

Multiple-Prime Top 10 Concerns *Especially when...*

There have been many articles written about the benefits of multiple-prime contracting as a successful delivery method alternative for Public Owners especially in the K-12 market and specifically right here in Southern California. I for one have seen the benefits first hand when the project is run by a competent team with a savvy Owner. I guess one could say that any delivery method can succeed with the "A" Team. But how many "A" Teams are out there and is the client more at risk following the CM Multiple-Prime Contracting delivery method vs. the Design Bid Build approach with the "B" Team or less?

I guess experience will answer that question differently for different people. At the end of the day it always boils down to the capabilities, experience and knowledge base of your Team. The key is to select a delivery method with your eyes open and understand where things can go wrong so that you arm yourself appropriately and avoid the pitfalls.

Based on some recent experiences I thought it would be helpful to share with the CM community at large concerns to watch out for to prevent missteps on future projects based on what I now know. The following are my Top 10 concerns with multiple-prime contracting *especially when....*

1. **Payment Application Complications** – *especially when the CM is instructed to issue one combined monthly pay application*
2. **Scope Gap Issues** – *especially when scope is bid based on spec sections only*
3. **Lack of Schedule Control** – *especially when there is inadequate enforceability and scheduling language in the specifications and all trades are awarded concurrently*
4. **Change Management Limitations** – *especially when the contracting agency views the 10% rule on a contract by contract basis which limits changes on smaller contracts*
5. **Incident Reporting and Assignment of Responsibility** – *especially when the CM does not witness or track the incident with cause for back charge to a Trade*
6. **Lack of Coordination of Work** – *especially when the CM does not have effective contract language to enforce coordination of the Trades*
7. **Warranty and Closeout Coordination Concerns** – *especially when the CM is not contracted as the single entity for warranty follow-up and does not actively pursue project closeout with each trade contractor*

8. **Lack of Cost Savings Benefit** – *especially when the CM is performing level of services similar to the GC*
9. **Board Reporting Limitations** – *especially when scope elements by different Trades are not combined into a Board Change Order to reflect full impact of the change*
10. **CMs Fail Expectation of Owners** – *especially when the Owner expects project management capabilities lacking from the assigned Team*

Owners should think twice before implementing a delivery method they have no direct experience with. Either surround yourself with the best or be the best. Even if you have hired the best team to manage your program you need internal leadership to know how to steer the ship. So where can things go wrong?

Payment Applications

A successful multiple prime contracting methodology starts right from the beginning with a clearly defined and well thought out payment structure including consideration of how payments will be distributed to the prime contractors so that there are no processing delays. If the Owner wants the CM to issue a combined pay application under an escrow agreement for all of the primes to minimize burden on their internal accounting department consider that one of the benefits justifying the multiple prime approach may be stripped away when the pay application is delayed waiting for all prime contractor submittals or late processing by the CM's internal accounting department. Worse yet, what happens when there is no contractual mechanism put in place to ensure that the prime contractors won't want to modify the process midstream now suddenly impacting the Owner's internal structure which was never set up to handle that amount of paper work?

Scope Gap

How can Owners ensure that the bid packages are bundled by the CM adequately so as not to leave out scope? Traditionally Architects prepare their plans as one package and it is up to the CM to separate out the scope by trade, referencing the appropriate specification section and sometimes also referencing sheet numbers. What happens however if the architect was not careful in defining the scope on the drawings under the appropriate engineering discipline and/or coordinated with the correct spec section to ensure coverage by the right trade contractor? Which Trade for example is responsible for the insulation of a metal roof panel? How is the Owner protected against scope gaps? In traditional Design Bid Build bidding procedures the Owner bids the package complete and it falls on the General Contractor to pick up any scope gap. Under the Multiple-Prime approach the Owner is the one on the hook even though the documents clearly cover the scope when viewed as a complete package (both plans and specs combined).

Schedule Control

Is the CM prepared to take on scheduling responsibilities? Have scheduling requirements been adequately addressed in each of the trade contract packages providing the CM the ability to enforce milestone deliverables? Clearly the most

beneficial component to Multiple Prime Contracting is the ability to award contracts to match construction sequencing; however this benefit is quickly lost when the CM is not strategically managing the schedule. If for example there are serious site impacts found following the initial geotechnical inspections during grading and compaction activities, why not hold off awarding later trade contracts? Cost escalation is far less costly to Owners than paying unnecessary legal and expert fees to perform time consuming delay analyses. Use this contracting methodology to your advantage and don't become a victim unnecessarily.

Change Orders

Multiple Prime Contracting offers the Owner the advantage of bidding directly to smaller local community contractors offering highly competitive pricing. This positive however is quickly negated when one considers that change orders may not be allowed to exceed 10% of the contracted amount depending on your Board and/or County Office. If for example a small contract of \$100,000 for windows only allows changes up to \$10,000, what do you do when you find the actual size of the window openings for the classrooms don't match the plans? Small contracts are easily exceeded especially on modernization projects when existing conditions are a moving target.

Back Charges

Multiple Prime Contracting is one of the few delivery methods I know of where the terminology "Back Charge" is so frequently used. It seems that with every step you make towards progress you are stepping back a few more just to clean up the mix ups and mess ups of trades for work performed by other trades. This of course traditionally is the management risk nightmare of the General Contractor which is why they collect a fee for their service. The CM is earning this same fee or perhaps even more to perform the same service at no risk, so now if the same incidents aren't picked up timely and blame assessed appropriately the Owner is responsible for the cost of correction since there are far too many fingers pointing every which way with ultimately all of them unfortunately pointing back to the Owner.

Coordination

Does the Multiple Prime Contracting delivery method improve the CM's ability to coordinate the trades? If the CM has even less leverage over trades than a Prime General Contractor what is the benefit to the Owner? While on the surface it would appear that the most successful CMs would be those who also perform general contracting services it is not surprising to note that while some prior relationships with subcontractors can be beneficial to getting work accomplished those relationships are fragile and can easily be broken. In the end, the contract documents are what need to be relied upon and if milestone deliverables and scheduling/coordination responsibilities are not clearly outlined relationships will quickly unravel.

Warranty and Closeout

Be sure contracts include responsibilities for the CM to cover the warranty period otherwise Owners are burdened with tracking down each prime contractor to remedy a warranty issue. What warranty protections do you include in your contracts? Did you receive all of the required closeout documents from every trade including excess materials, as-builts, keys, training, and more? While this is the same problem one would encounter with the standard Design Bid Build approach under one general contractor it is compounded by 20 to 30 times factoring each trade contractor. Someone from within the Owner's camp who will be responsible for maintaining the facility needs to ensure that closeout is being done thoroughly and completely, and of course lets not forget about the Division of the State Architect (DSA) closeout component which, if not successfully accomplished for each and every Trade, will definitely keep you from ever having to do another Modernization project in the future...so be careful what you wish for.

Fee Savings

Are savings truly realized when comparing multiple-prime contracting to standard general contracting delivery methods? Consider that a fee is paid either way to the CM acting as general contractor or to the prime general contractor directly. The argument then becomes the added cost of a PM/CM managing a Prime GC or a PM managing a multiple-prime CM. If the Owner does not have adequate in-house expertise, they will need project and/or program management support services. The key is to assess capabilities of your Team including internal support staff. If you think you are saving money by eliminating a management layer think twice before you render your final decision. I strongly believe that you get what you pay for. If contracts clearly define Roles & Responsibilities and are vigilantly enforced, you can definitely get your moneys worth.

Board Reporting

Consider the perspective of a Board Member who is presented with a change order for XYZ contractor for laboratory classroom millwork revisions in September and then ABC contractor for gas piping revisions in October to accommodate the same cabinetry relocations approved last month and then QRS contractor 6 months later for flooring scope impacted by the same change. I don't think you would be a happy camper and you might even pound your fist on the podium and get red in the face chastising your administrators for not presenting the total cost impact to accommodate the teaching station revision, which had you known the complete cost of nearly 8 months ago, the change most likely would not have been approved in the first place. There should be plenty of alternatives to this haphazard approach, as I am sure you would agree this would not be considered proactive management under any scenario and unfortunately more likely to occur with multiple prime contracting.

Meeting Expectations

If Owners expect to receive project management services and oversight of the design consultants for CM Multiple Prime delivery equal to the level of service provided by a PM/CM acting as the Owner's Representative either managing one

Prime GC or Multiple Primes, they need to be sure these expectations are clearly delineated in the Requests for Proposals and Contracts. Be careful...most project management functions are not reflected in "CM only" contracts and while perception and expectations may be warranted be sure these are communicated from the start, in your agreements, and compensated appropriately.

It is certainly not my intent to dissuade Owners from selecting the Multiple-Prime CM Delivery Method, I am simply alerting Owners to problem areas, encouraging a more successful result and raising the red flag to CMs to be cognizant of where things have gone wrong when not carefully addressed up front in the contract documents and proactively during construction. Ideally, when planning a construction project you will have the luxury of addressing these Top 10 Concerns during the strategic planning phase of a project instead of midstream in the heat of battle.

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