

One explanation is that officials nearly doubled the size of the building. But the Post-Gazette's research also revealed a project beset by indecision, squandered work, miscalculations and hidden costs.

This is the story of what happened.

The dream

For decades, Pitt officials dreamed of a new home for the basketball team.

Fitzgerald Field House had opened in 1951 and seated 6,800. When the hangar-like gym was packed to the rafters, the atmosphere was electric. But when it was empty, the Fitzgerald looked like a glorified high school gymnasium. It was not an impressive place to bring recruits.

Big games were played at the Civic Arena, such as the 1993 contest against the University of North Carolina, which drew 17,716 fans and set Pitt's home attendance record. But athletic officials believed they needed a modern, on-campus arena to compete effectively in the Big East Conference.

Pitt considered enlarging Pitt Stadium and enclosing it with a dome. That would have created 80,000 seats for football and 35,000 for basketball, more than enough for graduation ceremonies, major track and field events, the NCAA Final Four tournament and maybe even a Super Bowl.

A consultant advised Pitt that a dome was technically feasible, but at \$92 million, the idea died for lack of financial support.

Gov. Robert P. Casey revived arena hopes in 1992, when he announced a half-billion-dollar building program at state universities, including a \$35 million convocation center at Pitt. The university had modeled its proposal on Wake Forest University's arena, a \$20.1 million, 14,655-seat municipal center that opened in 1989.

To jump-start the project, Pitt Chancellor J. Dennis O'Connor cut a deal. The Legislature had previously authorized \$30 million for an arena, but the money was never released. O'Connor agreed to accept \$13 million if the state released the money right away. Pitt would put up the balance, \$22 million.

The contract was clear about cost overruns. Either Pitt would pick up all extra expenses or it would redesign the building to conform to the budget.

"The commonwealth," according to their agreement, "shall not make any additional funds available to the project under any circumstances."

Even at the time it was made, the \$35 million estimate may have been too low. Scholars who study public works projects have found that final costs routinely exceed the original estimates by wide margins. Sometimes, experts say, projects encounter unexpected costs. But other times, some studies have concluded, public officials deliberately lowball their estimates to secure public financing and get projects started.

"There is a cynical argument which says that the people who want these projects have all kinds of incentives ... to underestimate the cost," Harvard University researcher David Luberoff said, "because once you've started, it's pretty rare to stop."

The experts have no way of saying whether deliberately low estimates were a factor in the Petersen figures because they have not studied the project, and Pitt officials would not discuss the basis of their estimate.

Pitt envisioned building more than just a basketball arena. It wanted to cool the arena and nearby buildings with a central chilled-water plant. An upper campus chiller had been on the drawing board since 1985, but the state, which had agreed to pay for it, had canceled the project.

Pitt persuaded the state to reactivate the chiller and house it in the arena. The state pledged \$7.2 million and Pitt promised to cover all cost overruns.

So by late 1994, Pitt had agreed to build an arena and chiller for \$42.2 million, for which the state had promised \$20.2 million.

Then the project languished.

Pitt was unable to raise its share of the money. O'Connor asked the state for another \$16 million, but Gov. Tom Ridge held the university to its promises to pay all extra costs.

Within two months, O'Connor had resigned. Lackluster fund raising, among other issues, had displeased Pitt's board of trustees.

The board also was displeased with the lack of progress on the arena.

Months after O'Connor announced his resignation, J. Wray Connolly, who was then board chairman, complained, "We always seemed to have different cost numbers for construction."

The state takes over

In 1995, Mark Nordenberg was named acting chancellor, and Pitt made the arena its highest construction priority.

With Nordenberg at the helm, the state eventually changed its tune.

After having refused to grant Pitt any more money, the state responded to a lobbying effort by Nordenberg and other Pitt officials and allocated \$25 million more for the arena project in late 1997.

That raised the state's stake to \$45.2 million. Once again, Pitt promised to pay all additional costs. But this time, the state dropped its vow to contribute no more money and alluded to a future "funding increase."

One of the mysteries at this point in the project's history is why costs had increased so sharply.

By 1998, Pitt was estimating that the total cost of designing and building the arena, the chiller and a new steamline connecting the arena with the existing heating system had risen to more than \$65 million, a jump of more than \$20 million.

Inflation caused by five years of delays would have accounted for about \$5 million of that increase.

The most obvious explanations are that the proposed building was either getting bigger, or the original estimate had been too low.

Another unanswered question is why the Legislature and governor released Pitt from its promises to pay for all costs beyond the original state grants. The arena, chiller and steamline initially were funded as separate projects, with a combined taxpayer obligation of \$22 million. But by 1998, the state had pledged \$47 million for the combined projects.

The new state funding also marked a major shift in how the project would be supervised.

Pitt relinquished control of the effort. The Department of General Services, the state's construction agency, took over.

The state then dismissed Pitt's architects and hired its own. Apostolou Associates, of Mount Washington, and Rosser International, of Atlanta, formed a joint venture to design the arena. Dynamic Design Engineering, of Johnstown, got the contracts to design the chiller and steamline.

Changing location

In early 1999, Nordenberg announced a bold decision. Although sports officials had insisted for years that Pitt needed on-campus venues for its sports teams, he decided to move football off campus to the Steelers' stadium. Pitt Stadium, the heart of the university's athletic exploits for 74 years, would be razed to make way for the arena.

The decision was unpopular, but it solved problems.

By tearing down the seldom-used stadium, Pitt no longer would have to pour money into renovation and maintenance. Opening up 10 acres of comparatively flat terrain would allow planners to add features to the arena, with room left for new dormitories and green space.

Changing the site would prove costly.

Architects had already started working on the original location, so the state paid Apostolou/Rosser \$627,000 and Dynamic Design Engineering \$71,663 for designs that were now worthless.

More significantly, once the arena was moved to a larger, less-restricted site, it began to expand. In one respect, Pitt became less ambitious, scaling back seating from 15,000 to 12,500. But Pitt added a student fitness center, more food stands and kitchens, and bigger offices.

The extra features in the Petersen Events Center, as it was now being called in honor of an alumnus and his wife who pledged \$10 million, strained the budget.

The architects met with Pitt's staff and the construction manager to discuss ways to cut costs. Using drywall instead of masonry could save \$250,000. Doing without doors on public bathrooms could save \$16,000. The most dramatic savings could be achieved by making the building smaller. Eliminating the student recreation center, for instance, would trim \$2.3 million.

But every time cutbacks were proposed, someone involved in the project would respond by adding features. Plans that had started at 230,000 square feet ultimately grew to 430,000 square feet.

Nearly doubling the size of the center was probably the single greatest factor in driving up costs before groundbreaking. Yet, because the state has no record of anyone formally questioning the decision and because Merle Ryan and Pitt officials have refused to discuss their roles, there is no explanation for this critical decision.

"Scope creep" is common on public projects, according to industry experts. Small, inexpensive projects tend to evolve into complex, costly ones.

There is even a term for how it happens. Promoters often use "salami tactics," according to Bent Flyvbjerg, a Danish public works expert, introducing new features one slice at a time but not revealing the escalating costs until much later.

Fast track decision

The state made other choices that would prove costly.

Pitt wanted the arena done by the opening of the 2001 basketball season, so Ryan made it a "fast track" project. That meant that rather than designing a building and then hiring the contractors, the contractors would be hired and start work before the drawings were finished. Advocates believe the technique can save money by speeding up the construction schedule.

But it's a risky approach. If the final drawings change significantly, contractors can charge a premium for extra work and materials.

The state also was constrained by the Separations Act. The 1913 law requires at least four "prime contracts" on every nonhighway state project, to be awarded publicly to the lowest bidders. The law is meant to encourage competition, but critics say multiple contracts are inefficient and result in coordination problems and costly delays.

The federal government and all but five states use a single general contractor or construction manager to negotiate contracts and coordinate the work. Advocates say this method, with fewer administrators and a direct line of authority, is cheaper, faster and less prone to errors. Opponents say it favors large companies that squeeze profits out of subcontractors.

But in the Petersen's case, the state's Ryan went well beyond the Separations Act, breaking the work into an unwieldy 25 prime contracts. Each firm was responsible for only its own tasks and schedules; none was accountable for the overall project.

General Services officials were unable to explain why that was done, but spokesman Kane said the agency would not "separate contracts out that far again."

As a way of compensating for having so many prime contractors, the state hired a construction manager, Pitt Center Partners, a consortium of O'Brien Kreitzberg Inc., P.J. Dick Inc. and Mizerak Towers & Associates, for \$3.4 million.

Traditionally, the construction manager guarantees the project price and tries to earn a bonus by bringing the job in under budget. In exchange for the risk, it helps design the building, negotiates the contracts, and mediates disputes.

But under the Separations Act, Pitt Center Partners could not hire contractors. It did not guarantee the project price. Its contract offered no bonuses or penalties to keep the project on budget and on schedule.

So before construction had even begun, the state had saddled the project with three potential problems. The fast track schedule carried the risk of incomplete designs and costly changes. The work site would be clogged with 25 contractors. And the construction manager would have little authority or incentive to control costs.

Groundbreaking

As long as the arena was on the drawing board, there was still some leeway to curb costs. During the design phase, the state, Pitt, Pitt Center Partners and Apostolou/Rosser vied over which features to add or cut. Proposals differed by as much as \$15 million.

Apostolou/Rosser architect Raymond Ashe Jr. alluded to the tug and pull of the process in a letter to the General Services Department.

"We have taken steps to reduce the scope of this project as well as reduce building components to barely acceptable levels in order to manage costs," he wrote. But recommended cuts were "reinstated at the direction of the university," with the state's concurrence.

State officials would not comment on that charge because Apostolou/Rosser has sued the state for more compensation.

As the project got closer to groundbreaking, Apostolou/Rosser submitted a final construction estimate of \$64.6 million. But state officials chose a more expensive plan, submitted by Pitt Center Partners, that raised estimated arena construction costs to \$69.8 million.

Adding the chiller and steamline construction contracts, design fees, construction manager fees and furnishings, the state and Pitt knew on the eve of groundbreaking that the Petersen Events Center would cost at least \$84 million.

And even at that figure, planners had missed the mark. Once the work was under way, the hidden costs of administrative choices surfaced.

The publicly acknowledged price tag, however, was another matter. Officials continued to cite the \$69 million estimate for nearly two years,

until the Post-Gazette questioned the figure a few weeks before Pitt showcased the Petersen at an April 2002 open house.

Tomorrow: How the construction cost overruns occurred

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