# 2017 SENATE INDUSTRY, BUSINESS AND LABOR

SB 2142

# 2017 SENATE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee

Roosevelt Park Room, State Capitol

SB 2142 1/17/2017 Job Number 26967

□ Subcommittee □ Conference Committee

Ena Liebelt

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

Relating to construction manager at-risk subcontractor bids

Minutes:

Attachments 1-4

Chairman Klein: Called the committee back to order.

**Senator Laffen:** Introduced the bill. (:20-11:00) He gave a history on the 4 types of ways political subs can build buildings in North Dakota.

**Chairman Klein:** When we look for a construction manager at-risk, do we get more than one company that wants to bid on it, for example the Governor's residence how does that work?

**Senator Laffen:** The way that works is, at the beginning of the project the user agency will put out an RFP, they have the same 21 days as the design, architects, engineers all do. They turn in a proposal of qualifications and cost. The user agency then selects one construction manager from that list. They are at the table right away which is good because the builder is there through the design. They can help the design team keep the cost down.

**Tom Todd, Northwest Contracting, Inc. of Bismarck North Dakota:** Written Testimony, see attachment #1. (24:00-28:40)

**Chairman Klein:** The last sentence in your testimony says, "If the committee believes publicly opening the subcontracts is necessary for transparency purposes". You don't believe it is necessary?

**Tom Todd:** I testified last session that we didn't want to have a public opening but since then the word is out that everybody wants more clarity. We feel that if this is the only way to bring clarity to the construction management, that we would open the bids publically and decide later what is the most responsible bid.

Senate Industry, Business and Labor Committee SB 2142 January 17, 2017 Page 2

**Senator Roers:** Said he would like to pass out the amendment and asked if they were ready to discuss it. Amendment, see attachment #2.

**Chairman Klein:** Go ahead and pass out the amendment and we will have it there if others want to comment to the amendment also. He asked Tom Todd to talk about the amendment.

**Tom Todd:** Went over the amendment. He said that when they open a bid and one is lower than another bid that it doesn't mean that is the most responsible bid that they get for the owner.

**Chairman Klein:** So the construction manager is the one who determines who is responsible and who is not responsible?

**Tom Todd:** Between the governing body and the construction manager the two of them. The construction manager can choose his team without the governing body but a good construction manager will always have the governing body help with choosing the team.

**Chairman Klein:** And having this amendment will give you enough flexibility to make you more comfortable with the direction we are going with this bill?

Tom Todd: Correct.

Bonnie Staiger, Executive Vice President and Lobbyist for the American Institute of Architects: In support.

Steve Tabor, S.A. Architecture: Written Testimony, see attachment #3. (35:15-36:30)

**Senator Casper:** Asked if transparency is important because it's going to put pressure on the CM at-risk, to go with the lower bid because they are not going to want to open all these bids.

**Steve Tabor:** I don't think that is going to be a big issue here. When you talk about transparency from a public improvement and an owner state agency or political sub-division, I think having transparency and knowledge of what is in those bids will help guide the agency and insure they are getting a better product at a better price. With the amendment that is proposed, I think that actually strengthens that.

**Senator Casper:** Technically the owner wouldn't get that decision, that decision is still left to the CM at-risk because the contract is between the CM at-risk and the owner, even though we are adding this language, the only difference is the owner is seeing the low bids and the public is seeing the low bids.

**Steve Tabor:** They actually will be able to see all of the bids. So they will have visibility of all of the prices on there and certainly would have knowledge to ask about the different proposals.

Senator Casper: The CM still gets the choice?

Senate Industry, Business and Labor Committee SB 2142 January 17, 2017 Page 3



Steve Tabor: They do but at least the owner has visibility of why that decision is being made.

**Senator Campbell:** Said that everybody that has testified have been contractors and subs and that nobody has testified that's the owner or the recipient of the finished product. He said he didn't like the word in the amendment where it says," determine the most responsible". He said he is the guy who buys the buildings, the finished product and said he just doesn't like it. What is going to keep the good old boys club from working numbers?

**Steve Tabor:** I think the public information is going to be out there, it may not totally eliminate that but it may certainly reduce it a little bit. Now the other subcontractors will know what the other bids were. That is public knowledge now and they have visibility of that.

**Senator Roers:** This responsible bidder is kind of a lose term because there is so many issues to evaluate when you are evaluating bids to determine if they are responsible whether it is crew size, experience, financial depth, and ability to meet schedule. So many things to evaluate that the word, "responsible" becomes the trigger. In response to the concerns about the Governor's residence, part of the problem they experienced in that situation is that they had chosen a construction manager that wasn't familiar with the local market. He didn't get the appropriate bids and he didn't have relationships with people in the community, therefore they got a very limited amount of bids and that is why their number was higher than it needed to be. When they came back it went to a conventional competitive market and they realized the savings.

Bill Kalanek, Dakota's Chapter of the National Electrical Contractors Association and the Chapter of the North Dakota Plumbing and Heating and Mechanical Contractors: In support.

**Senator Laffen:** Said he wanted to clarify one thing for the committee. The language of, "lowest responsible", is actually already in statute. The agencies already have the luxury on any of their methods to choose the lowest and most responsible bidder. So if they know a bad apple that they have worked with before they can go to the number two bidder. The amendment is just trying to make sure that the construction manager at-risk has that same latitude.

**Senator Casper:** If we didn't adopt the amendment would it be that the CM at-risk still has the same latitude that you just talked about or do we need the amendment to come down to that latitude?

**Senator Laffen:** If you did not adopt the amendment, actually if you killed the bill, they have that latitude because behind the scene they have the latitude to choose the lowest and best.

**Russ Hanson, Agency of North Dakota:** In support. He addressed a question from earlier about how the process was determined with construction manager at-risk. He said that in the statute, that was developed with the working group, there is a committee of four people that comprise the selection committee. It's a representative from the owner, a representative from the architects' community representative from the engineers' community and a contractor who will not be bidding on the project. In statute there are eight criteria that they evaluate

Senate Industry, Business and Labor Committee SB 2142 January 17, 2017 Page 4

and make their determination on. He handed out a colored chart on how all those work and who does what. See Attachment, #4.

Chairman Klein: Closed the hearing.

Senator Campbell moved to adopt the amendment.

Senator Roers seconded the motion.

Roll Call Vote: Yes-7 No-0 Absent-0

Senator Roers moved a do pass as amended.

Senator Campbell seconded the motion.

Roll Call Vote: Yes-7 No-0 Absent-0

Senator Roers will carry the bill.

17.0427.02001 Title.03000 C1 1-17-17

Pg lof1

## PROPOSED AMENDMENTS TO SENATE BILL NO. 2142

Page 1, line 15, after the period insert "<u>The construction manager at-risk then shall evaluate the</u> bids and determine which is the most responsible."

Renumber accordingly

#### 2017 SENATE STANDING COMMITTEE ROLL CALL VOTES BILL/RESOLUTION NO. 2142

Senate Industry, Business and Labor					
□ Subcommittee					
Amendment LC# or	Description: 17.0427.02001				
Recommendation:	<ul> <li>Adopt Amendment</li> <li>Do Pass</li> <li>Do Not Pass</li> <li>As Amended</li> <li>Place on Consent Calendar</li> <li>Reconsider</li> </ul>	<ul> <li>Without Committee Recon</li> <li>Rerefer to Appropriations</li> </ul>	nmendation		
Other Actions:		Li			
Motion Made By	Senator Campbell Se	conded By Senator Roers			

Senators	Yes	No	Senators	Yes	No
Chairman Klein	x		Senator Marcellais	X	
Vice Chairman Campbell	x				
Senator Roers	X				
Senator Burckhard	x				
Senator Casper	X				
Senator Poolman	X				
		-			

 Total
 (Yes)
 7
 No
 0

Absent 0

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

#### 2017 SENATE STANDING COMMITTEE ROLL CALL VOTES BILL/RESOLUTION NO. 2142

Senate Industry, Business and Labor				
	□ Subcommit	ee		
Amendment LC# or	Description: 17.0427.02001			
Recommendation:	<ul> <li>□ Adopt Amendment</li> <li>⊠ Do Pass</li> <li>□ Do Not Pass</li> <li>⊠ As Amended</li> <li>□ Place on Consent Calendar</li> </ul>	<ul> <li>□ Without Committee Recon</li> <li>□ Rerefer to Appropriations</li> </ul>	nmendation	
Other Actions:		□		
Motion Made By	Senator Roers Sec	onded By Senator Campbe	11	

Senators	Yes	No	Senators	Yes	No
Chairman Klein	X		Senator Marcellais	x	
Vice Chairman Campbell	X				
Senator Roers	X				
Senator Burckhard	X				
Senator Casper	x				
Senator Poolman	X				

Total (Yes) \_7 \_\_\_\_\_ No \_0 \_\_\_\_\_

Absent 0

Floor Assignment Senator Roers

If the vote is on an amendment, briefly indicate intent:

## REPORT OF STANDING COMMITTEE

SB 2142: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2142 was placed on the Sixth order on the calendar.

Page 1, line 15, after the period insert "<u>The construction manager at-risk then shall evaluate</u> the bids and determine which is the most responsible."

Renumber accordingly

# 2017 INDUSTRY, BUSINESS AND LABOR

SB 2142

# 2017 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee

Peace Garden Room, State Capitol

SB 2142 3/13/2017 29120

□ Subcommittee □ Conference Committee

Explanation or reason for introduction of bill/resolution:

Construction manager at-risk subcontractor bids.

Minutes:

Attachment 1

Chairman Keiser: Opens the hearing of SB 2142.

**Sen Laffen ~ District 43-Grand Forks:** This bill comes from an issue we discovered while constructing the governor's office. We have four statutory methods for constructing public building in ND. The governor's residence is using the construction manager at risk. The issue under this method, there is no requirement to publicly bit the work. I don't think that was our intention.

Explains how we got to construction manager at risk. The general contractor ran the job & they gave us one price. They are responsible for the entire job.

Twenty years ago, mechanical & electrical sub-contractors got a carve out. They wanted their own contract because it led to bid shopping & the general contractor keeps the difference. That's why mechanical & electrical got their own carve out. This added a 2<sup>nd</sup> method of how we build buildings in ND. Single prime & multiple prime, which is mechanical, general & electrical.

The state agency has to have 3 contracts instead of one. The multiple prime was tied to single prime. You bid them on the same day but you have to accept the low one. Multiple has always been low; I don't think single prime has ever been low. Nobody is managing those 3 entities together.

State agency ends up managing that project, so they have cost which comes out of the bid. Multiple prime is always low, so that became the method of building of all buildings. That method didn't work very well, there was nobody in charge. State agencies were looking for somebody back in control. That's how construction management evolved.

Construction management as agent came to play. The third one approved in our statute, construction management as agent, you hire a construction manager through an RFQ, you

pick a construction manager through qualifications. They are the person solely in charge of the job. That construction manager, as agent, goes out on bid day to a public bid opening, where all 40 subcontracts are open & read. Now you take all the low & take about 30 subcontracts managed by the state's agent. This left gaps of liabilities is responsible to the state. Any gaps that happen becomes a change order to the state. All the issues are still the state's because we hold all those contracts.

Now, 10 years ago, the 4<sup>th</sup> method that came into play & it's called construction manager at risk. Same process like construction managers hired by the state early on through qualifications. Somewhere at the end of the design drawings, that construction manager goes out & gets all those bids like the construction manager as agent. Once they have the pricing, they take on the contract. That construction manager flips from being the agent to their own independent at risk privately own company & they build the job.

Now the state has one contractor at risk that we can go to, it's their deal. Having one contract is a much better system for managing. That's how the 4 came into play.

The way the statute reads, it doesn't make the construction manager at risk have a public bid open. There is a reason for that, that construction manager at risk ends up owning the job. In a wide open public bid opening, you will have low bidders that you don't want. They need to have that control. I believe that's why the bill was written the way it is.

If you read the language in the original bill, says "shall advertise & receive bids" from subcontractors. No language about doing it publically. Some construction managers do a great job of working hard behind the scene & allowing everybody to get bids to them. Some don't, some go to their favorite they know will do a great job & it takes all the competition out of the process.

What this bill does, is simply state that the construction manager at risk will have to publically bid the work. It still allows the lowest & best. That is in statute. This allows our political sub to see that there was competitiveness in all these areas with oversight.

# 14:31

**Rep Kasper:** What is the difference between a single prime & a construction manager at risk?

**Sen Laffen:** The single prime, the general contractor is not involved at all until bid day. They are selected because they were the low bidder. A single prime is the best if you have a lot of time.

**Rep Kasper:** A single prime is a construction manager not at risk, not selected yet. You could have a dozen single prime bidders that would be looking like a construction manager at risk but they aren't until they are selected.

**Sen Laffen:** That's true. A better description is the CM at risk become the single prime. He comes on earlier & has more involvement in the design.

**Rep Kasper:** The governor's residence, the architect did all the drawing in advance before it went out to bid. Therefore, all the bidders, have the same drawing in which to work. I don't see where it gets faster with a CM at risk.

**Sen Laffen:** Ninety-nine percent of the time, they are not done when they are starting to put the pricing together. Almost always, 2 or 3 months before our drawings are done, that's when they start putting their bids together. The subcontractors are calling their suppliers. If you can bid earlier while we are still doing the drawing, you can wipe out 2 or 3 months. Sounds like that didn't happen on the governor's residence but that's the advantage.

**Rep Kasper:** How can a contractor bid on specifications that aren't done yet? If you are halfways through the design & they are starting to bid & all of a sudden the design changes, how does that work to be more efficient?

**Sen Laffen:** The design really doesn't change. Design development is where all the details are figured out. Technically, you can do the bidding at the end of the design development because you do know all the details that are in the job.

**Rep Kasper:** In this process, you almost always have the architect doing the drawings & planning. In either case, whether you have a single prime or a CM at risk, you are dealing with documents that the architect is in some process of completing. Why wouldn't a single prime not be able to be just as efficient & effective as a CM at risk, if they are all dealing with the same time line & plans?

Chairman Keiser: This is valuable for the bill this afternoon.

**Sen Laffen:** This bill just adds publicly to see the bidding & still allows them to choose the lowest & best because they have to guarantee it.

**Rep Becker:** Comparing CM at risk & single prime, what is the mark up of the PC compared to the fees by the CM? If you have a 10-million-dollar project for the single prime, what would you expect that 10-million-dollar project be for the CM at risk, would it be 10.2?

**Sen Laffen:** The pricing is the same for both. The only difference is the CM at risk brings theirs up. There is a preconstruction service & that has a fee that is negotiated when they are selected. We gain more benefit from that fee than it costs us because it helps us with material selections that would lower the cost. On bid day, the overhead audits are the same.

**Russ Hanson ~ Associated General Contractors:** In 2007, as a result of a mandated study resolution to examine all the delivery systems. We worked for 18 months to create this CM at risk in statute. We envisioned a transparent process & as it's a relatively new delivery system, it became apparent that there were some instances where it was not being interpreted transparently. What this bill simply says for 21 days under this delivery method, these projects have to be advertised in the daily county paper of record in which that project is being constructed & in some industry paper to make it transparent.

**Rep Kasper:** Isn't the key is to be open publicly that in the past weren't?

Hanson: That is a key component in the bill, the transparency.

**Rep Bosch:** If the bill passes & the bids are open, what is the process when the lowest bid is seen but not chosen?

**Hanson:** There is a definition of the most responsible bid in statute that lays out what criteria need to be. I would have to compare those qualifying factors are & equate why they are making those decisions.

**Rep Bosch:** It's not defined in this bill but in someplace else?

Hanson: No, it's defined in chapter 40 called lowest responsible bid.

**Bill Kalanek ~ On behalf of the National Electrical Association & ND Association of Plumbing, Heating & Mechanical Contractors:** I pulled in a bill last session & it died. I prefer you pass it this time around & we think is good policy especially for subcontractors bidding in for the CM at Risk contractors.

Bonnie Staiger ~ Executive Director of AIA of ND: We are in support of this bill.

# 27:45

James Devine ~ Owner of J2 Studio Architecture + Design located in Bismarck: Attachment 1.

# 30:20

**Phil Kramer ~ Plumbing & Heating-Grand Forks:** I've been in the contracting business for 25 years, we've seen a shift of bids on how projects are put out for bids.

One thing about a CM at risk, a CMAR is also looking for design assist. He's looking at subcontractors, to keep in budget, who can give him that input from the beginning. He's working with the owner to make that design work to keep it in budget. Ask contractors for the input for the estimating & design assist. Those contractors say "what in it for me?". Private bid opening for those type of contractors, I then have an avenue to provide that assistance & is part of my bidding process that I would do the CMAR.

As a ND taxpayer, I don't like that. I like everything open & up front. We are one of those subcontractors that doesn't like to see the job go somewhere else after we have invested a lot of time & effort into it. Then we never know why we didn't get the job (UND situation). We were comparing apples to oranges to bananas but we didn't know that.

Open process, we are for that. Now the CMAR will have to have his design done better & faster, so that he is comparing apples to oranges to bananas. When he opens a project, what is the most responsible, what are they bidding. I need a good design structure already done so everybody is on the same page.

That puts the onerous on the CMAR & the owner that they have something out there for the subcontractors & those who are suppling, something they can get their teeth into so that all the bids can be prepared.

We looked into the code what a responsible bidder is. If I lose out a project to somebody who could do it a month faster, safety record & that was in their criteria for selection, fine, I can live with that. But if I lost a job & I don't know why, those are fighting words. The statutes have enough in them for a responsible contractor, that's legitimate. We stand for the open bidding process & we would welcome it.

**Chairman Keiser:** Anyone else here to testify in support, opposition, neutral on SB 2142? What are the wishes of the committee?

Rep Kasper: Moves a Do Pass.

Rep Beadle: Second.

**Chairman Keiser:** Further discussion? All I can say is I assumed that given a public building, they had to be open publicly.

Roll call was taken on SB 2142 for a Do Pass with 14 yes, 0 no, 0 absent & Rep Beadle is the carrier.

			Date: Mar 13, 2017				
			Roll Call Vote	Roll Call Vote #:			
2017 HOUSE STANDING COMMITTEE ROLL CALL VOTES フリーン BILL/RESOLUTION NO.							
House Indus	Industry, Business and Labor			_ Com	mittee		
	□ Subcommittee						
Amendment LC# or Description:							
⊠ Do Pass □ □ As Amended	□ Place on Consent Calendar						
Motion Made By <u>Rep Kasper</u> Seconded By <u>Rep Beard le</u>							
Representatives	Yes	No	Representatives	Yes	No		
Chairman Keiser	X		Rep Laning	×			
Vice Chairman Sukut	×		Rep Lefor	X			
Rep Beadle	X		Rep Louser	×			
Rep R Becker	X		Rep O'Brien	×			
Rep Bosch	X		Rep Ruby	×			
Rep C Johnson	××		Rep Boschee	$\times$			
Rep Kasper	~		Rep Dobervich	*			
Total (Yes)		N	o	1	JJ		
Absent							
Floor Assignment Rep Beadle							

If the vote is on an amendment, briefly indicate intent:

#### REPORT OF STANDING COMMITTEE

SB 2142, as engrossed: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends DO PASS (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2142 was placed on the Fourteenth order on the calendar.

2017 TESTIMONY

SB 2142

#### January 17, 2017

#1

#### Senate Industry, Business, & Labor Committee

### SB 2142

Mr. Chairman and members of the Senate Industry, Business & Labor Committee - my name is Tom Todd of Northwest Contracting, Inc. of Bismarck, ND. We are a vertical building contractor and I serve as the Senior Vice President on the Associated General Contractors of North Dakota Board of Directors.

We would like to comment on SB 2142 and its impact on the Construction Management at Risk Delivery Method. The portion of the bill which clarifies in Century Code that all projects utilizing Agency Construction Manager or Construction Management at Risk must be publicly advertised is a good addition to the code. The AGC of ND was a major part of the interim group working on the revisions to NDCC 48 during the 2005-06 interim which crafted the language which created Agency Construction Management and Construction Management at Risk Delivery Methods (enacted during the 2007 Legislative Assembly). During our deliberations, it was always our intention to have a transparent process in which interested contractors could submit information for these delivery methods. The "publicly advertised" language in this bill provides that.

In subsection two, line 14 of SB 2142 states Construction Management at Risk subcontracts must be publicly opened. This appears to be a further attempt to provide a transparent process for these delivery methods. However, we would like to comment about this aspect as to some of the challenges this requirement would bring. One, there are many subcontract bids in respective projects – some quite small and others quite significant is size/scope. Two, sub contract bids for the same bit of work often vary greatly depending upon what the subcontractor is proposing to do with its subcontract bid. With Construction Management at Risk Delivery Method, the Construction Manager at Risk is submitting a bid to provide delivery of a project. It will self perform parts of the project outlined in the project and subcontract the remaining parts. The Construction Manager at Risk will be setting a completion schedule and negotiating a guaranteed maximum price with the owner. Being able to assemble the teams for this delivery method is important to meet the schedule and price deadlines. If the committee believes publicly opening the subcontracts is necessary for transparency purposes, we would request an

1

amendment be attached to clarify the Construction Manager at Risk's ability to assemble its subcontracts.

Thank you for the opportunity to testify today. I'd attempt to address any questions the committee may have.

January 17, 2017

SB 2142 – Proposed Amendment.

Section 1, Subsection 2, line 14 after the word "<u>open</u>" insert <u>", then evaluate and determine the most</u> <u>responsible</u>"

1

Renumber accordingly

#2

Good Morning Chairman Klein and Committee Members. My name is Steve Tabor. I am the owner of SA Tabor Architecture here in Bismarck. I appear here in favor of Senate bill 2142.

This bill amendment strengthens the requirement for transparency in the process of awarding subcontractor bids in each of the two construction management delivery methods allowed by Chapter 48 of the North Dakota Century Code.

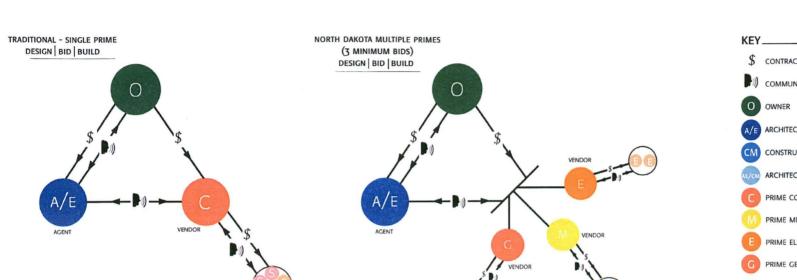
The amendment to paragraph one requires that the Agency Construction Manager advertise and open subcontractor bids publicly. The amendment to paragraph two clarifies the need for the Construction Manager At-Risk to publicly advertise for bids and adds the requirement to publicly open subcontractor bids submitted for any work the Construction Manager At-Risk chooses not to perform.

The public advertisement and opening of subcontractor bids will ensure that the public improvement bidding process under both the Agency Construction Management and Construction Management At-Risk delivery methods has the necessary transparency to protect the interests of the subcontractors and the state agency or political subdivision undertaking the public improvement.

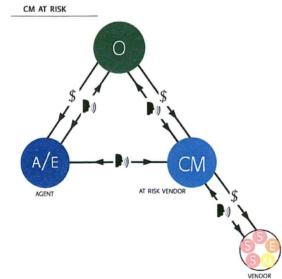
That completes my testimony. I would be glad to answer any questions the committee may have.

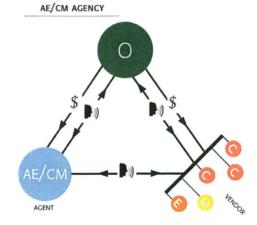
Steve Tabor, AIA SA Tabor Architecture (701) 258-7032



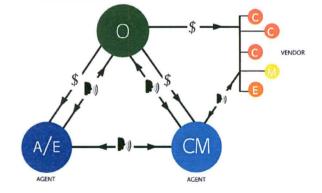








CM AGENCY



1/17/17

# Mar 13, 2017

#### Senate Bill 2142

Good Morning Chairman and Committee Members. My name is James Devine I am the owner of J2 Studio Architecture + Design located in Bismarck. I appear here in favor of Senate bill 2142.

This bill amendment strengthens the requirement for transparency in the process of awarding subcontractor bids for both Construction Manager at Risk and Agency Construction Manager, which are the two construction management delivery methods allowed by Chapter 48 of the North Dakota Century Code.

The amendment to paragraph one requires that the Agency Construction Manager advertise and open subcontractor bids publicly. The amendment to paragraph two clarifies the need for the Construction Manager At-Risk to publicly advertise for bids and adds the requirement to publicly open subcontractor bids submitted for any work the Construction Manager At-Risk chooses not to perform.

The public advertisement and opening of subcontractor bids will ensure that the public improvement bidding process under both the Agency Construction Management and Construction Management At-Risk delivery methods has the necessary transparency to protect the interests of the subcontractors and the state agency or political subdivision undertaking the public improvement.

This completes my testimony. I would be happy to answer any questions the committee may have.

James Devine, AIA, NCARB J2 Studio Architecture + Design, PC (701) 255-1622