



WHAT PUBLIC ENTITIES NEED TO KNOW ABOUT CONSTRUCTION MANAGER AT RISK

BY SHARI HELD

Beginning July 1, the construction manager at risk (CM at risk) delivery method will be available to Indiana K-12 schools, municipalities and other small public entities that receive state or local funding for construction projects.

Why is a new delivery method something to get excited about? According to the American Institute of Architects, choosing an appropriate delivery method is often the key to success – or the source of failure. Construction designs and technology are becoming more complex, with increasing numbers of diverse partners needed to participate in the process. At the same time, the pressure to bring the project in successfully, on time and on budget, hasn't eased up. Having an additional option can help public schools in their quest to accomplish all these goals.

In 2014, Indiana House Bill 1196 made the CM at risk delivery method available to institutions of public higher education, but not K-12 and smaller public entities. Now, that's changed, and many people, including Dr. J.T. Coopman, executive director of the Indiana Association of Public School Superintendents (IAPSS), are glad it has.

"As the executive director of IAPSS, we have supported the concept of CM at risk since it was introduced a few years ago in the Legislature," Cooperman says. "We want the best way to save taxpayer dollars and ensure a sound, well-built project for Indiana public schools. I believe CM at risk to be a measure that makes sense to accomplish those metrics."

CM at Risk Defined

With the CM at risk approach, the project owner (i.e., the school corporation or other public entity) hires the construction management firm as its consultant in the initial stage of the project. The CM at risk, which acts in the owner's best interests, can interact with the architect/design firm from day one, providing suggestions and modifications to plans. Collaboration and relationship-building are the hallmarks of the CM at risk delivery method, with the owner, architect/design firms and CM at risk working together to produce optimal results.

"An architect's expertise is focused on the upfront design while the construction company's expertise is in the field," says Dan Lawson, senior business development manager for Meyer Najem. "Since we're working with the architect from the very beginning of the design process, we can eliminate potential issues that result in change orders and provide continuous budget input."

Early input often leads to cost savings, which can be significant. "Re-dos" are not only expensive but can negatively impact the schedule.

In the CM at risk delivery method, the owner and CM at risk typically negotiate a (cost-plus) guaranteed maximum price (GMP) for the project. The CM at risk

is responsible for delivering the project to the owner within the guaranteed price and guaranteed schedule established in the GMP.

Perhaps the biggest advantage with the CM at risk delivery method is that the CM at risk is the owner's single point of contact. This delivery method relieves owners from the task of making contracts with and managing the subcontractors and the schedule. Construction companies are familiar with the different trade companies needed for the project and are better positioned to obtain the best talent for the job.

"We obtain a minimum of three competitive subcontractor bids per construction division," Lawson says. "These bids are reviewed in a transparent and open environment with our customers and design partners. This allows the award decisions to be made as a team and with input from all stakeholders. And we may get a really low bid from someone. In the CM at risk model, we can tell the owner that even though this bid is lower, another subcontractor is better suited for this project. The CM at risk model gives us a lot

of flexibility in giving the owner advice and putting together the best team possible."

A qualified construction manager will perform as a steward of taxpayer money, and there is a high level of accountability for every dollar spent.

"The reason many of our customers prefer CM at risk is because it's an open-book, collaborative, transparent way of doing business," Lawson says. "This partnership approach has resulted in significant repeat work with our clients."

The CM at risk delivery method has been used most successfully on large projects – ones that defy easy definition, making them prone to scope change. Complex projects, such as highly technical, fast-track or multiphase projects, or ones that need to be heavily managed, also benefit from the CM at risk approach

How CM at Risk Stacks Up Against Other Delivery Methods

So that's how CM at Risk works. But how does it stack up with traditional delivery methods?





Design-Bid-Build

This delivery method is the most common for public projects. Everyone's familiar with the rigid structure — one phase of the project follows the next. In a design-bid-build project, the owner hires an architectural firm that completes the construction documents. When the plan is approved, the project is put up for bid, and on a preset date, the bids are opened and awarded based upon cost, with the low bid being the winner. Work begins once all the players are in place.

Design-Bid-Build Compared to CM at Risk

- The design-bid-build delivery system uses a linear approach, so projects aren't completed as quickly as with the CM at risk method. In the CM at risk delivery method, the team can be assembled while the architect/design firm is still putting the final touches on the design!
- Since the project goes to the lowest bidder, design-bid-build projects are less costly — at least in the initial bid. That bid isn't etched in stone, however. "Multiple change orders can significantly add to the overall project cost," Lawson says.
- Quality may suffer from taking the lowest bids with the design-bid-build method. According to an article in *CM eJournal*, a publication of the Construction Management Association of America ("The Risk in CM 'At-Risk'" by Warner Strang), subcontractors on CM at risk projects are typically bondable and better qualified than those used in design-bid-build projects. That makes it more likely the CM at risk project will be better quality.

- The linear structure of the design-bid-build delivery method isn't conducive to collaborative input from the construction manager during the pre-construction phase. Costly mistakes can result, driving costs up and delaying the project. With the CM at risk delivery method, the construction manager and selected primary trade contractors are involved in the very beginning of the project and can head off mistakes or offer better solutions during this phase.
- There are typically fewer RFIs (requests for information) and change orders with CM at risk projects.

Design-Build

This delivery method has also been available for public projects since 2005. With the design-build method, the owner hires, under one contract, a design-build firm, which acts as both architect and construction company. The GMP is determined early in the process. The design-build firm creates the design, and once the owner approves it, work begins.

Design-build is a viable delivery method for time-sensitive, technically complex projects.

Design-Build Compared to CM at Risk

- With both methods, the construction manager provides a single point of contact.
- There are typically fewer RFIs and change orders with CM at risk projects.

Construction Management Agency

The owner hires a construction management (CM) company as its agent to act on its behalf and manage the project. The owner holds all the contracts with contractors and subcontractors as well as the risk for getting the project completed on time and on budget.

CM Agency Compared to CM at Risk

- With CM agency, the owner takes the contractual risk of having the project completed on time and on budget. With the CM at risk delivery model, the construction manager takes on that contractual risk.
- The CM at risk manages all contracts for the subcontractors as opposed to the CM agency method, where the owner administers all contracts. Holding the subcontractor contracts provides the CM at risk with more leverage to resolve issues promptly and keep the project on track.

What Educational Institutions Have to Say

So what does this mean specifically for K-12 schools?

"Typically, K-12 schools have a facility manager, but they don't have the people on staff to manage their construction projects," Lawson says. "CM at risk gives them the ability to work with a team of construction experts. And again, it's all open book. Schools have control over every dollar they are spending."

In Indiana, the CM at risk delivery method has been available to public institutions of higher education since 2014. They have already experienced positive results with the new delivery method.

"Every project we have used this delivery method on has been successful, and we are glad to have this tool in our toolkit," Michael B. Cline, PE, PTOE, vice president for physical facilities at Purdue University, was quoted as saying in an Indiana Construction Roundtable blog post ("CM at Risk a Win for Indiana's Public Universities").

Indiana University has also seen successful results using the CM at risk delivery method. In the same Indiana Construction Roundtable blog post, Tom Morrison, vice president of capital planning and facilities at Indiana University, discussed the school's experience with a recent Indiana University-Purdue University Indianapolis (IUPUI) residence hall project: "There is no way we would have achieved our schedule without CM at risk," he says.

According to "The Risk in CM 'At-Risk'" article, the CM at risk delivery method could also have a potential unexpected advantage over the design-bid-build delivery method. The Florida school program used the same set of plans for both CM at risk and design-bid-build projects. In eight cases, the design-bid-build projects came in as less expensive. However, in two cases, the design-bid-build prices were far more expensive because of litigation and the school's inability to use the facility. The consensus: There is a cost advantage to CM at risk over lump sum bidding because it reduces the risk of the disastrous, lawsuit-riddled project.

What to Look for in a CM at Risk

Selecting the right construction company to serve as your CM at risk can make all the difference in your experience and end result. Here are some things to look for:

- **Experience.** It takes a special mindset for construction companies to be comfortable and confident with the CM at risk delivery method. When looking for

a construction company to act as your CM at risk, experience with this delivery method should be at the top of your list. "Roughly 80 percent of Meyer Najem's projects use the CM at risk delivery method," Lawson says. "Some contractors only do design-bid-build or design-build. The CM at risk model allows Meyer Najem to utilize its knowledge and experience in assisting owners during the early phases of the project."

- **Excellent reputation.** As with all construction projects, you'll want to select an honest, reputable company.
- **A culture that values customer relationships and customer satisfaction.** It all goes back to a company's core values and the employees it hires as its representatives. If you hire a competent construction company, your project is likely to be technically successful. But hire a competent construction company that's dedicated to developing customer relationships and caring about customer satisfaction, and you'll notice a big difference in your experience with the project.
- **Well-qualified, experienced staff.** Superintendents are a critical component for a CM at risk project. A successful, reputable company attracts quality staff.

Bottom Line

Expanding the variety of available delivery methods is good news for public entities in Indiana. The addition of CM at risk is especially good news for schools.

"We feel this to be good public policy and good for Indiana K-12 public schools undertaking construction projects now and in the future," Cooperman says.

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