

Construction Change Order Streamlining Initiative

Construction Change Order Initiative

Objectives:

1. Reduce the impact of Metro's Construction Change Order process on our ability to deliver Measure R projects in a cost efficient manner.
2. Implement prompt payment reform to eliminate negative impacts of the change order process on small and disadvantaged businesses

Why Streamline:

1. Metro's Change Order process has been identified as factor in creating risk for Prime contractors and their DBE/SBE subcontractors
2. Timely payments to small businesses are critical to their wellbeing

Solution:

1. Streamline the processes Metro controls and alter our philosophy for negotiations and dispute resolution
2. Partner with contractor community to ensure prompt payments by holding contractors accountable for timely payments to all subcontractors

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Staff's Actions

- Formed a Task Team made up of Vendor/Contract Management, Project Management Office, Engineering & Construction, Management Audit Services and County Counsel
- Identified the existing processes, quantified change order population and current change order durations
 - 450 Change orders processed (12 month period)
 - 313 Contract modifications processed (12 month period)
 - 104 Days to process the average Change Order
- Developed revised change order procedures for procurement and project control units
- Developed a process flow chart to define process durations and reach a goal of completing change order negotiations within 60 days of receipt of fully defined Statement of Work and Schedule Impacts

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Plan of Action

- 1. Repeal the current change order Administrative Code and replace it with a broad Board Policy to implement process efficiencies**
 - Determinations of Merit by County Counsel for all changes over \$100,000
 - Audits of Proposals over \$1M versus audits of Independent Cost Estimates
- 2. Modify internal procedures and establish clear roles and responsibilities for Metro staff and contractors**
 - Clock start when scopes of work are fully defined
- 3. Establish specific durations for change order process tasks to reach a goal of negotiating change orders within 60 days**
 - Issue unilateral change modifications after 60 days
 - Reduce the size of the dispute and continue discussions
- 4. Scale staff's delegation of authority for individual changes based on size and project complexity. Retain the overall 10% cap on change order over project lifetime**

Prompt Payment Reform

Plan of Action

- 1. Implement internal procedures and contractual measures to incentivize prompt payment**
- 2. Establish a Metro and Contractor scorecard to assess prompt payments to subcontractors**
- 3. Identify means and methods within existing prompt payment laws to assist professional services subcontractors to gain timely payments from prime contractors**
- 4. Convene an Industry Forum with key stakeholders (AGC, ACEC, SCCA) to implement reform measures to improve prompt payments to contractors and subcontractors**

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New Construction Contract Modification Authority (CMA) thresholds

The following changes to Metro's Procurement Manual Acquisition 1, Chapter 10.3.1 are recommended for approval. These changes shall only apply to Construction change orders:

Table 1 - Construction Contract Modification Authority (CMA)

The aggregate Contract Modification Authority over the life of Construction Contracts shall increase from \$100,000 to \$250,000, or 10% of the initial contract value, whichever is greater; except in cases where unique authority is granted by Board action.

The Contract Modification /Change Order Authority for individual Contract actions shall be defined by the table below:

Original Contract Value	Authorization per Individual Contract Modification/Change Order
Up to \$25 million	\$500,000
\$25 Million to \$100 Million	\$ 750,000
\$100 Million to \$500 Million	\$1 Million
Greater than \$500 Million	\$1.25 Million

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Comparison of Change Order Authority of Other Public Agencies

*Latest available fiscal year data

Public Agency	Delegation of Authority	Annual Capital Budget*
New York City Transit Authority	\$750,000 per change order	\$4.8 Billion
Chicago Transit Authority	\$500,000 per change order	\$717.9 Million
Washington Metro Area Transit Authority	Unlimited change order authority within 5% of Board approved budget	\$1.0 Billion
Los Angeles World Airport	\$150,000 per change order, (\$1,000,000 for West Terminal Gates project)	\$1.5 Billion
City of Los Angeles - Port of L.A.	\$150,000 per change order	\$349.9 Million
County of Los Angeles	\$150,000 per change order	\$772.5 Million

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Next Steps

- 1. Finalize and Release internal procedures for Procurement and Project Management staff that match the New Board Policy**
- 2. Train staff on new processes and procedures and apply contract incentives for prompt payment**
- 3. Convene Industry Forum with key construction contractors to acquaint the new processes, and to implement solutions to scope of work and prompt payment issues**
- 4. Implement Metro's timely payment scorecard**
- 5. Measure change order process durations and change order payments to assess improvements**