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26 October 2005

Mr. A. Nicholas Parnell, AIA  
Building Commissioner  
City of Newton  
52 Elliot Street  
Newton, MA 02461

RE: Budget/Program Reconciliation - Newton North High School  
GUND Partnership Project # 20510.00

Dear Nick,

As you are aware, our work plan stipulates that the Design Team and the City of Newton must agree on a construction cost budget that is reconciled with the final program for the New High School. We now have our Cost Consultant on board (Rider Hunt Levett & Bailey) and the Programming Consultant (DeJONG Inc.) is well on the way to finalizing the educational requirements with the School Department. Based on the following information provided by Rider Hunt Levett & Bailey, and as part of our due diligence, we suggest a comprehensive review of the initial project budget established in 2003 is in order.

- Substantial increases in the cost of base construction materials (steel, concrete, etc.) due to the construction boom in Asia.
- Rising oil prices, today over \$60 a barrel and likely going over \$70 a barrel in the short-term. This particularly affects construction materials such as asphalt and roofing as well as the cost of transportation.
- Rising interest rates brought on by the Federal Reserve in an effort to curb inflationary pressures.
- A construction industry that is, in some parts of the country, stretched by excess workload, insufficient labor, shortage of some materials and increasing subcontractor and general contractor margins. The rebuilding of New Orleans and surrounding areas will exacerbate this and in the meantime, we can expect supply-chain problems for a variety of products.

[gundpartnership.com](http://gundpartnership.com)

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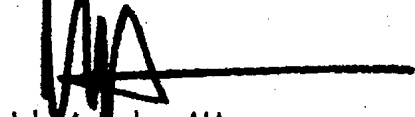
- Continuing record housing construction and sales; although there is evidence that the peak has been reached already.
- An imminent shortage of lumber, particularly plywood, that the devastation of Hurricane Katrina and possibly Wilma, will cause.
- A near-term increase in insurance premiums as insurance companies try to recover from the payouts for Hurricane Katrina. According to the Financial Times "Estimates of the total insured damage caused by Katrina still range from \$9bn to \$30bn..."

We will be able to more precisely outline the impact of these inflationary pressures on the entire project budget once the programming exercise is completed over the next 3-4 weeks. An updated comprehensive budget will then be prepared for the teams' discussion. GUND will of course work to design the most cost effective and efficient building possible, but we do advise that the above factors are beyond all of our control.

We look forward to our continued collaboration on this important project.

Sincerely,

GUNDPARTNERSHIP



John A. Prokos, AIA  
Principal

cc: Mayor David B. Cohen, TCC, Board of Aldermen, School Committee, RHL&B and GUND Team