

Job Order Contracting: The Modern Approach to Meeting Construction Needs

The job order contract, pioneered and tested by the U.S. military, shows great promise in helping public-sector organizations get more mileage from construction, maintenance, repair, and renovation dollars. It has proven to be an effective method of lowering the cost of procurement and contract administration, shortening response times, and reducing project backlogs without requiring that additional staff be hired.

The cost-saving potential of the job order contract is being demonstrated nationwide by private-sector companies, school districts, colleges and universities, transit agencies, housing authorities, and municipalities. What began as an experiment in military contracting has far-reaching implications for both the public and private sectors.

Nontraditional

Approach to

Construction

Contracting

**Leif Erickson
and
Patrick Murphy**

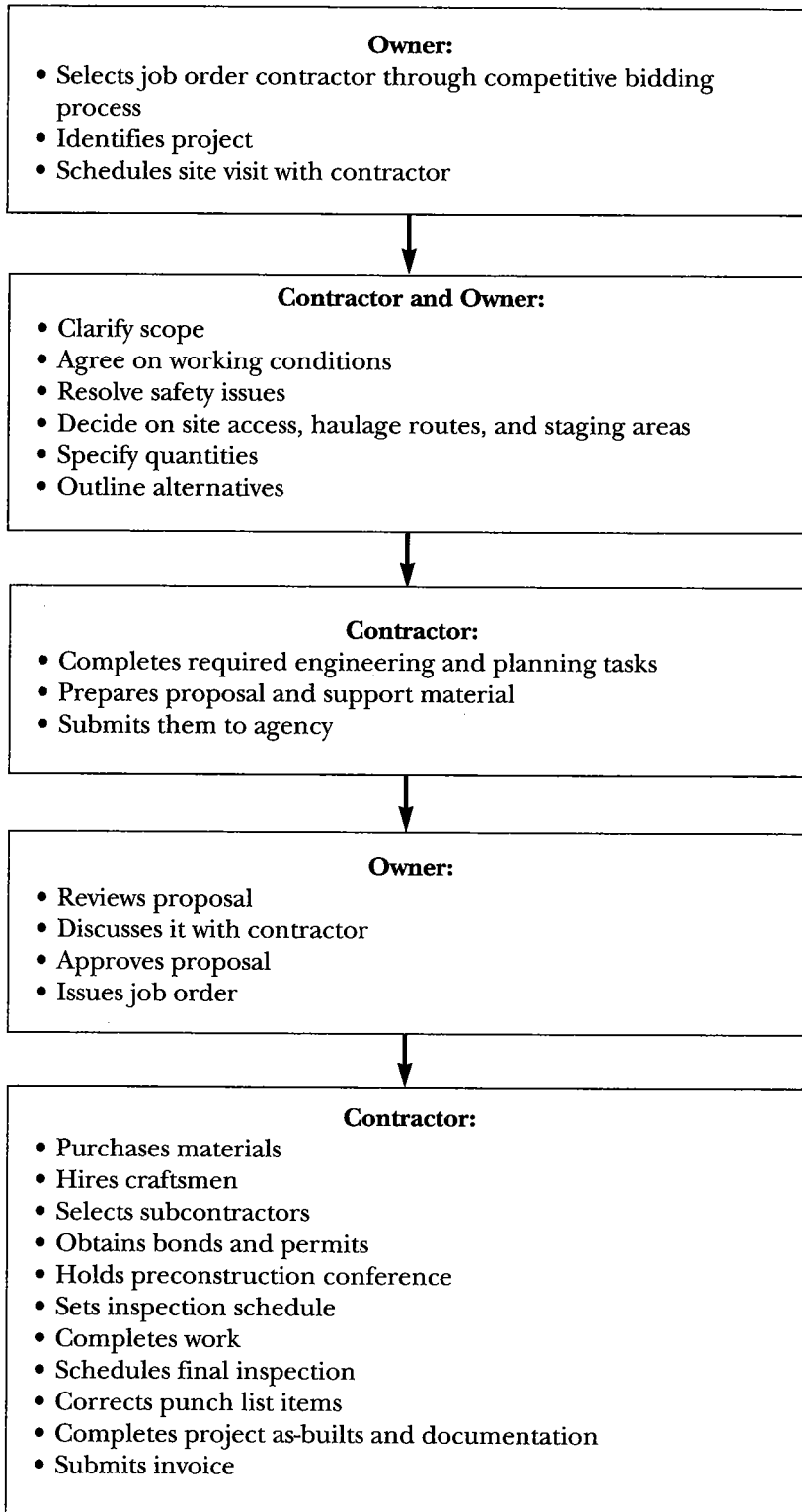
What Is a Job Order Contract?

Job order contracts are competitively bid, indefinite-quantity, indefinite-delivery, fixed-price construction contracts. They differ from traditional requirements contracts in two ways: they cover all types of construction, maintenance, repair, and renovation assignments under a single contract, and they are in place before specific requirements are identified. The job order contract is available to handle both programmed and emergency projects quickly. The contractor is paid only for the work performed, and there are no monthly management or contract handling fees.

One firm is selected to act as a general contractor

Figure 1 Steps in Job Order Contracting

The job order contract is a systematic method of completing projects.



under a master agreement. Bidders are given a detailed set of task specifications and a book of unit prices. The specifications provide precise performance standards for approximately 25,000 prepriced individual construction tasks. The unit price book defines units of measure and a corresponding unit price (which includes the cost of labor, equipment, and materials) for each item in the specifications.

Bidders submit technical and price proposals covering all work contained in the detailed specifications. Two coefficients (multipliers covering such indirect costs as overhead and profit) are submitted as the price proposal: one for work completed during normal working hours and one for overtime work. When the contract is in place, items from the unit price book are multiplied by the coefficient to arrive at the actual price the contractor will be paid for each job order.

When a specific need has been identified, owner and contractor personnel make a site visit to determine what is involved in the project and to discuss methods and alternatives for accomplishing the project. As a result of this meeting, a detailed scope of work, requirements for plans, sketches, shop drawings, etc., and a completion schedule are developed. The contractor then submits a fixed-price proposal based on specific requirements, site conditions, the technical specifications volume, and the unit price book. The scope, completeness, method of construction, tasks, and pricing accuracy of the proposal are reviewed by in-house staff, and a meeting is set up to resolve any discrepancies with estimates or expectations.

Once agreement has been reached, a job order is issued that constitutes the contractor's notice to proceed. The contractor then purchases materials, hires craftsmen, selects subcontractors, handles insurance and bonding, obtains permits

and approvals, schedules and supervises the work, performs quality control inspections, schedules final inspections by in-house staff, responds to punch list items, prepares as-builts and project documentation files, and pays subcontractors. Final payment is made to the contractor only when work is completed and accepted.

Administration of all job orders is the responsibility of the contractor's project manager, who controls, monitors, and tracks the progress of each project. A monthly report is prepared that lists all job orders issued and completed and updates the status of all incomplete job orders. The project manager also ensures that reporting requirements for labor use, affirmative action, and participation by small and disadvantaged businesses are met.

Advantages of Job Order Contracts

Job order contracting is a systematic, proven method for completing construction, repair, and modification projects. The advantages, demonstrated on hundreds of U.S. military installations, can be applied to governmental departments facing budget cuts and staff reductions.

Advantage 1. Lower Construction Costs. Under the traditional, sealed-bid approach, bid prices fluctuate over time, depending on the relative strength or weakness of the construction market. Under the job order contract, the contractor's coefficient and the unit prices remain constant for the duration of the contract. There are no hidden or unexpected costs. The Department of Defense also has found that the actual prices of job orders are slightly lower than government prices and estimates for similar work. The coefficient method yields more reasonable prices than those paid under traditional construction contracts. Change orders are nonexistent.

Figure 2
Calculating Job Order Prices

A unit book price, based on such standard industry sources as *R. S. Means Facilities Cost Data*, defines tasks, units of measure, and a corresponding unit price for each task. This unit price is multiplied by the level of effort required and by the contractor's coefficient to arrive at the firm, fixed price for the job order.


Unit Price Book Source:
R. S. Means Facilities Cost Data

1. Section: Painting and wall covering
2. Task 099 224 0200, page 271
3. Material: \$0.04/sq.ft.
Labor: \$0.13/sq.ft.
Equipment: —
Unit Price: \$0.17/sq.ft.

Unit Price For Task	x	Level of Effort	x	Coefficient	=
\$0.17/sq.ft.		800 sq.ft.		0.98	
Firm, Fixed Price					
\$133.28					

Advantage 2. Increased Incentives for Quality Work. Job order contracts provide the contractor with a continuing incentive to do timely, high-quality work because the contractor will continue to receive job orders only so long as its performance is satisfactory. As a result, response time is shortened, quality is enhanced, and cost is reduced (particularly in the design and claims areas).

Advantage 3. Less In-House Time Required to Procure and Manage Construction Contracts. The organization only goes through the competitive bidding process once, to obtain the job order contract. The selected contractor handles the bidding and awarding of all individual delivery orders. In-house personnel administer only the job order contract and save the substantial costs of setting up and managing numerous separate contracts.

Advantage 4. Increased Opportunities for Small and Disadvantaged Businesses. Small and disadvantaged business participation in job order contracts actually increases because of enhanced opportunities for subcontracting. Firms unable to compete for larger construction contracts are able to provide the services or supplies required by individual job orders. As much as 90 percent of total contract dollars is subcontracted to small and minority contractors and suppliers, a significantly greater percentage than found in traditional contracting methods. 

Leif Erickson is president of Holmes & Narver Construction Services, Inc., Orange, California. Patrick Murphy is director of business development, Holmes & Narver Construction Services, Inc.

Figure 3
Job Order Contracting Advantages

Based on job order contracting experience, the advantages of this approach are numerous.

Low-Risk General Contracting

- There is no fixed contract term.
- Lower overall costs are possible because of fixed unit prices and wage rates.
- No hidden or unexpected costs can accrue.

Increased Incentives for Quality Work

- Each project is one task in the total contract.
- Contractor continues to receive job orders only if performance is satisfactory.

Simplified Contract Administration and Management

- One master contract replaces dozens of individual contracts.
- Less in-house staff time is required to procure and manage contracts.
- Contractor handles bonds, insurance, and licensing, and ensures subcontractor compliance with all codes, standards, and regulations.
- Contractor's project manager is single point of contact for all job orders.
- Because master contract is in place, priority or emergency projects can begin in 24 hours to ensure quick response.

Owner Control Retained

- Owner defines standards, specifications, and goals to be achieved.
- Owner identifies each project and its priority.
- Owner controls release of funds.
- Contractor is paid when work is completed and accepted.

Increased Opportunities for Small and Disadvantaged Businesses

- Firms unable to compete for contracts on their own have the chance to be suppliers and subcontractors on individual job orders.
- Contractor provides assistance in preparing bids and obtaining bonds.