

Statement of Mr. Michael McKelvy
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Before the Commission on Wartime Contracting in Iraq and Afghanistan
24 January 2011

Chairman Thibault, Chairman Shays, distinguished members of the Commission, on behalf of CH2M HILL, I am pleased to have the opportunity to participate in the discussion of wartime contracting in Iraq and Afghanistan. I am the President and Division Chief Executive of the Government, Environment, and Nuclear Division of CH2M HILL. Under our Government Facilities and Infrastructure Business Group which I oversee, CH2M HILL has over 1,000 professionals who provide planning, design, engineering, construction, operations and maintenance, program management, and other support to the US Government. On any given day, we have employees serving Government clients around the globe—from the United States to the United Kingdom, to Kuwait, Iraq and Afghanistan, to Korea, and even to the Arctic.

It was my pleasure to meet both Co-Chairs of the Commission, Chairmen Thibault and Shays, along with the Commission staff, at our corporate office on 17 June 2010. The following month, in July, CH2M HILL participated in the commission hearing here in Washington, D.C. when Mr. Fred Brune represented our company.

CH2M HILL is an employee-owned global consulting, design, design-build, program management, and operations and maintenance firm founded in 1946 and headquartered in Englewood, Colorado. With over 23,000 employees, CH2M HILL currently operates in 76 countries worldwide serving 3,600 customers.

Annually CH2M HILL earns over \$6 billion in revenue, with approximately 25% coming from international project work. Year in and year out, CH2M HILL has been recognized as an industry leader in design, construction, operations, program management and environmental services as judged by Engineering News Record. For the second year in a row, CH2M HILL was judged one of the world's most Ethical Companies by the Ethisphere Institute. CH2M HILL has a long history of service to the United States Government, and today is a service provider for the Army, Navy, Air Force, EPA, the Federal Emergency Management Agency, and the Department of Energy. Approximately one-third of CH2M HILL's revenue is in support of the Federal Government. In 2010, the CH2M HILL work in Afghanistan and Iraq represented approximately 3.0% of the total company revenue.

Since 2004, CH2M HILL has been providing support to the US military in forward operating locations, first in Iraq and subsequently Afghanistan, in addition to other countries. This support began at the start of Operation Iraqi Freedom and embodies our corporate commitment to follow our DOD clients in both peace and war. CH2M HILL has provided the full range of services to DOD; including program management, master planning, design, design-build, construction, logistics, environmental services, and operations and maintenance support. CH2M HILL has served as a prime contractor directly to the US Army Corps of Engineers (USACE) and to the Air Force Center for Engineering and the Environment (AFCEE), as well as a major subcontractor to DynCorp International on the Army Sustainment Command LOGCAP IV contract. Contractually, CH2M HILL has worked under firm fixed price and cost reimbursable contracts. Since 2004, CH2M HILL has substantially completed 60 projects in support of the warfighter in the contingency environment. Our success as a contractor can be attributed to our safety focus, our exceptional people and continually refined project delivery processes. Safety is always the first and foremost consideration for any CH2M HILL project or endeavor. We have been able to share our strong safety culture—termed Target Zero—with foreign subcontractors working for us, and the result has been safety standards that exceed the industry standards, despite the contingency environment. As an employee-owned company with an ethical foundation that focuses on character and a defined set of values that originated with the company founders, our people strive to make the right choices daily in support of the Government client and the American taxpayer. Our proprietary Project Delivery System (PDS) provides the processes and tools that promote consistency regardless of the project location or the people managing the work. Our project selection process, approach to teaming and selecting subcontractors, pricing, risk management, project controls, quality management, and subcontractor management – all are defined processes that have been developed from our experience and our lessons learned on past project work.

While CH2M HILL has served numerous clients and has provided the full range of services in Iraq and Afghanistan, the majority of our work results from three large contracts. CH2M HILL held a USACE Transatlantic Programs Center Indefinite Delivery Indefinite Quantity contract from January 2004 until January 2009. Under that contract CH2M HILL completed six projects with a total contract value of approximately \$97 million (M). From April 2006 to the present, CH2M HILL has also held an AFCEE Heavy Engineering, Repair and Construction contract and has executed nine projects with a total contract value of \$177M. CH2M HILL infrastructure and facility projects in Iraq and Afghanistan have made significant contributions to build the warfighter's supporting infrastructure. In LOGCAP, since July 2009, as a subcontractor to DynCorp in southern Afghanistan, CH2M HILL has provided construction management services for over \$235M of contingency construction projects that have provided life support

facilities for over 12,095 warfighters and dining facilities that have served over 2,600,000 meals. The LOGCAP water well drilling which began in December 2009 provides 2.8 million gallons of water each day at maximum capacity and takes hundreds of trucks off the dangerous Afghanistan roads daily.

In the Commission's invitation letter, you outline several issue areas for today's discussion. I would like to briefly address those that apply to CH2M HILL now and welcome the opportunity to expand on them during the question and answer session of the hearing.

- Proper site preparation. Considerations for site selection and preparation include demining, clearing/demolition, security concerns, hydrology, and land ownership issues. Depending on the contract, some of these can be performed by prime contractors, but others are typically performed by the government before field work can begin. On past projects we have experienced challenges with all of these aspects which have adversely impacted project schedules. These aspects can significantly alter contractors' pricing and/or decisions to bid.
- Construction management. Our typical execution model for design/build work in Iraq and Afghanistan is to act as Construction Manager (CM) for local subcontractors who perform most of the field work. Our site CM team is typically a blend of expats, third country nationals and locals. Typical expat positions might include a Site Project Manager, CM, Health & Safety Manager, and Quality control (QC) Manager. While expat costs and security must be balanced with other concerns, we find the greatest single factor influencing field construction success is the number of expat members of the on-site CM team.
- Security challenges. Adequate mitigation of security risks is our first concern on any new project opportunity, and along with safety, it remains a primary concern throughout the project's life. We take a conservative approach to security, with the protection and wellbeing of our employees being paramount. We hire private security companies (PSCs) to conduct all expat personnel movements and to provide site specific security for projects which are not on coalition bases. We keep a full time Security Manager in Kabul who is integrated into all our Afghanistan operations (as we did in Iraq while our construction program was active). Expat-owned PSCs have proven to be much more reliable than Afghan-owned PSCs. President Karzai's recent decree to eliminate PSCs from Afghanistan has caused great concern and confusion in the U.S. prime contractor community.

- Cost, schedule, quality. The “three legs of the stool” for project delivery – cost, schedule, and quality – are a particular challenge while executing design/build projects in contingency environments. Constriction of any one of these will always affect the others. Recent changes by the government to firm-fixed-price and lowest-price-technically acceptable awards have driven prices lower in order to be competitive, and given less room for government flexibility to adapt to the evolving requirements and changing conditions inherent in war zones. At the same time construction quality requirements and standards have increased. Complying with the Afghan First initiative to maximize use of local firms and labor adds additional challenges to meeting schedule and quality standards.
- Culturally appropriate construction and sustainability. Construction standards for facilities and infrastructure should take into account local construction materials and methods, as well as capabilities of local subcontractors. Limited capability of the end user to properly maintain and operate facilities and equipment should be considered. Also, construction standards should consider local cultures and customs when designing buildings and specifying utilities such as plumbing and electrical. In general, the simpler and more durable the design and construction the better the chances are it will last.
- Past performance. We believe past performance should always be a factor considered by the government in making new awards. The likelihood of project success is greatly increased by awarding to a contractor with a track record of success. However, the difficulties of project delivery in war zone/contingency environment should also be taken into account. Every design/build prime contractor who has worked in Iraq or Afghanistan has faced challenges unique to the region. It is how they quickly identify, resolve and implement lessons learned and best practices to those challenges that the Government should consider.
- Quality Control issues. Construction quality control is a constant challenge when operating in war zone/contingency environments. Materials and equipment that are locally available are generally lower quality and may not meet standards. Local laborers are usually less skilled and have little or no training. Local subcontractors are generally less sophisticated and less capable of meeting high quality standards. The lack of continuity resulting from high rates of workforce turnover also causes quality to be a continuing challenge. Better construction quality can be achieved by subcontracting directly to the firms who own the resources to perform the work (instead of using brokers or multiple tiers), and by verifying that subcontractors have adequate financial resources to make payroll and procure proper materials and equipment.

CH2M HILL appreciates the work that this Commission has done to ensure that our troops in Iraq and Afghanistan receive the support they need and that taxpayer dollars are spent wisely. CH2M HILL is committed to serving the facility, infrastructure, and logistics needs of the Department of Defense in the wartime contingency environment. We are dedicated to serving the men and women who so bravely fight to protect our national security interests.

I understand Chairman Thibault and the commission staff visited Afghanistan last November. During that visit you were briefed on one of our projects at CP Phoenix in Kabul and had some concerns. On December 7th Fred Brune, our Government Facilities and Infrastructure Business Group President, visited CP Phoenix and met with BG Ted Johnson, the Kabul Base Cluster Commander, who is anxious to receive the last three barracks being built by CH2M HILL for our AFCEE HERC client. I would welcome the opportunity to discuss this project in more detail and the lessons learned from it, as well as the best practices we have developed to continue to continuously improve our delivery performance. But in short you will be pleased to know that these barracks buildings are scheduled for completion next month.

With that, Mr. Chairman, I would be pleased to answer any questions the Commission may have.