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Integrated Project Delivery and the Cost Curve: Are the Metrics In?

By Roland Nikles, Rogers Joseph O'Donnell

We've been talking about contracts for integrated project delivery (IPD) for more than a decade now, but we've not come very far in implementing its promises. Why is that? The initial hype promised nothing less than a revolution in efficiency and cost savings.

For example, the American Institute of Architect's "Integrated Project Delivery: A Guide" (2007) tantalizingly proclaims: "The United Kingdom's Office of Government Commerce (UKOGC) estimates that savings of up to 30 percent in the cost of construction can be achieved where integrated teams promoted continuous improvement over a series of construction projects. UKOGC further estimates that single projects employing integrated supply teams can achieve savings of 2-10 percent in the cost of construction."

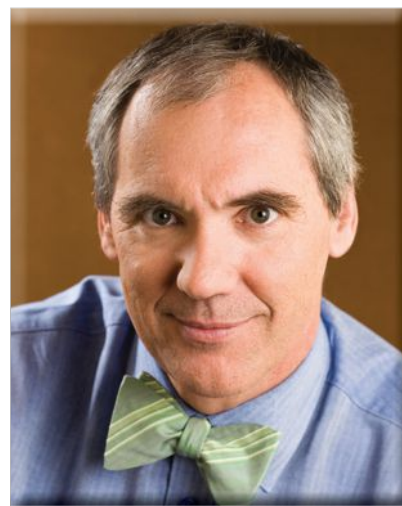
This echoed an *Economist* article from 2000, also cited by the guide, which

claimed that there is 30 percent waste in the U.S. construction industry. If we can achieve such savings by adopting IPD, why isn't everyone doing it?

Resistance to Change

One reason may be novelty and normal human resistance to change. IPD agreements present a fundamental break from the way parties have traditionally allocated risk on a construction project. Agreements in traditional delivery systems strive to draw clear lines between the parties and their legal responsibilities. Risks and rewards are allocated as clearly as possible.

On an IPD project, by contrast, the agreement blurs responsibility for the scope of work and shifts the allocation of risk away from the courts to a no-fault sharing of cost overruns on a pre-determined basis. By collectivizing risk and rewards, the IPD agreement provides an



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incentive for team members to work cooperatively in the best interest of maximizing overall project success. Parties are naturally drawn together, not set against each other, as in traditional risk allocation models.

These concepts are becoming less novel. The ConsensusDocs drafting committee, for example, is currently working on the

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second generation of their IPD form of contract. The parameters, complexity, and subtleties of IPD agreements have been widely discussed, presented, and refined in many industry forums over the past 10 years. Therefore, today counsels are well versed in how to properly negotiate such agreements. So if not novelty, and not unfamiliarity, the question remains: why are owners slow on the uptake?

Traditional Delivery Still Strong

One answer may be that, rumors to the contrary notwithstanding, owners are generally satisfied with the traditional delivery models. CM at risk with a guaranteed maximum price works well for most private owners. Design-build can offer the same advantage of an accelerated development and construction time-frame as can be accomplished with IPD.

There are many experienced and expert construction management firms who have deep benches and are able to oversee and successfully implement projects using any number of traditional project delivery methods. Most projects are in fact successful in terms of meeting their budgets and schedules. Although attorneys and consultants in the claims trenches can lose track of this, most projects don't end up with claims that cannot be routinely resolved by project participants. It appears that owners are not yet sold that the advertised cost savings of IPD are real. The business case has not been fully made.

Every project delivery choice leaves many paths not taken. It is impossible to know what the outcome would have been on one of those other paths. Because construction projects are unique, it is difficult

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to compare projects, and because project financial information is sensitive and most owners don't develop multiple projects in a current timeframe, cost metrics are not easily available in order to compare different (but similar) projects that have used different project delivery methods. If reliable evidence develops that IPD in fact achieves significant cost savings on a consistent basis, attitudes will change.

Early Involvement Key

However, there is another aspect of IPD that may in fact retard the widespread use of IPD over the long haul. In order for IPD to work best, it requires extensive involvement by all project participants from the earliest stages of the project. The greatest savings are achieved in getting the design right and incorporating detailed efforts from the general contractor and key subcontractors during the design phase. This significantly shifts the cost curve to earlier in the project.

For example, in Sutter's Cathedral Hill project in San Francisco, the "big room" – housing the architect, engineers, the contractor and many trade contractors – has been in full operation for well in excess of

a year. The monthly burn rate of this IPD team is very high. Developers generally are looking for ways to postpone the cost-curve on projects, not accelerate it.

It is not unheard of that projects are cancelled by developers after the design is finished. Market conditions can change adversely, making a project no longer profitable. Unforeseen conditions in an early part of a project may bring significant delays. Permits may not materialize when expected. In each of these scenarios, a developer would not be happy to have shifted the project cost curve into the design phase, as IPD requires.

Shifting the Cost Curve

In most CM at-risk private developments, an owner may be able to secure considerable review and expertise from the contractor during the design phase even without IPD. Moreover, the contractor may significantly discount the cost of such review, or include the cost in the later construction cost. In either case, the owner benefits by shifting the cost curve later into the project. The timing and magnitude of this shift may well tip the scales of which project delivery method is best.

IPD makes a lot of sense. It may improve project efficiencies and thus lower costs, although the metrics for such a prediction may not yet be accurate. As comparisons are made between similar projects using IPD and GMP contracting over time, owners will be able to make more informed decisions. In the meantime, when evaluating whether IPD is the right choice for your project, don't neglect to consider how the project delivery method shifts the cost curve. ■

Seven AGC of California Members Receive National Safety Awards

Seven AGC of California members received National Safety Awards during the AGC of America 93rd Annual Convention in Honolulu, Hawaii.

The California firms were honored during the Willis 2012 Construction Safety Excellence Awards Breakfast on March 15, 2012 for their outstanding efforts improving the working conditions on jobsites and protecting construction workers during 2011.

Following are the AGC of California member winners:

BUILDING DIVISION

- 450,001 - 650,000 work hours
Second Place - HMM Builders
- 850,001 - 1.25 million work hours
Second Place - Swinerton Builders

FEDERAL & HEAVY DIVISION

- 100,001 - 300,000 work hours
Third Place - Syblon Reid
- 700,001 - 1 million work hours
First Place - Kiewit Infrastructure West Co.

HIGHWAY DIVISION

- Over 1 million work hours
First Place - Flatiron West Construction Group
- Second Place - Granite Construction Inc

SPECIALTY DIVISION

- 100,001 - 300,000 work hours
First Place - Underground Construction Company, Inc.