

Marshall School of Business

**University of Southern California**

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***Howard Building Corporation, Inc.***

Paul McGunnigle, CEO of Howard Building Corporation, a large general contracting company, described the difficult balance his company faced between generating profits on its projects and maintaining good relationships with its customers and subcontractors:

We have to make profits on our projects. Profits are the lifeblood of every company. If costs on a project increase, the money can only come from three sources: the client, the subcontractors, or us.

But I don’t want our project managers to be solely focused on profits at the expense of relationships. We have always prided ourselves on the idea that we make key decisions based upon success and not profit, with the belief that success ultimately leads to profit in the long run. Decisions based primarily on profit quite often diminish success, which in turn diminishes opportunity. Ours is a long-term strategy. If at the end of a project, clients, architects, and subcontractors won’t give us a positive recommendation, then the project was not a success, even if it was profitable.

If we make mistakes, such as underbidding, we live with those mistakes and learn from them. On the other hand, I also don’t want to make it too easy for the project managers to let Howard Building Corp. absorb every cost increase. Sometimes they need to push back.

**The Company**

Howard Building Corporation (HBC) was a privately-owned, commercial general contracting company, founded in 1983 by Gary Conrad, Paul McGunnigle and Michael Howard, with offices in Los Angeles and Costa Mesa. In the 30+ years since HBC opened its doors, the company grew from a small business with 15 employees and annual revenue of $3 million, into an industry leader with 160 employees and annual revenue of approximately $300 million. Employee turnover at HBC was extremely low.

HBC specialized in tenant improvement (TI) projects. TI projects altered the interior of an existing structure to meet the needs of a tenant. TI projects could be more complicated than building from the ground up because the existing structure imposed constraints. On the other hand, TI projects did not require lengthy entitlement procedures and were therefore much quicker and usually more profitable than ground-up projects. HBC was a TI industry leader, particularly in the entertainment and technology industries, and had a recent emphasis in the growing healthcare industry. HBC was the winner of multiple IIDA (International Interior Design Association) Awards including, most recently, Best Leisure and Entertainment Project (2014) and Best Large Project (2015).

HBC employees’ actions were guided by five core values:

1. Every transaction must be fair for all.
2. We look forward to every challenge with confidence.
3. We build what no one has built before.
4. We embrace our role as leaders in the industry.
5. We are good citizens in our community.

The core values permeated the attitudes and decisions of HBC’s loyal, long-term employees. HBC was particularly known for treating sub-contractors well and paying them quickly, as Mike Howard explained:

We have a very good rapport with subcontractors. They know they will be paid and even forwarded money if needed. Our relationship with subcontractors allows us to request and receive their very best foreman.

**Project Management Teams**

HBC derived revenue from a relatively small number of large projects, about 100 projects per year. Managing each project well, from the initial bid to completion, was critical to success. The construction industry was highly competitive. Typical gross profit margins were 8-10%. Anything beyond that was available only on very small projects. The low margins left little room for error without significant financial impact.

Each project was managed by a team composed of a Project Executive, a Project Manager (PM), an Assistant Project Manager or Project Engineer, and a Superintendent (SI). The **Project Executive** was a high ranking executive, the President, CEO, or one of three SVPs, who was assigned to the project. The Project Executive attended monthly project meetings and was kept informed throughout the building process. A Project Executive was typically assigned to 10 to 20 projects per year.

The **Project Manager** (PM) was ultimately accountable for the success and profitability of an assigned project, and was responsible for the project from design to completion. Specific responsibilities included maintaining positive relationships with all parties, developing the project budget and preparing bids, preparing and maintaining project schedules, executing contracts with subcontractors, managing inspections by government agencies, managing change orders, and monitoring the superintendent on the project. A PM typically managed three projects per year.

PMs at HBC earned a generous base salary. They were also eligible for an annual bonus of 10% of any profit earned above a base profit requirement. So, for example, if a PM’s base profit expectation was$500,000 per year, and s/he had an exceptionally good year, bringing in $800,000 in profit, then he/she would earn 10% of $300,000, or a $30,000 bonus.Bonuses were almost always awarded strictly according to the formula. If they were adjusted due to unique circumstances, the adjustment was always in the PM’s favor.

The bonus was usually a relatively small part of the total compensation by design, according to PM Craig Roalf:

The owners don’t want us to be mercenaries. They want us to do the right thing for our customers. I’ve been with this company for 30 years. It’s not something that’s a question in my mind or anyone else’s mind what you want to do. You want to do a good job, you want a successful project, and you want to show profitability at the end of it.

The **Assistant Project Managers** or **Project Engineers** assisted the PMs with their duties, primarily the dissemination of information. They also provided technical support to the superintendents.

The **Superintendent** (SI) reported both to the PM and his/her functional manager, the General Superintendent. The SI worked onsite, overseeing work, and making sure everything was done correctly, according to scope documents and codes. The SI was responsible for maintaining schedules and communicating with all parties if the schedule changed. The SI was not responsible for the project budget and was not compensated based on project profitability. The SI’s primary responsibility was ensuring that work was done correctly.

**LA Prep Project**

To illustrate the functioning of HBC’s project management systems, the history of one project will be described. The customer for this project was LA Prep, which was to be a new food-business incubator in Los Angeles. The project would convert an existing building located in the Lincoln Heights area of Los Angeles into 50,000 square feetof commercial kitchen spaces for lease to wholesale food producers. Lincoln Heights was a low income, mostly Hispanic, geographical area located just east of downtown Los Angeles. The new facility would be equipped with everything a new food producer might need: areas for food storage, a demonstration kitchen, and a staffed warehouse for receiving and logistics. L.A. Prep would also provide its tenants group buying opportunities, health department approvals, and expedited wholesale licenses.

By the time LA Prep contacted HBC, it had already signed its anchor tenant—LA Kitchen, a philanthropic organization that had signed a contract to lease 20,000 of the 50,000 square foot facility. LA Kitchen had an innovative business model of its own: It reclaimed food that would otherwise be wasted, and trained youths just exiting foster care and older adults just released from prison in culinary trades. The reclaimed, prepared food was distributed to local social service organizations.

In early 2014, on the recommendation of their architect, managers of LA Prep asked HBC to bid on a TI project. HBC managers viewed the LA Prep project as an exciting, high profile opportunity. LA Prep’s groundbreaking business model had been featured in local news stories as well as in a story in *The Wall Street Journal[[1]](#footnote-1)* as a catalyst for job growth in Los Angeles. Los Angeles city officials were similarly enthusiastic about LA Prep, both for its prospects for stimulating job growth in the Lincoln Heights area of the city and for the positive publicity the LA Prep venture was creating. They happily cooperated with LA Prep, partnering with the company to create new health and building codes for the project.

But HBC managers also viewed the LA Prep project as very complex. Paul McGunnigle (CEO) described it as “a logistical nightmare.” There were unique electrical requirements, health requirements, and many unknowns. An unusually high number of subcontractors, over 25, would be required to complete the project.

The project was further complicated by financial constraints. LA Prep had a fixed budget that was not large enough to do everything they needed to do, and they had loan covenants that prevented them from securing additional financing.

Craig Roalf, one of HBC’s most experienced and strongest technical PMs, was assigned to the L.A. Prep project. Also appointed were Deanna Rott as Project Engineer, and Gary Scharrer as Superintendent. Both Deanna and Gary were also highly experienced in their respective roles. Mike Howard was assigned as the Project Executive.

**Bid/Contract**

HBC responded to LA Prep’s request on March 7, 2014. The bid, called a Letter of Intent, was given to LA Prep in the form of a “Guaranteed Maximum Price (GMax),” subject to additions and deductions that might be enacted by Change Orders. If the costs exceeded the GMax for reasons not due to an agreed upon change order, then HBC would be contractually obligated to absorb the costs without reimbursement by LA Prep. The GMax was, as the name stated, the guaranteed maximum price HBC would charge LA Prep for the completion of the project.

HBC was proud of its pricing process, as was explained on the HBC website:

We deliver preliminary pricing that is the most thorough in the industry. Every component needed to build a project is priced through our extensive network of pre-qualified subcontractors, offering clients a construction budget that reflects current market costs, not just estimates. This avoids surprises later and ultimately results in project savings.

HBC personnel built the GMax starting with an estimate of the Cost of Work. The goal was to make this estimate as accurate as possible. The estimate was based on an extremely detailed bottom-up budget that included material costs and proposals from subcontractors for every component of the project. However, as was typical in the industry, the project drawings were only about 70% complete when the bid and GMax were developed. Where the details were missing, costs were estimated using square foot-based rules-of-thumb. (See **Exhibit 1** – Budget Cost Summary for the summarized Cost of Work estimate.)

Added to the Cost of Work to arrive at the GMax were General Condition Costs, a Profit/Fee, Insurance Costs, and a Contingency. Here are explanations of the terms whose meanings are not self-evident:

* **General condition costs** were recurring costs necessary to operate a construction site that were billed to the customer at an agreed upon rate per week for the agreed upon duration of the project. General condition costs typically included on-site project supervision, equipment rentals, safety programs, and other general recurring costs. (See **Exhibit 2** –General Conditions Breakdown.) The General Condition Cost Breakdown also identified general costs that were **not** included in the General Condition Cost rate, but instead would be directly reimbursed by the customer. Typical “reimbursables,” as these costs were called, were utilities, permits, and printing costs.

Project duration was an important variable in estimating the GMax. If the project duration expectation was exceeded, general condition costs would go over budget. If a project delay was caused by the client, HBC had a contractual right to place a “delay claim” on the project, thus increasing the General Condition costs of the project. The duration of the LA Prep project was contracted at 20 weeks.

* A **Contingency** was added as a protection against uncertainties, to shield the company in case costs came in higher than originally budgeted. Typically 5-25% of the value of the project was set aside as a contingency. If more information was available at the time of setting budgets, the contingency was set at the low end of the range. Contingencies were necessary for every project, but they were especially important for the LA Prep project because costs on this project were more uncertain than they would be for a more standard building concept. If the contingency budget was not used, per the contract, 75% would be returned to LA Prep and 25% to HBC.

For the LA Prep project, the GMax was calculated as shown in **Figure 1**. Historically, HBC achieved its project budget targets about 90% of the time.

**Figure 1**—Calculation of GMax

|  |  |
| --- | --- |
| Cost of Work (Exhibit 1) | $6,393,178 |
| General Condition Costs (Exhibit 2) | 119,537 |
| Fee/profit (2.5% of costs incl. General Conditions) | 162,818 |
| Insurance | 66,755 |
|  Subtotal | $6,742,288 |
| Contingency (approx. 5% of Subtotal) | 347,475 |
|  Total Budget (GMax) | $7,089,763 |

HBC managers knew that customers also typically budgeted their own construction contingencies for scope changes that might arise as the project progressed.

**Change Orders and Budget Adjustments**

Inevitably, projects did not go exactly as planned. Customers often changed their specifications as the project unfolded, necessitating **Change Orders**. And, of course, unforeseen problems were discovered. These uncertainties did not phase Paul McGunnigle, as he explained:

There are always issues and problems on large building projects. This business is all about managing problems. If the projects ran themselves no one would need us. A good PM will communicate change orders early, and give reasons ahead of time, not excuses afterwards.

For the LA Prep project, over 100 change orders were documented on a change order log. This was a not an atypical number of change orders for a project of this size. HBC and LA Prep were able reach payment agreements for about 70 to 80 of the change orders. However, as the project neared completion and L.A. Prep funds and HBC contingencies were depleted, the negotiations became more difficult. Relationships became more strained.

The five change orders detailed below represent typical situations that required change orders. These examples are illustrative of the dynamics of the project, constraints provided by the contractual agreements, and relationships between HBC and LA Prep personnel.

1. **Change Order (CO) # 2**

CO#2 was a customer-directed scope change. Since the drawings were only 70% complete when the project was bid, it was not a surprise that a CO was required once the final drawings were issued for construction. Once the drawings were finalized, the city issued plan check and corrections, and the changes were priced.

Pricing COs could be a time-consuming exercise, as project Superintendent, Gary Scharrer explained:

We study the final drawings for any changes in scope. Once we identify changes, we could apply square-foot-based unit cost rules-of-thumb and price the changes very quickly. However, since the mid-1980s we have involved outside construction management companies in the process to minimize project costs. But sometimes they are inexperienced, and this pricing exercise takes much longer. Schedules have also been significantly condensed in the 30 years I’ve worked in the industry. Projects that used to take six months, are now expected to be completed in four months. So it is easy to get behind schedule.

 The changes on CO#2 touched 15 trades. They resulted in significant increases in the cost of MEP (mechanical, electrical, and plumbing), particularly, but also some other project elements. The architect, engineers, and HBC project manager worked together to design the changes as cost effectively as possible, but the final result was a cost increase of $224,572. LA Prep agreed to pay a majority of the cost: $217,593. HBC volunteered $6,979 from its contingency budget to subsidize the cost of this CO. This change process delayed the entire project by two weeks.

Craig Roalf chose not to make a “delay claim.” While it would have been within HBC’s contractual rights to place the claim, it would not have been the cultural norm to enforce rights so rigidly, especially at the beginning of a project, with a large contingency budget still available.

1. **CO#4**

CO#4 began with an RFI (request for information) from a subcontractor. The subcontractor had received drawings that showed an 8” high platform for an exhaust fan on a flat roof, but the actual roof of the building was sloped, not flat. Structural upgrades were deemed necessary, resulting in a redesign and scope change. The engineers, architect, and PM worked together to value-engineer the redesign down from an initial cost of $63,000 to only $12,000. LA Prep approved and paid for this change. But this change also caused more delays, as Gary explained,

RFIs often slow projects down. The outside engineering company is contractually obligated to respond to RFIs in a timely manner, but it doesn’t always happen. Some engineering companies are better than others.

**3. CO#10**

CO#10 was necessary because the cost of building an elevator came in much higher than HBC had originally estimated. HBC received only one proposal from a subcontractor in time to be included in the Cost of Work calculations and GMax bid. Unfortunately the subcontractor’s proposal was for a 3,000 pound freight elevator. They were unable to deliver the 5,000 pound freight elevator that was necessary for the LA Prep project. HBC was forced to use a much more expensive vendor, resulting in a $39,164 increase. HBC paid for this increase from its contingency budget.

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**4. CO#78**

CO#78 was caused by vandalism. HBC had just installed the service entrance for water, and the copper piping was exposed in preparation for the final plumbing inspections. This was in a period when copper prices were at an all-time high. Two days before the scheduled inspection, vandals cut the copper pipes that had just been installed. HBC immediately replaced the pipes and built a security cage to protect the copper from vandalism, at a cost of $3,655. HBC issued CO #78 after the work had been completed, but LA Prep “declined” the work, and refused to pay for it.

At this point in the project, HBC had already contributed the entire contingency to prior COs, as Mike Howard explained:

We knew that LA Prep’s budget was tight from the beginning and they did not have a large contingency of their own for scope changes. So at some point in the project, we offered the contingency fund to them to use as they saw fit. In retrospect that was a mistake. They took advantage of our generosity.

The $3,655 for CO #78 came out of HBC’s profit.

**5. CO#94**

CO#94 was caused by a timing issue. The LA Prep project required temporary power from July 2014 to March 2015, until permanent power became available. Power was clearly stipulated in the contract as LA Prep’s financial responsibility. Craig Roalf explained: “We assume that the power, parking, and water necessary for construction are to be provided by the owner at no cost to the General Contractor.” Power was not included in the general condition rate. It was to be billed to and reimbursed by LA Prep on a monthly basis as the actual expense was realized. A CO was necessary because HBC did not receive the bill from the power company until April 2015. Temporary power had not been included in the monthly billings to LA Prep. The total cost of the temporary power for the nine-month period was $11,099.

LA Prep refused to approve this CO, arguing that because they had not been informed of the expense in a timely manner, they had made other decisions with the money that had been available. Craig acknowledged that although ethically LA Prep should have paid for the utility charges, they were within their legal rights to refuse payment, because they were not informed of the costs as stipulated in the contract. And LA Prep insisted that they were out of money. The $11,099 came out of HBC’s profits.

About this CO and others like it, Mike Howard commented:

[L.A. Prep] starting taking our contract literally. For example, if the CO was not in in 10 days, they would automatically reject it. They were desperate for every piece of change they could get. When these kinds of things happen, the relationship suffers.

**Billing**

HBC billed LA Prep every month by applying a percentage of work complete to each line item in the contract, as revised by agreed upon change orders. The percentage of work complete was determined by the Project Manager for each line item of the budget, and certified by the project architect. The total amount due was calculated for each line item by multiplying the revised contract amount for the line item by the percentage of work complete. Previous payments and retainers were subtracted from the total amount due to determine the amount due for the current month. (See **Exhibit 3** – Application and Certificate for Payment for an example of a monthly billing.)

LA Prep was not informed about, nor was it concerned with, subcontractor costs and the actual cost of work. They were billed strictly according to the cost of work contracted, revised only by change orders. HBC bore the risk and reward of the actual cost of work coming in higher or lower than contracted. For example, if the revised contracted amount for asphalt paving was $26,000 and the actual subcontractor’s costs for asphalt came in at $28,000, HBC could only charge LA Prep $26,000. HBC would lose money on that particular line-item. On the flip side, if for example the cost of insulation was contracted at $75,000 and the actual subcontractor costs came in at $71,000, HBC could still charge LA Prep the full contracted amount of $75,000 for completed insulation work.

**Project Control**

Perhaps the most important control tool was the Variance Report, used internally by HBC to track project profit (see **Exhibit 4**). The Variance Report was updated every month. It summarized the financial impact of the COs for the period. The COs were reflected in the report as changes to the contract price for a line item, depletion of the contingency fund, or depletion of the contracted profit, depending on the agreement made in the COs. Column (A) in **Exhibit 4** shows the original contract amount for each line item. Column (B) shows the contract price revised by change orders, i.e. the revised amount LA Prep agreed to pay HBC by line item. This report also tracked changes to the subcontractor costs (commitments) for each line item during the same period. Column (C) shows the subcontractor cost originally budgeted by HBC for each line item. Column (D) shows the revised subcontractor cost after all subcontractor change orders, i.e. the revised amount Howard agreed to pay its subcontractors by line item.

HBC’s profit was the difference between the revised contracted price and the revised subcontractor commitment for each line item (B-D), plus 25% of whatever remained of the contingency fund and 100% of whatever remained of the contracted profit. In the case of this project, the difference between the agreed upon price to LA Prep and cost of subcontractor work was $(217,060). The remaining contingency fund was $0, and the remaining contracted profit was $176,294, resulting in a net profit (loss) of $(40,766).

Changes that reduced the projected profit required approval and signature of the Project Executive. These changes were referred to as a “X” costs. The most common “X” costs were subcontractor changes that increased the cost of work above what was contracted. For example, **Exhibit 4** shows an “X” cost for steel. The contract with LA Prep was revised up by $41,416, but the subcontractor cost increased by $45,359, $4,421 more than what was charged to the client, requiring executive approval. Executive approval was also required before any unused line items could be returned to the customer, if overall project profitability was already in jeopardy. For example, per **Exhibit 4,** landscaping was removed from the contract and the entire line-item was returned to the customer. This reimbursement required executive approval. Paul explained,

Once a contract is signed, any change that diminishes profit must be signed by the Project Executive. PMs cannot just move money from another line item that came in under budget. This provides some incentive to charge clients appropriately if they have made a scope change.

Meetings were held weekly to discuss project issues. In attendance were the PM, Project Engineer, and SI, as well as the outside architect and engineer hired by LA Prep and LA Prep management. Mike Howard, the HBC Project Executive, also attended meetings occasionally, about once a month. RFIs and the response (or lack thereof) were documented in meeting minutes. **Exhibit 5** shows excerpts from the minutes of a weekly meeting.

Craig Roalf explained the benefit of involving the Project Executive for the duration of the project:

The Project Executive knows what is going on. They understand the tenor of meetings and the impetus and rationale for decisions that are made. There are no big surprises at the end of the project.

Mike Howard explained one of his roles in the project meetings:

Sometimes managers do not push hard enough or clearly state the drop dead date for decisions by clients that are necessary to keep the project on track. In that case, I pull the PM aside outside of the meeting to discuss my concern.

HBC posted several other key project management documents on the Project Exchange, a web page created for each project and accessible to the customer as well as to HBC employees. The Project Exchange was updated weekly with images of the construction-in-progress, an updated project schedule, the RFI and Change Order logs, as well as monthly meeting minutes.

**Final Accounting**

In the end, the duration of the project was 45 weeks, as compared to an initial estimate of 20 weeks. And, as is shown in **Exhibit 4**, HBC lost $40,766 on the project.

|  |  |  |
| --- | --- | --- |
| **Exhibit 1 - Budget Cost Summary** |  |  |
|  |  |  |  |
| LA Prep |  | Budget #: | 14-020 |
| 210 and 230 W. Ave. 26 | Date: | 3/7/2014 |
| Los Angeles, CA 90031 | RSF: | 55,846  |
| **WEEKS PROJECTED ON SITE: 20** |  |  |
| **BUDGET COST SUMMARY** |  |  |
| **Trade #** | **Description** | **Trade Cost** | **Per SF** |
| 01400 | Surveying |  $ 12,500  |  $ 0.27  |
| 01800 | Finish Clean up |  $ 21,932  |  $ 0.63  |
| 02001 | General Sitework |  $ 32,850  |  $ 0.70  |
| 02500 | Site Demolition |  $ 120,390  |  $ 2.15  |
| 02510 | Grading & Earthwork |  $ 10,000  |  $ 0.27  |
| 02201 | Asphalt Paving |  $ 20,210  |  $ 0.42  |
| 02410 | Underground Utilities |  $ 80,379  |  $ 3.76  |
| 02480 | Landscaping |  $ 20,000  |  $ 0.45  |
| 02300 | On-Site Concrete |  $ 180,060  |  $ 3.49  |
| 03200 | Reinforcing Steel & Rebar |  $ 13,560  |  $ 0.24  |
| 04100 | Masonry |  $ 61,700  |  $ 1.18  |
| 04400 | Stone |  $ 10,500  |  $ 0.27  |
| 05100 | Steel |  $ 258,700  |  $ 6.14  |
| 05580 | Sheet Metal |  $ 26,114  |  $ 0.14  |
| 05700 | Ornamental Metal |  $ 68,450  |  $ 1.32  |
| 06132 | Rough Carpentry |  $ 101,800  |  $ 1.37  |
| 06400 | Arch. Woodworking |  $ 20,800  |  $ 0.07  |
| 07200 | Insulation |  $ 54,420  |  $ 1.21  |
| 07500 | Roofing |  $ 28,250  |  $ 1.24  |
| 08200 | Doors/Frames/Hardware |  $ 152,080  |  $ 2.87  |
| 08800 | Glazing |  $ 55,700  |  $ 1.13  |
| 09250 | Drywall |  $ 470,713  |  $ 9.15  |
| 09300 | Ceramic Tile |  $ 68,580  |  $ 1.49  |
| 09500 | Acoustical Ceiling |  $ 111,832  |  $ 3.92  |
| 09680 | Flooring |  $ 230,568  |  $ 5.46  |
| 09900 | Painting |  $ 196,776  |  $ 5.45  |
| 10426 | Signage |  $ 4,574  |  $ 0.12  |
| 10800 | Toilet Partitions  | $ 32,683  |  $ 0.57  |
| 11131 | Projection Screens |  $ 630  |  $ 0.01  |
| 11160 | Dock Equipment |  $ 2,100  |  $ 0.04  |
| 11450 | Kitchen Equipment |  $ 378,519  |  $ 16.46  |
| 14200 | Elevators |  $ 100,102  |  $ 1.79  |
| 15300 | Fire Sprinklers |  $ 63,461  | $ 1.81  |
| 15350 | Fire Extinguishers |  $ 4,060  |  $ 0.05  |
| 15400 | Plumbing |  $ 1,099,983  |  $ 25.81  |
| 15500 | HVAC |  $ 1,246,810  |  $ 25.05  |
| 16001 | Electrical |  $ 1,002,213  |  $ 22.40  |
| 16600 | Fire/Life Safety |  $ 29,179  |  $ 0.81  |
|  | **Total** |  **$ 6,393,178**  |  |

**Exhibit 2 - General Conditions**

|  |  |  |  |
| --- | --- | --- | --- |
| **PRECONSTRUCTION PERIOD (12) WEEKS** |  |  |  |
| **Cost Category** | **Weekly Rate** | **# Of Weeks** | **Totals** |
| Project Executive | No Charge | 12 | No Charge |
| Project Manager | No Charge | 12 | No Charge |
| Project Engineer | No Charge | 12 | No Charge |
| Project Administrator | No Charge | 12 | No Charge |
| **Subtotal** | No Charge | 12 | No Charge |
|  |  |  |  |
| **CONSTRUCTION PERIOD (20) WEEKS** |  |  |  |
| **Cost Category** | **Weekly Rate** | **# Of Weeks** | **Totals** |
| Project Executive | Inc. in Fee | 20 | Inc. in Fee |
| Project Manager | Inc. in Fee | 20 | Inc. in Fee |
| Assistant Project Manager | Inc. in Fee | 20 | Inc. in Fee |
| Project Engineer | $420 | 20 | $8,400 |
| Superintendent (Exterior) | $2,200 | 20 | $44,000 |
| Superintendent (Interior) | $1,800 | 20 | $36,000 |
| Laborers | $500 | 20 | $10,000 |
| Project Administration | Inc. in Fee | 20 | Inc. in Fee |
|  |  |  |  |
| **Direct Expenses** |  |  |  |
| * Field Office & Supplies
 | Included | 20 | Included |
| * Communication & Electronic Equipment
 | $65 | 20 | $1,300 |
| * Temporary Protections/Barricades
 | $80 | 20 | $1,600 |
| * Rubbish Removal
 | $320 | 20 | $6,400 |
| * Safety Program/Equipment
 | $120 | 20 | $2,400 |
| * Small Tools/ Misc. Equipment
 | $192 | 20 | $3,837 |
| * Fencing
 | $280 | 20 | $5,600 |
| * Field Inspections
 | Included | 20 | Included |
| **Reimbursables** |  |  |  |
| * Reprographics for Bid Set and Construction Set
 |
| * Permits, Plan Check, Agency, Impact and/or Utility Fees
 |
| * Distribution, Postage & Mailing
 |
|  |
| **Subtotal** | $5,977 | 20 | $119,537 |
| Should the schedule be extended during the construction period for reasons beyond the responsibility of HBC, the weekly General Conditions cost shall be **$5,977.00**  |
| **TOTAL GENERAL CONDITIONS** |  |  | **$119,537** |

**Exhibit 3 – Application and Certificate for Payment**

**APPLICATION AND CERTIFICATE FOR PAYMENT AIA Document** G702

TO: LA PREP PROPERTIES, LLC APPLICATION NO: 8

 400 MT. WASHINGTON DRIVE

 LOS ANGELES, CA 90065 PERIOD TO: 1/31/15

FROM: HOWARD BUILDING CORPORATION INVOICE NO: 8307

 707 WILSHIRE BLVD., STE 3750

 LOS ANGELES, CA 90017-3506 CONTRACT DATE: 3/10/14

Application is made for Payment, as shown below, in connection with the Contract. Continuation sheet, AIA Document G703, is attached.

|  |  |  |
| --- | --- | --- |
| 1. **ORIGINAL CONTRACT SUM …….…………………………………….**
 | $ | 7,089,763.00 |
| 1. **Net Change by Change Orders ………………………………………..**
 | $ | 48,012.00 |
| 1. **CONTRACT SUM TO DATE ……………………………………………….**
 | $ | 7,137,775.00 |
| 1. **TOTAL COMPLETED & STORED TO DATE …………………………**
 | $ | 5,856,648.74 |
| 1. **RETAINAGE**
 | $ | 551,171.94 |
| 1. **TOTAL EARNED LESS RETAINAGE**

(Line 4 Less Line 5 Total)  | $ | 5,305,476.80 |
| 1. **LESS PREVIOUS CERTIFICATE FOR PAYMENT**

(Line 6 From Prior Certificate) | $ | 4,356,137.75 |
| 1. **CURRENT PAYMENT DUE**
 | $ | 949,339.05 |
| 1. **BALANCE TO FINISH, PLUS RETAINAGE**

(Line 3 less line 6) | $ | 1,832,298.20 |

|  |  |
| --- | --- |
| CONTRACTOR: HOWARD BUILDING CORPORATION |  |
| BY: |   |
| CRAIG ROALF PROJECT MANAGER | DATE 1/30/15 |
|  |  |
| **ARCHITECT’S CERTIFICATE FOR PAYMENT**In accordance with the Contract Documents, Based on on-site observations and the data comprising the above application, the Architect certifies to the Owner that to the best of the Architect’s knowledge, information and belief the Work has progressed as indicated, the quality of the work is in accordance with the Contract Documents, and the Contractor is entitled to payment of the AMOUNT CERTIFIED. | **AMOUNT CERTIFIED …………………………….****ARCHITECT:**By:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Date\_\_\_\_\_\_\_\_\_\_\_This certificate is not negotiable. The AMOUNT CERTIFIED is payable only to the Contractor named herein. Issuance, payment and acceptance of payment are without prejudice to any rights of the Owner or Contractor under this contract. |

**Exhibit 3 - Application and Certificate for Payment (continued)**

LA PREP APPLICATION NO. 8

 INVOICE DATE 1/30/2015

 PERIOD TO 1/31/2015

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| DESCRIPTION OF WORK | REVISED CONTRACT AMOUNT | WORK COMPLETED | TOTAL COMPLETED TO DATE | % COMPLETE | BALANCE TO FINISH | RETAINAGE |
|  |  | PREVIOUS APPLICATION | THIS PERIOD |  |  |  |  |
| Contingency | 61,282.00 |  |  |  |  | 61,282.00 |  |
| Insurance | 70,003.00 | 46,887.36 | 10,550.10 | 57,437.46 | 82.05 | 12,565.54 |  |
| Bond | 1,253.00 | 419.00 | 834.00 | 1,253.00 | 100.00 |  |  |
| Surveying | 12,500.00 |  |  |  |  | 12,500.00 |  |
| Finish Clean-Up | 21,932.00 |  |  |  |  | 21,932.00 |  |
| General Sitework | 32,850.00 |  | 16,788.00 | 16,788.00 | 51.11 | 16,062.00 | 1,678.80 |
| Site Demolition | 144,441.00 | 132,025.00 | 2,850.00 | 134,875.00 | 93.38 | 9,566.00 | 13,487.50 |
| Grading & Earthwork | 10,000.00 |  | 9,414.00 | 9,414.00 | 94.14 | 586.00 | 941.40 |
| Asphalt Paving | 25,865.00 | 1,100.00 | 13,270.00 | 14,370.00 | 55.56 | 11,495.00 | 1,437.00 |
| Underground Utilities | 153,519.00 | 5,900.00 |  | 5,900.00 | 3.84 | 147,619.00 | 590.00 |
| Landscaping | 20,000.00 |  |  |  |  | 20,000.00 |  |
| On-Site Concrete | 226,033.00 | 225,458.00 |  | 225,458.00 | 99.75 | 575.00 | 22,545.80 |
| Reinforcing Steel & Rebar | 13,560.00 |  | 13,560.00 | 13,560.00 | 100.00 |  | 1,356.00 |
| **…** | **…** | **…** | **…** | **…** |  | **…** | **…** |
| HVAC | 1,281,835.00 | 989,173.45 | 236,833.71 | 1,226,007.16 | 95.64 | 55,827.84 | 12,600.72 |
| Electrical | 1,070,416.00 | 860,422.10 | 160,769.80 | 1,021,191.90 | 95.40 | 49,224.10 | 102,119.19 |
| Fire/Life Safety | 29,179.00 | 14,589.50 | 8,753.70 | 23,343.20 | 80.00 | 5,835.80 | 2,334.32 |
| General Conditions | 119,537.00 | 81,666.65 | 16,416.46 | 98,080.11 | 82.05 | 21,456.89 |  |
| Fee | 170,809.00 | 114,407.65 | 25,741.13 | 140,148.78 | 82.05 | 30,660.22 |  |
| Totals | 7,137,775.00 | 4,807,776.32 | 1,048,872.42 | 5,856,648.74 | 82.05 | 1,281,126.26 | 551,171.94 |

**Exhibit 4 – Final Variance Report**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **OWNER CONTRACT** | **SUBCONTRACTOR COMMITMENT** |  |
|  | **Owner Contract (A)** | **Total Changes** | **Revised Owner Contract (B)** | **Original Subcontractor Cost (C)** | **Subcontractor Change Order** | **Revised Subcontractor Cost (D)** | **Variance/****Profit** **(B-D)** |
| General Conditions |  $ 119,537 | $2,662 | $122,199 | $315,439 | $15,742 | $331,181 | **$ (208,982)** |
| Insurance | $ 66,755 | $5,496 | $ 72,251 | $ 53,421 |  | $53,421 | **$ 18,830** |
| Surveying |  $ 12,500  | $ (8,086) | $4,432 | $2,200 | $2,,233 | $4,433 | **$ (1)** |
| Finish Clean Up |  $ 21,932  | - | $ 21,932 | $ 21,932 | - | $ 21,932 | **-** |
| General Sitework |  $ 32,850  | $ (85) | $ 32,765 | $32,365 | $3,143 | $ 35,508 | **$ (2,743)** |
| Site Demolition |  $ 120,390  | $25,551 | $145,941 | $123,713 | $23,101 | $146,814 | **$ (873)** |
| Asphalt Paving |  $ 20,210  | $5,655 | $25,865 | $20,210 | $7,805 | $28,015 | **$ (2,150)** |
| Underground Utilities |  $ 80,379  | $ 90,656 | $ 171,035 | $ 143,929 | $27,106 | $171,035 | **-** |
| On-Site Concrete |  $ 180,060  | $ 57,186 | $ 237,246 | $ 180,060 | $ 58359 | $ 238,419 | **$ (1,173)** |
| Landscaping |  $ 20,000  | $ (20,000) | \_ |  |  |  | **-** |
| Steel |  $ 258,700  | $41,416 | $ 300,116 | $259,178 | $45,359 | $304,537 | **$ (4,421)** |
| Rough Carpentry | $ 101,800 | $ 20,458 | $122,258 | $100,869 | $ (1,919) | $98,950 | **$23,308** |
| Insulation | $ 54,420 | $ 21,034$  | $75,454 | $50,197 | $21,118 | $71,315 | **$4,139** |
| Doors/Frames/Hardware |  $ 152,080  | $85,902 | $ 237,982 | $152,080 | $85,326 | $237,406 | **$ 576** |
| Drywall | $ 470,713  | $ 124,420 | $ 595,133 | $ 470,713 | $127,331 | $598,044 | **$ (2,911)** |
| Acoustical Ceiling | $ 111,832 | $ (6,681) | $ 104,971 | $ 111,832 | $ (6,571) | $ 105,261 | **$ (290)** |
| Flooring |  $ 230,568  | $ (4,070) | $ 226,498 | $229,686 | $ (1,612) | $ 228,074 | **$ (1,576)** |
| Painting |  $ 196,776  | $ (13,601) | $183,175 | $196,776 | $ (10,141) | $ 186,635 | **$ (3,460)** |
| **…** | **…** | **…** | **…** | **…** | **…** | **…** | **…** |
| Elevators |  $ 100,102  | $46,948 | $147,050 | $137,932 | $11,051 | $148,983 | **$ (1,933)** |
| Fire Sprinklers/Extinguishers |  $ 63,461  | $13,442 | $76,903 | $63,461 | $13,442 | $76,903 | **-** |
| Plumbing |  $ 1,099,983  | $186,212 | $1,286,195 | $1,099,983 | $197,877 | $1,297,860 | **$ (11,665)** |
| HVAC |  $ 1,246,810  | $93,747 | $1,340,557 | $1,246,810 | $93,827 | $1,340,637 | **$ (80)** |
| Electrical |  $ 1,002,213  | $137,733 | $1,139,946 | $ 1,002,213 | $154,761 | $1,156,974 | **$ (17,028)** |
| Fire/Life Safety | $ 29,179 | \_ | $ 29,179 | $ 29,179 | \_ | $ 29,179 | \_ |
| Subtotal  | $ 6,579,470 | $ 549,191 | $7,128,661 | $6,438,068 | $907,653 | $7,345,721 | **$ (217,060)** |
| Contingency | $ 347,475 | $ (347,475) | \_ |  |  |  | **\_** |
| Contracted Profit/OH | $ 162, 818 | $13,476 | $176,294 |  |  |  | **$176,294** |
| **Total Original Contract** | $ 7,089,763 | $215,192 | $7,304,955 |  |  |  | **$ (40,766)** |

**Exhibit 5 – Excerpt from Weekly Meeting Minutes**

LA PREP Meeting Date: 2/17/15

Project Meeting Minutes #38 Next Meeting Tuesday, Feb 24, 2015 @1PM

|  |  |  |
| --- | --- | --- |
| **ITEM** | **RESP** | **DISCUSSION** |
| **1.4** | **INFO** | **Drawings Status & Plan Check Changes**2-3-15 – There may need to be a revision to civil drawings due to changes in the basement2-10-15 Delta #10 was received last week from Civil Engineer. Delta #11 expected shortly**2-17-15 Delta 11 has not been issued** |
| **1.6** | **HBC** | **Submittal Process**2-10-15HBC to submit quarry tile along with floor sealant**2-17-15 HBC submitted Via by hand and is waiting SAA’s approval. HBC has already received owner approvals on tile and sealant submittals.** |
| **1.7** | **SAA** | **RFI Process**2-3-15 RFI’s 152 and 153 are still pending2-10-15 RFI’s 152 and 153 have been answered. RFI’s 154, 155, and 159 are outstanding.**2-17-15 RFI 154 has been answered. RFI’s 155 and 159 are still outstanding.** |
| **1.9** | **HBC** | **Schedule/Long Lead Items/3 Weeks Look Ahead**2-3-15 March 6th is current move in date. However there are electrical requirements that are holding up projects from receiving electrical.2-10-15 All corrections have been made with Electrical with the exception of the newer rated 3R battery closet that is still being reviewed. DWP pushed on schedule to Friday**2-17-15 Waiting on doors to be keyed. Keying is scheduled on Thursday by LAP. Schedule is being delayed daily by not having electrical.** |
| **1.12** | **LAP** | **Pay Application**2-3-15 Pay Application was sent back to HBC with comments. HBC is waiting on December payment. LAP said it was approved today and will be sent out.2-10-15 Dec payment received. Jan pay application has been revised and approved.**2-17-15 LSP is looking for Pay App # 6 releases**. |
| **27.0** | **HBC** | **Veggie Washer**1-27-15 LA Prep has stated that a 2 ½” is good enough and this is what should be used2-3-15 LAK has asked for stub outs only as an option2-10-15 All items were carried in alternatives. HBC has suggested running waste and underground at a minimum.**2-17-15 LAK does not want to proceed with Veggie washer. Item Closed.** |
| **33.0** | **HBC** | **Color Choice for the Building**2-3-15 A color has been selected as CL 1466 Flat. LAP still waiting on changes.2-10-15 HBC to submit.**2-17-15 LAP had not received a price change per its request.** |

The above constitutes our understanding of the content and conclusions of the meeting. All attendees are requested to review this report and direct any errors or omissions in writing with 7 calendar days or these minutes will be presumed correct as written. Items deleted from the minutes are those determined by attendees as to be that they are resolved or required no additional action.

Prepared by: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date 2/11/15

 Deanna Rott, Project Engineer

1. [*http://www.wsj.com/articles/food-accelerators-and-the-10-bag-of-pasta-1420590268*](http://www.wsj.com/articles/food-accelerators-and-the-10-bag-of-pasta-1420590268) [↑](#footnote-ref-1)