I.T.U. Faculty of Architecture
Division of Construction Management

Construction Management and ECONOMICS COURSE

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CONSTRUCTION ADMINISTRATION

Bids and Proposals

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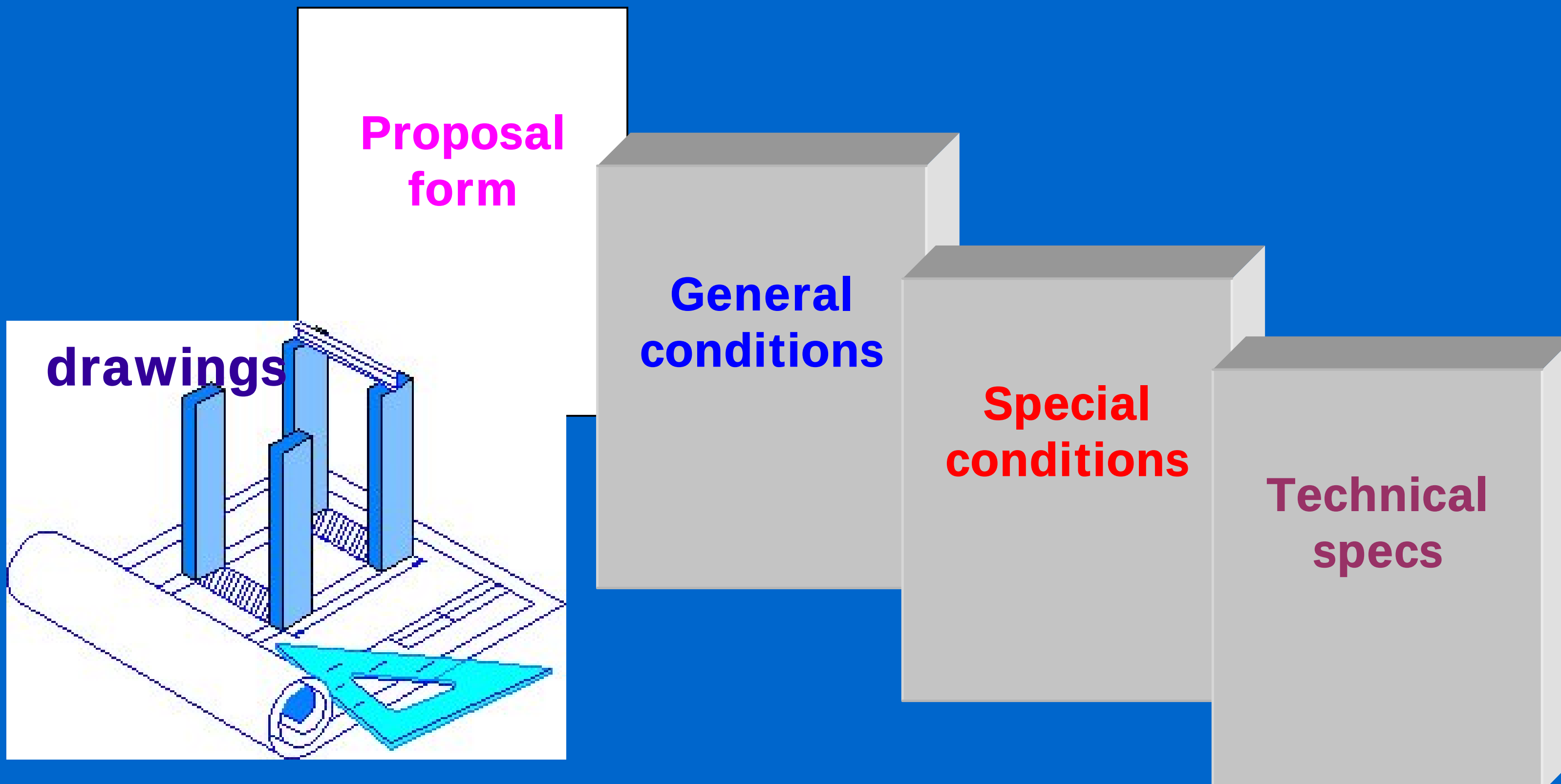
Notice to bidders

- The document announcing to prospective bidders that design documents are available for consideration and that the owner is ready to receive bids is called the notice to bidders. The owner wants to be sure that the lowest bid price is achieved and to ensure this, the job is advertised to those contractors who are capable of completing the work at a reasonable price.

Bid package

The documents that are available to the contractor and on which he must make a decision to bid or not to bid are those in the bid package. In addition to the plans and technical specifications, the bid package prepared by the owner consists of a proposal form, general conditions that cover procedures common to all construction contracts, and special conditions which pertain to procedures to be used that are unique to this particular project.

Bid package documents



General conditions

- Certain stipulations regarding how a contract is to be administered and the relationships between the parties involved are often the same for all contracts. An organization that enters into a large number of contracts each year normally evolves a standard set of stipulations that establishes these procedures and applies them to all construction contracts. This set of provisions is normally referred to as the general conditions.

General conditions

The topics typically addressed in general conditions are:

1. Definitions
2. Preliminary matters
3. Contract documents
4. Bonds and insurances
5. Contractor’s responsibilities
6. Owner’s responsibilities
7. Engineer’s responsibilities
8. Changes in the work
9. Change of contract price
10. Change of contract times
11. Test and inspections
12. Payments to contractor and completion
13. Suspension of work and termination
14. Dispute resolution

Supplementary conditions

- Those aspects of the contractual relationship that are peculiar or unique to a given project are stated in the supplementary conditions. Items such as duration of the project , additional instructions regarding commencement of work, owner-procured materials, mandatory wage rates, format required for project progress reporting and amount of liquidated damages are typical of the provisions included in the supplementary conditions.

Supplementary conditions

Items contained in supplementary conditions are two types:

1. Modifications to the basic articles of the general conditions in the form of additions, deletions or substitutions
2. Additional articles of a contractual-legal nature that may be desirable or necessary for a particular project

Technical specifications

- The contract documents must convey the requirements of the project to potential bidders and establish a legally precise picture of the technical aspects of the work to be performed. This is accomplished:
  1. Visually, (through the use of drawings)
  2. Verbally, (through the use of technical specifications)
- The provisions in technical specs are used for the establishment of quality levels. Standards of workmanship and material standards are defined in the specifications. .

Addenda

- The bid package documents represent a description of the project to be constructed. Any changes in detail, additions, corrections, and contract conditions that arise before bids are opened that are intended to become part of the bid package and the basis for bidding are incorporated into the bid package through addenda. An addendum thus becomes part of the contract documents.

Decision to bid

- After investigating the plans and specifications the contractor must make a major decision – whether or not to bid the job. Bidding the job requires a commitment of man-hours by the contractor to develop the estimate.

Decision to bid

- Estimating is the process of looking into the future and trying to predict the project cost and various resource requirements. The quantity of materials must be developed from the drawings by an expert in quantity takeoff. Once quantities are established estimators who have access to pricing information use these quantities and their knowledge of construction methods and productivities to establish estimates of the *direct costs* of performing each construction task..

Decision to bid

- They then add to the totaled project direct cost those *indirect costs* that can not be assigned directly to a particular estimating item. Finally the bid price is established by adding the management and overhead costs, allowances for contingencies, and a suitable profit margin.

Subcontractor and vendor quotations

- As already noted, estimating department personnel establishes cost directly for those items to be constructed by the prime contractor with in-house forces. For specialty areas such as electrical work, interior finish, and roofing the prime contractor solicits quotations from subcontractors with whom he has successfully worked in the past.

Subcontractor and vendor quotations

- Material price quotations are also developed from vendors. These quotations are normally taken via phone and included in the bid. The contractor integrates these quotations into the total bid price. Following award of the contract, the prime contractor’s procurement group immediately establishes subcontracts with the appropriate specialty firms.

Bid shopping

- It is sometimes the custom in the construction industry where there are no protective laws, to shield a subcontractor from the unfair practice of bid shopping, for the prime contractor, after being notified of selection, to shop around to other potential subcontractors and offer to substitute them in the general contractor's bid if they underbid the subcontractors originally used in determining the bid price.

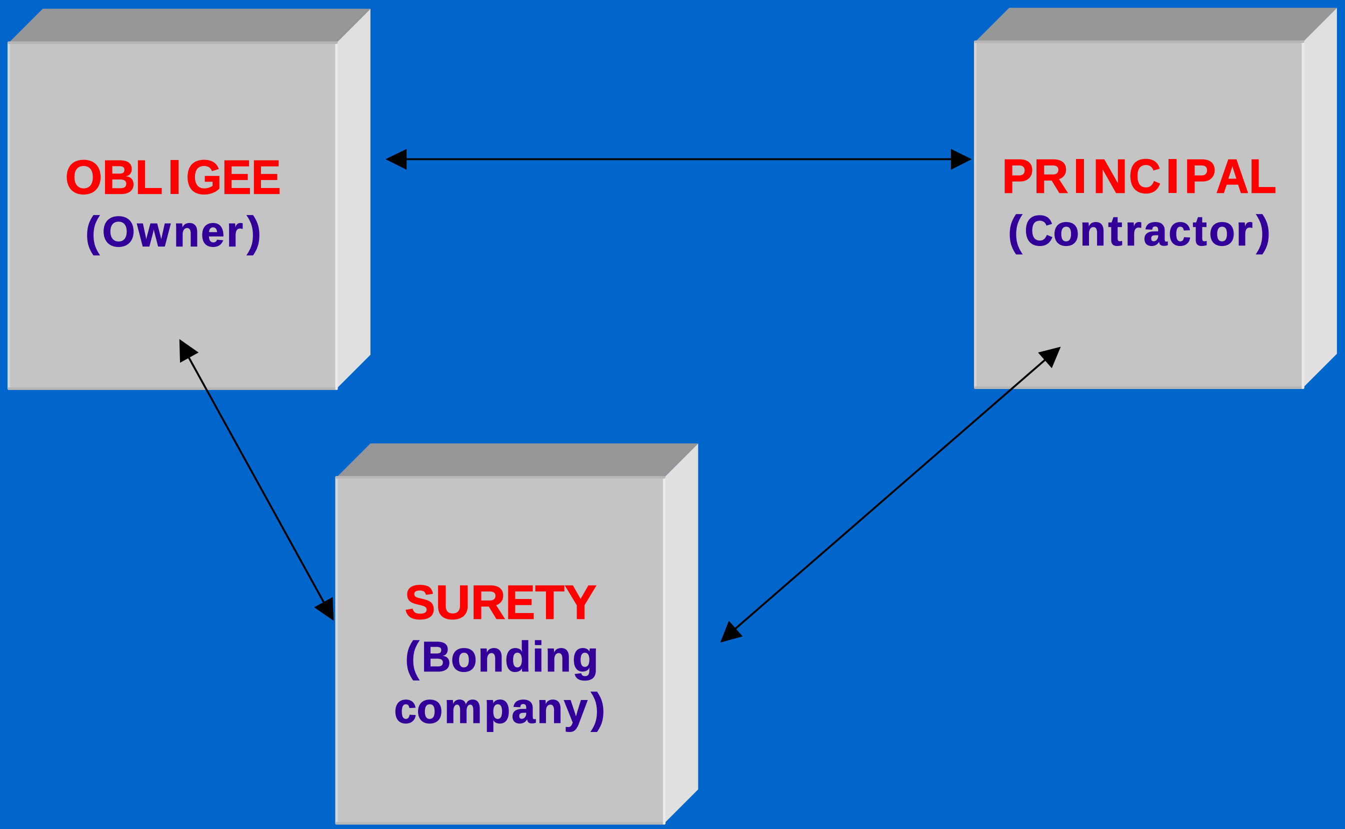
Bid bond

- If a person of limited means attempts to borrow money at the bank and if the bank is concerned about the ability of the borrower to pay back the borrowed money, it may require that a seperate individual cosign the note or instrument of the loan. This is referred to as bond.

Bid bond

- A similar relationship exist in construction contracts. The concept of a bond allows one party to protect itself against default in a relationship with a second party. A third party referred to as surety provides protection such that, if a default between two parties occurs that results in damage (e.g., loss of money or other value) the surety protects the other party.

Bonding relationship



Bid bond

- If the selected bidder can not begin the project as directed since, for example, he realizes that he has underbid the project and that pursuing the work will result in a financial loss and and he withdraws his proposal, the owner would incur a damage. If the bidder is unable to pay the damage the surety steps in and cover the damage.

Performance bonds

- If the contractor is awarded the contract, performance and payment bonds are issued. A performance bond is issued to a contractor to guarantee the owner that the contract work will be completed and that it will comply with project specifications. In other words, a performance bond protects the owner against default on the part of the contractor in performing the project as required. If the contractor fails to perform the work as required, the surety must provide for completion of the project in compliance with the plans and specifications at the price originally quoted by the defaulting contractor.

Payment bonds

- A payment bond is issued to guarantee the owner protection against any liens or charges against the project that are unpaid as a result of the contractor's default. That is, if the contractor fails to pay outstanding liens and charges against project occuring as a result of the construction work, the surety will pay these debts. If the contractor does not pay subcontractors or suppliers, the surety must protect the owner from the claims.

Public and private sector bidding

- Bidding practices of the public and private sectors of the industry differ tremendously. The term public in this context means that the construction work is financed by public funds.
- Public and private work have different bid rules. Public construction contracts are advertised and let in accordance with the bidding statutes and other legislatively mandated rules of the particular governmental entity that is paying for the construction work. The enabling legislation usually provides definitive rules for advertising and awarding the the construction contracts.

Public and private sector bidding

- Unlike public owners, private owners can establish whatever rules that they want. They also can change the rules at will. Although the public owner has the ability to set particular rules and/or to change them by issuing an addendum to the bidding documents, this power is severely regulated. A bid document addendum is a modification to the biding documents formally issued by the owner to all holders of bidding documents before bids are received.

Public and private sector bidding

- In the private sector, anything can happen whereas, in the public sector, the result will usually be that the job will be awarded to the lowest responsive and responsible bidder.

Public bidding statutes

- The requirement of the state bidding statutes and resulting regulations make the outcome of the bidding process in the public sector very predictable compared to the private sector. The purposes of public bidding statutes are to protect public funds by open competitive bidding and to ensure that public sector construction contracting remains honest. Those who violates the rules find themselves subject to both civil and criminal liability.

Principals of bidding statutes

Basic principals behind most bidding statutes can be stated as follows:

- There must be sufficient advertising time between the first advertisement of the bid and bid opening so that prospective bidders know about the project and have sufficient opportunity to prepare their bids.

Principals of bidding statutes

- The bidding documents must be sufficiently clear and detailed to assure free and open competition. The purpose of this requirement is to assure that each bid received represents a price tendered by each individual bidder to construct the identical project.

Principals of bidding statutes

- There must be a public bid opening and a public reading of all bids received at the date, time, and place stated in the bid advertisement. This requirement ensures that every person present at the bid opening has the opportunity to hear the bid prices tendered by the various bidders.

Principals of bidding statutes

- The contract must be awarded to the lowest responsive and responsible bidder whose bid is in the best interest of the government. The requirement also applies to contracts that are negotiated, in that the government is required to award the contract to the bidder whose proposal is determined (price and other factors considered) to be in the best interest of the government.

Principals of bidding statutes

- All bids may be rejected when rejection is determined to be in the best interest of the government.

Material Improprieties

- A public owner must determine whether there is any material impropriety which would preclude award of a public contract. A material impropriety can be anything that is not proper in either the bidding documents or the bidding process. Examples include such acts as bribery, bid rigging, or offering private clarification of bid document requirements to selected bidders, or anything else that would impugn the integrity of the bidding process.

The low bid

- A public owner must make a factual determination of the low bid. This is more complicated than simply noting and recording which bid submitted has the lowest price written in the space for the total bid price. The public owner must also make sure that the bids received includde no arithmetic mistakes or discrepancies, or, if such mistakes or discrepancies are found, that the apparent low bid remains low when they are corrected.

Responsive and responsible bidders

- **The public owner must make a seperate determination that the low bidder is both a *responsive bidder* and a *responsible bidder*.**
- **A responsive bidder is one who has filled out and signed the bid forms in accordance with the bidding instructions and who has submitted an unqualified bid in full conformance with the requirements of the bid documents. There may be no additions or alterations of any kind.**
- **A responsible bidder is one who possesses sufficient financial resources to undertake the project and, in addition, he has the necessary experience and a track record indicating the ability to execute successfully the work of the contract.**

Rejection of bids

- A public owner normally must reject bids received after the time specified in the bid documents for submitting bids. In practice late bids are usually rejected but not always. Public owners may reject all bids upon a determination that rejection is in the public interest. However this right is not absolute, there are limitations, rejection can not be arbitrary.

Bid irregularities/informalities

- Errors and ambiguities in the bids received that makes it impossible to determine that each bid is for exactly the same work are known as bid irregularities or informalities. If a public owner awards a contract on the basis of a bid containing an irregularity or informality, the other bidders may sue to prevent the award of the contract.

Bid irregularities/informalities

- The both terms mean the same thing and have to do with bidder responsiveness. A major irregularity or informality means one that has an important effect on the terms of the bid, whereas a minor irregularity or informality is one of less significance. A bid containing a major irregularity is required to be rejected, whereas a minor one may be waived by the owner.