

— **ISSUETRAK** —
A CEFPI Brief on Educational Facility Issues

Topic: The *What, Why* and *How* of Job Order Contracting (JOC).

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CEFPI BRIEF

Facility planners and managers need an assortment of instruments in their toolbox so that they are able to select the best and most appropriate device for each project. A relatively new tool that should be at the disposal of all educational facility managers and planners is the construction delivery system of Job Order Contracting (JOC). This tool is a unique cost competitive delivery process for minor construction, renovations, repairs, and alterations that is faster and better than the traditional “design-bid-build” method.

What is JOC?

JOC is a fixed-price, indefinite quantity, long-term (usually for a base term of one year plus 2 to 4 optional one-year renewal or extension terms) contract that emphasizes a collaborative approach among the owner, contractor, and subcontractor(s). It uses pre-defined line items, either from a published unit price book (UPB), or from a schedule of work items. The contractor bids a coefficient to be applied to the line items in the UPB or the unit prices for the work items in the schedule. Design services that might be required are either included within the coefficient or excluded and billed separately.

For example, a JOC could be awarded to a contractor that identifies a maximum amount of \$4,000,000 with a minimum requirement for work orders totaling \$50,000. In this situation the contractor is guaranteed only the minimum amount of work. To ensure additional work orders identified in the JOC, the contractor strives to perform successfully and to please the owner. This type of relationship facilitates open-communication between the contractor and owner, and often produces high-quality work.

JOC is NOT a substitute for in-house craft personnel. It is a more cost effective and efficient way for taking care of multiple repetitive type projects that would normally be contracted with individual “design-bid-build” contracts. JOC is particularly useful for time sensitive projects and for projects, such as renovations, where the scope may vary once the demolition begins and actual conditions are uncovered. Another example of using JOC is to use it to take care of the “oh, by the way” additions which occur during major construction projects. It is frequently faster, cheaper, and easier to issue a separate JOC delivery order for the spontaneous and unexpected projects rather than to modify the prime contract or issue change orders against it.

A JOC could also be utilized to resolve outstanding punch list items on major new construction or major renovation projects when the contractor is unwilling or unable to complete the work on time. The owner could utilize the retainage held by the owner withheld from the prime contractor for the work to be accomplished by the JOC contractor.

The initial procurement of a JOC normally uses a “best value” solicitation to provide the facility owner a highly qualified contractor with a verified record of relevant experience; high quality, cooperative performance; a proposed management and technical plan that meets the owner's needs; and competitive and realistic coefficients (multipliers applied to the published unit prices).

Most of the actual construction work is done by local pre-qualified small businesses rather than the JOC contractor. These businesses are mentored and assisted by the prime contractor to provide the customer with high quality responsive service while facilitating their successful and profitable performance of work. The result of this cooperative approach with the subcontractors is that the JOC contractor becomes the “preferred” general contractor for many subcontractors, thus providing higher quality at competitive prices.

A major advantage of this delivery method is that since it has a low minimum and a high, but realistic maximum potential of work, the contractor has a powerful incentive to provide the best possible service, since profit on a JOC is heavily dependent upon the total volume of work executed. If the owner is not satisfied with the service and/or work provided, he/she can use alternative methods and award the contractor no work beyond the minimum. Likewise, the owner has unilateral options to renew the contract beyond the base term. If the school district is not fully satisfied with the current contractor's performance, it can elect to rebid the JOC rather than to exercise the next option. Thus for the JOC contractor to succeed he/she must provide high quality, responsive construction services and become your “preferred provider” for JOC-type projects.

Why Should I use JOC?

1. I can respond faster to my facility users' needs because:

- ◆ The JOC contractor is in-place, ready to work.
- ◆ Fixed-price line items in the Unit Price Book simplify estimating and negotiation of scope of work and price.
- ◆ No procurement actions are required, simply issue a “delivery order”.
- ◆ Since the JOC is an indefinite quantity contract with a low minimum and a high potential volume, the contractor is motivated to respond rapidly to get more work.
- ◆ Long-term partnering relationship with contractor reduces need for design and specifications on individual projects.
- ◆ Long-term agreements and relationships with many subcontractors expedites subcontracting and start of work.
- ◆ Partnering relationships facilitate use of concurrent design and construction for urgent requirements.
- ◆ Design requirements are generally reduced when utilizing a JOC. However, approval requirements may necessitate drawings by licensed architects and engineers.

2. I can obtain JOC construction services at a highly competitive price because:

- ◆ The reduction in “upfront” costs such as advertising, procurement, complete designs, and administration allows ~ 6% more for additional construction or renovation work.
- ◆ The potential for a large volume of work, along with guaranteed, on-time payment, allows the JOC contractor to obtain favorable pricing from vendors and subcontractors.
- ◆ The JOC contractor's mobilization costs are spread over many projects and a large volume of work.

3. I can provide high quality JOC service to my customers because:

- ◆ If high quality work and service is not provided, the facility owner will use another delivery method.
- ◆ If the JOC contractor provides high quality work and service, he/she can become the “preferred provider” and maximize the amount of work received. (Profit margins are heavily dependent upon volume.)
- ◆ Subcontractors prefer the stability and team spirit of a long-term continuing relationship so he/she will provide the highest quality work to maintain the relationship. In addition, many JOC contractors mentor and assist subcontractors.

4. I can keep more of my funds in the local community by using JOC because:

- ◆ Most JOC Contractors use local small businesses for the majority of the actual construction instead of “self-performing” the work.
- ◆ JOC contractors subcontract the work to pre-qualified local small businesses instead of having to take any “qualified” bidder from “anywhere.”
- ◆ More money goes into construction since “upfront” costs are lower and the JOC contractor's overhead is spread over a larger volume of work and hence, lower, than is typically the case for individual projects.

5. My job is easier and my technical, administrative, and supervisory costs can be lower for JOC than for individual projects because:

- ◆ The partnering and teamwork inherent in a long-term relationship enables me to use the contractor's expertise early in the process for value engineering to address constructability, maintainability, reliability, and life cycle cost issues.

- ◆ My personnel requirements for Quality Control are replaced by a need for fewer people to perform Quality Assurance.
- ◆ The JOC has replaced many small contracts, so I have one contract to procure, administer, and supervise instead of many.
- ◆ I know the cost of a project before committing funds.
- ◆ The partnering relationship makes change orders rare.
- ◆ If I must make a scope change, since any changes are priced from the Unit Price Book, I am not subject to being overcharged.
- ◆ The JOC contractor can assist in implementing my program to reduce the backlog of maintenance and repair.

JOC usually eliminates or minimizes the costs for the owner to design, engineer, and procure service based on specifications that define the scope of work. For competitively bid lump sum small jobs, these owner costs are approximately six percent of the cost of construction. To compare the price of JOC with other contract forms, these costs have to be added to the lump sum competitive bid.

JOC eliminates or minimizes the lead-time required to design, engineer and procure work on a lump sum competitive bid basis. The owner is able to occupy the facility earlier than with other delivery methods, reducing total costs. These types of time-related savings need to be included in any comparison of JOC with other forms of contract.

JOC provides a unique format for aligning a budget to a scope of work. If an order leads to an estimate that exceeds the owner's budget, JOC's detailed line-item format provides a "shopping list" for the owner and contractor to negotiate the scope and fit the budget. This feature of JOC streamlines the process of aligning the scope to available funds and leads to earlier awards than would be possible with other procurement methods.

The flexibility, responsiveness and performance benefits of JOC compared with other contract forms lead to other cost savings for the owner. Although not easy to quantify, these benefits come from an on-site staff dedicated exclusively to the customer's mission, and intimately familiar with the facility. This relationship between the district and contractor substantially accelerates response to urgent and emergency requirements. It also promotes significant efficiencies in repetitive processes such as permit applications and approvals, construction inspections, and project closeout.

How do I Secure a JOC?

- ◆ Identify potential projects suitable for JOC and the funds available.
- ◆ Estimate the total maximum annual value of these projects IF the JOC contractor becomes the preferred provider of these types of construction services.
- ◆ Evaluate the knowledge of your facilities and procurement personnel about JOC. Will they need training? Should you consider using a JOC consultant?
- ◆ Determine if there is an existing regional, cooperative, or other contract available that you could use through an interlocal agreement.
- ◆ Consider whether your anticipated annual volume is great enough to give you a competitive coefficient if you elect to procure a contract of your own. (Normally at least \$3 million per year.)
- ◆ Weigh the relative advantages and disadvantages of procuring your own contract or using an existing contract.
- ◆ Brief your management and board of education and make an appropriate recommendation.
- ◆ Either execute an interlocal agreement with the sponsoring agency of a cooperative contract or use a "best value" system with clear evaluation criteria and the weights thereof to procure your own JOC.
- ◆ Advise the contractor of MWBE and other requirements specific to your district, such as involving small businesses, State or local prevailing wage rates, and/or Federal Davis-Bacon wage rates if applicable. This might be stated as applicable to a percentage of the work anticipated for each requirement or requested in the solicitation as an extra to the proposed coefficient.
- ◆ Ask the Center for Job Order Contracting Excellence (CJE) for information and assistance.

Center for Job Order Contracting Excellence—Alliance for Construction Excellence

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How to Use JOC

- ◆ Select the best contractor.
- ◆ Team with your JOC contractor to meet the needs of your customers by conducting a combination team building session and pre-construction conference to discuss roles, expectations, goals, values, processes, procedures, and coordination interfaces.
- ◆ Get your contractor involved early in helping you to develop the scope of work and remain within your budget.
- ◆ Conduct joint site visits/job walks with the customer, the contractor, and your designated representative. Make notes and sketches of what was decided and have all parties sign off on them.
- ◆ Request a job order proposal from the contractor based on the initial scope of work and the desired schedule.
- ◆ Review the contractor's job order proposal. It should include a detailed statement of work, material submittals, a schedule, and a detailed line item proposal (consistent with the pricing in the UPB) that supports the agreed upon scope.
- ◆ Determine if the schedule is realistic and meets your needs; and the line items are appropriate and the quantities accurate. If not, explain why you disagree and work out an agreed upon revised proposal. Once the proposal is accepted, use it as a lump sum fixed price contract for the agreed upon scope of work.
- ◆ Encourage communication between your staff, the contractor, and your customers.
- ◆ Brief your Board of the progress of the contract and its results within about 6 months of contract award.
- ◆ Recommend award of the next option or resolicitation at about nine months after initial contract award.

If you have defined your needs properly, selected the “best” JOC contractor, and brought him/her into your facilities team, you will find that your JOC is a valuable tool to assist you in better meeting your customers' needs.

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