## CONTENTS

*About the Editors*  
*About the Authors*  
*Acknowledgments*  
*Introduction*  

### Part 1: The Subcontract Document  

**Chapter 1**  

**Subcontract Terms**  
*Daniel M. Drewry, Carl Fletcher, and Matthew A. Gillies*  

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction</td>
<td>3</td>
</tr>
<tr>
<td>II. Form Contract Documents</td>
<td>4</td>
</tr>
<tr>
<td>A. American Institute of Architects</td>
<td>4</td>
</tr>
<tr>
<td>B. ConsensusDocs</td>
<td>5</td>
</tr>
<tr>
<td>C. Other Standard Subcontract Forms</td>
<td>5</td>
</tr>
<tr>
<td>D. Advantages and Disadvantages</td>
<td>6</td>
</tr>
<tr>
<td>III. Standard Subcontract Terms and Conditions</td>
<td>7</td>
</tr>
<tr>
<td>A. Scope of Work, Payment, and Retention</td>
<td>7</td>
</tr>
<tr>
<td>1. Scope of Work</td>
<td>7</td>
</tr>
<tr>
<td>2. Payment Terms</td>
<td>7</td>
</tr>
<tr>
<td>3. Retention</td>
<td>9</td>
</tr>
<tr>
<td>B. Flow-Down Provisions</td>
<td>9</td>
</tr>
<tr>
<td>C. Site Investigations</td>
<td>10</td>
</tr>
<tr>
<td>D. Extra Work/Changes</td>
<td>11</td>
</tr>
<tr>
<td>E. Delay Damages</td>
<td>12</td>
</tr>
<tr>
<td>1. No Damages for Delay Clauses</td>
<td>12</td>
</tr>
<tr>
<td>2. Liquidated Damages Clauses</td>
<td>13</td>
</tr>
<tr>
<td>3. Consequential Damages</td>
<td>14</td>
</tr>
<tr>
<td>F. Indemnification</td>
<td>15</td>
</tr>
<tr>
<td>G. Insurance</td>
<td>16</td>
</tr>
<tr>
<td>H. Warranties</td>
<td>17</td>
</tr>
<tr>
<td>I. Dispute Resolution</td>
<td>17</td>
</tr>
<tr>
<td>J. Terminations</td>
<td>18</td>
</tr>
<tr>
<td>K. Lien Waivers</td>
<td>18</td>
</tr>
<tr>
<td>L. Implied Subcontract Terms</td>
<td>19</td>
</tr>
<tr>
<td>1. Covenant of Good Faith and Fair Dealing</td>
<td>19</td>
</tr>
<tr>
<td>2. Owner Implied Warranty of the Sufficiency of the Plans and Specifications</td>
<td>19</td>
</tr>
<tr>
<td>IV. Conclusion</td>
<td>20</td>
</tr>
</tbody>
</table>
Chapter 2

Subcontract Formation 21

Nicholas D. Siegfried and James P. Laurie III

I. Introduction 21
II. A Subcontractor’s Bid 21
III. Bidding in the Construction Industry 22
   A. Promissory Estoppel 22
   B. Bid Shopping and Bid Peddling 24
      1. Bid Shopping 25
      2. Bid Peddling 25
   C. Bidding Best Practices 26
      1. Submitting Revocable Bids 26
      2. Submitting Bids with Contingencies 27
   D. Establishing Bid Shopping or Bid Peddling 28
   E. Responses to Promissory Estoppel Doctrine 29
      1. State Naming or Listing Statutes for Protection on Public Projects 29
      2. Bid Depositories 29
      3. Industry Action 29
   F. Conclusion 30

IV. Negotiation, Drafting Issues, and Strategies 30
   A. Preparing for Subcontract Negotiation 30
   B. Basic Elements of the Subcontract Agreement 31
   C. Commencement of Negotiations 31
   D. Laws Affecting Subcontract Negotiation 32
   E. Preparing Fall-Back Positions 32
   F. Key Clauses to Negotiate 33
      1. Bid Terms and Scope-of-Work Letter 34
      2. Contract Documents and/or Definitions Clauses 35
      3. Dispute Resolution Clauses 35
      4. Indemnity 36
      5. Notice Provisions 36
      6. Payment 37
      7. Retainage 37
      8. Scheduling 38
   G. Frequently Omitted Terms 38

V. Conclusion 39

Part 2: Subcontract Performance 41

Chapter 3

Scheduling, Delays, and Coordination 43

Joseph C. Kovars and Michael F. D’Onofrio

I. Introduction 43
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>II. Standard Contract Provisions</td>
<td>43</td>
</tr>
<tr>
<td>III. Construction Schedules</td>
<td>45</td>
</tr>
<tr>
<td>A. Bar Charts</td>
<td>45</td>
</tr>
<tr>
<td>B. Critical Path Method Scheduling</td>
<td>45</td>
</tr>
<tr>
<td>1. Float—Who Owns It?</td>
<td>47</td>
</tr>
<tr>
<td>2. Work Calendars</td>
<td>48</td>
</tr>
<tr>
<td>3. Resource Leveling</td>
<td>49</td>
</tr>
<tr>
<td>4. Updating the Schedule</td>
<td>50</td>
</tr>
<tr>
<td>C. The Subcontractor’s Role in Scheduling</td>
<td>51</td>
</tr>
<tr>
<td>1. Initial Schedule</td>
<td>51</td>
</tr>
<tr>
<td>2. Schedule Updates</td>
<td>52</td>
</tr>
<tr>
<td>IV. Delay</td>
<td>53</td>
</tr>
<tr>
<td>A. Types of Project Delays</td>
<td>53</td>
</tr>
<tr>
<td>1. In General</td>
<td>53</td>
</tr>
<tr>
<td>2. Excusable, Non-compensable Delays</td>
<td>53</td>
</tr>
<tr>
<td>3. Excusable, Compensable Delays</td>
<td>53</td>
</tr>
<tr>
<td>4. Non-excusable Delays</td>
<td>54</td>
</tr>
<tr>
<td>5. Concurrent Delays</td>
<td>55</td>
</tr>
<tr>
<td>6. Disruption Distinguished from Delay</td>
<td>56</td>
</tr>
<tr>
<td>B. Notice and Other Requirements for Recovery</td>
<td>57</td>
</tr>
<tr>
<td>C. Delay Analysis Methods</td>
<td>57</td>
</tr>
<tr>
<td>1. Time Impact Analysis/Windows Method</td>
<td>58</td>
</tr>
<tr>
<td>2. Impacted As-Planned Method</td>
<td>58</td>
</tr>
<tr>
<td>3. Collapsed As-Built/“But for” Method</td>
<td>59</td>
</tr>
<tr>
<td>4. As-Planned Versus As-Built Method (Total Time)</td>
<td>59</td>
</tr>
<tr>
<td>V. Acceleration</td>
<td>60</td>
</tr>
<tr>
<td>A. In General</td>
<td>60</td>
</tr>
<tr>
<td>B. Directed Acceleration</td>
<td>60</td>
</tr>
<tr>
<td>C. Constructive Acceleration</td>
<td>60</td>
</tr>
<tr>
<td>D. Acceleration Costs</td>
<td>61</td>
</tr>
<tr>
<td>VI. Proving Delay Damages</td>
<td>61</td>
</tr>
<tr>
<td>A. In General</td>
<td>61</td>
</tr>
<tr>
<td>B. Labor</td>
<td>61</td>
</tr>
<tr>
<td>1. Escalation</td>
<td>61</td>
</tr>
<tr>
<td>2. Loss of Productivity</td>
<td>62</td>
</tr>
<tr>
<td>C. Material</td>
<td>62</td>
</tr>
<tr>
<td>D. Equipment</td>
<td>62</td>
</tr>
<tr>
<td>E. Field Overhead</td>
<td>63</td>
</tr>
<tr>
<td>F. Home Office Overhead</td>
<td>63</td>
</tr>
<tr>
<td>1. In General</td>
<td>63</td>
</tr>
<tr>
<td>2. The <em>Eichleay</em> Formula</td>
<td>63</td>
</tr>
<tr>
<td>3. Percentage Markup</td>
<td>64</td>
</tr>
<tr>
<td>G. Profit</td>
<td>65</td>
</tr>
<tr>
<td>VII. Conclusion</td>
<td>65</td>
</tr>
</tbody>
</table>
Chapter 4
Payment
V. James Dickson and Mark A. Cobb

I. Introduction 67
II. Typical Contract Terms Impacting Payment 67
   A. Determination of Subcontract Price: Fixed-Price, Cost-Plus, and Unit Pricing 67
   B. Conditions Precedent to Payment 68
      1. In General 68
      2. Contingent Payment Clauses 69
   C. Retainage 70
   D. Impact of Flow-Down Clauses 71
   E. Limitation on Right to Payment for Extra Work 72
      1. Notice Requirements 72
      2. Verbal Modification of Written Extra Clause 72
      3. Enforcement of Terms Contained in Invoices or Delivery Tickets 73
      4. Right of Setoff 73
      5. Impact of Dispute Resolution Clauses 74

III. Statutory Rights to Payment 74
   A. Lien Statutes 74
      1. Lender Obligations Under Lien Laws 74
      2. Impact of a Preexisting Mortgage 75
      3. Impact of Indian Tribe Sovereign Immunity 75
   B. Payment Bonds 75
   C. Prompt Payment Statutes 76
   D. Impact of Contractor License Requirements 76

IV. Implied Payment Obligations and Common Law Remedies for Payment 77
   A. The Spearin Doctrine 77
   B. The Doctrine of Unjust Enrichment 77
   C. Equitable Liens 78
      1. Undisbursed Contract Sums 78
      2. Undisbursed Construction Loan Proceeds 78
      3. Real Property Subject to the Improvement Where Fraud or Misconduct Has Occurred 79
   D. Common Law Right of Setoff 80

V. Conclusion 80

Chapter 5
Mechanic’s Liens and Other Remedies
R. Russell O’Rourke, Karl Silverberg, Natalie D’Amora, Robert Dietz, and Aaron P. Silberman

I. Introduction 83
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>II. Mechanic’s Liens</td>
<td>83</td>
</tr>
<tr>
<td>A. Overview</td>
<td>84</td>
</tr>
<tr>
<td>B. Right to a Lien</td>
<td>85</td>
</tr>
<tr>
<td>1. Proper Claimant</td>
<td>85</td>
</tr>
<tr>
<td>2. Construction Project Subject to Liens</td>
<td>85</td>
</tr>
<tr>
<td>C. Property Interest Subject to a Lien</td>
<td>87</td>
</tr>
<tr>
<td>D. Filing and Enforcing a Lien</td>
<td>87</td>
</tr>
<tr>
<td>1. Preliminary Notices</td>
<td>87</td>
</tr>
<tr>
<td>2. Contents of the Notice and Lien Claim</td>
<td>88</td>
</tr>
<tr>
<td>3. Filing the Lien</td>
<td>88</td>
</tr>
<tr>
<td>E. Lien Waivers</td>
<td>89</td>
</tr>
<tr>
<td>1. Prospective Lien Waivers</td>
<td>89</td>
</tr>
<tr>
<td>2. Lien Waivers Provided in Connection with Payment</td>
<td>90</td>
</tr>
<tr>
<td>F. Special Considerations</td>
<td>90</td>
</tr>
<tr>
<td>1. Defense of Payment</td>
<td>90</td>
</tr>
<tr>
<td>2. Discharge Bonds</td>
<td>90</td>
</tr>
<tr>
<td>3. Bankruptcy</td>
<td>91</td>
</tr>
<tr>
<td>4. Mechanic’s Lien Priority</td>
<td>91</td>
</tr>
<tr>
<td>III. Liens on Funds/Stop Notices</td>
<td>92</td>
</tr>
<tr>
<td>A. Private Projects</td>
<td>93</td>
</tr>
<tr>
<td>B. Public Projects</td>
<td>94</td>
</tr>
<tr>
<td>C. Rights Against Lenders</td>
<td>94</td>
</tr>
<tr>
<td>D. Priority in Bankruptcy</td>
<td>95</td>
</tr>
<tr>
<td>E. Constitutionality of Stop Notices</td>
<td>95</td>
</tr>
<tr>
<td>IV. Construction Trust Fund Statutes</td>
<td>97</td>
</tr>
<tr>
<td>A. New York’s Trust Fund Statute as Model</td>
<td>98</td>
</tr>
<tr>
<td>B. Types of Projects Subject to Trust Fund Protection</td>
<td>100</td>
</tr>
<tr>
<td>C. Trust Fund Statutes and Bankruptcy</td>
<td>100</td>
</tr>
<tr>
<td>V. Conclusion</td>
<td>101</td>
</tr>
</tbody>
</table>

### Chapter 6

**Changes and Extras**

*Steve Holloway*

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction</td>
<td>103</td>
</tr>
<tr>
<td>II. Overview of Changes and Extra Work</td>
<td>103</td>
</tr>
<tr>
<td>A. What Is a Change?</td>
<td>104</td>
</tr>
<tr>
<td>B. “Extras” Versus “Changes”</td>
<td>104</td>
</tr>
<tr>
<td>III. Changes and Change Orders</td>
<td>105</td>
</tr>
<tr>
<td>A. Types of Changes</td>
<td>106</td>
</tr>
<tr>
<td>1. Additive Changes</td>
<td>106</td>
</tr>
<tr>
<td>2. Deductive Changes</td>
<td>106</td>
</tr>
<tr>
<td>3. Change Directives</td>
<td>106</td>
</tr>
<tr>
<td>4. Constructive Changes</td>
<td>106</td>
</tr>
</tbody>
</table>
B. Limitations on Change Orders, Authority, and Notice 107
   1. Changes Within the General Scope of Contract 107
   2. Authority to Order Changes 107
   3. Notice Restrictions 108
C. Verbal Direction Versus Written Direction 108

IV. Pricing of Changes 109
   A. Determining the Cost of Changes 109
      1. Cost Elements 109
   B. Time Impact 111

V. Creating an Effective Change Order 112
   A. For Owner- or Contractor-Ordered Changes 112
   B. For Other Necessary Work That Requires a Change Order 112

VI. Conclusion 113

Chapter 7
Differing Site Conditions 115
Jack Rephan

I. Introduction 115
II. Typical Differing Site Conditions Provisions 117
III. Types of Differing Site Conditions and Elements of Proof 119
   A. Type I Differing Site Condition 119
   B. Type II Differing Site Condition 120
   C. Establishing Entitlement to Contract Adjustment 120
   D. Notice Requirements 122
   E. Impact of Owner Disclaimers and Site Visit Obligations 123
   F. Differing Site Conditions Versus Estimated Quantities and Unit Prices 124
IV. Recent Decision Confirming Subcontractor’s Right to Rely upon Owner-Furnished Information 125
V. Conclusion 126

Chapter 8
Asserting, Proving, and Quantifying Subcontract Claims 127
Patrick J. Greene, Jr. and Gerald H. Williams, Jr.

I. Introduction 127
II. Claims Generally 127
   A. What Is a Claim? 127
   B. Types of Claims 129
III. Timely Written Notice of Claims to Ensure Recovery 129
IV. Liability of the Prime Contractor to the Subcontractor for Claims Caused by Others 131
   A. Effect of General “Incorporation by Reference” Provisions upon the Subcontractor’s Recovery Rights 132
Chapter 9

Terminations

Mark J. Linderman and Aaron P. Silberman

I. Introduction 155

II. When the Owner Terminates the Prime Contractor 156
   A. Typical Subcontract Provisions 156
   B. Terminations for Default 157
      1. Consequences to the Prime Contractor and Subcontractor 157
      2. The Prime Contractor Is Generally Responsible to the Owner for the Conduct of Its Subcontractors 158
      3. The Prime Contractor’s Decision Whether to Default Terminate a Subcontractor 159
   C. Terminations for Convenience 161
Chapter 10

Warranties in Construction Subcontracts

David A. Senter, Jeremy P. Brummond, and Jeffrey M. Reichard

I. Introduction
II. Express Warranties
   A. Goods—Materials and Equipment
      1. Form Contracts
      2. The Uniform Commercial Code
   B. Services
      1. Workmanship
      2. Performance Guarantees/Specifications
      3. One-Year Correction Warranties
III. Implied Warranties
   A. Implied Warranties in the Uniform Commercial Code
      1. Implied Warranty of Merchantability
      2. Implied Warranty of Fitness for a Particular Purpose
      3. Warranty of Good Title and Other Warranties in the UCC
      4. Disclaiming Implied Warranties Under the UCC
      5. Is Privity Required to Claim Under an Implied Warranty Under the UCC?
   B. Implied Warranties for Service Contracts
      1. Implied Warranty of Workmanlike Construction
      2. Implied Warranty of Habitability
      3. Statutory Warranties for Construction Agreements That Are Not Governed by the UCC
      4. Disclaiming Implied Warranties for Service Contracts
Chapter 11

**Indemnity**

Sean R. Calvert and David J. Theising

I. Introduction 211

II. Types of Indemnity

A. Type I 211
B. Type II 213
C. Type III 214

III. Types of Liability

A. Construction Defects 218
B. Third-Party Injuries 220
C. Environmental 222

IV. Sources of Indemnity Obligations

A. Express Contractual Indemnity 223
B. Implied Contractual Indemnity 227
C. Equitable Indemnity 229

V. Statutory Limits on Indemnification 231

VI. Conclusion 236

Chapter 12

**Federal Prevailing Wage Laws and Project Labor Agreements**

Robert R. Roginson

I. Introduction 237

II. Federal Prevailing Wage Laws

A. Overview 237
1. Davis-Bacon Act 238
2. The Davis-Bacon Related Acts 238
3. The Contract Work Hours and Safety Standards Act 238
4. The Copeland Anti-Kickback Act 239

B. Work Covered by the Davis-Bacon Act
1. Laborers and Mechanics 240
2. Site of Work 241

C. Contract Clauses 241
CONTENTS

D. Wage Rates and Fringe Benefits 242
E. Record Keeping and Reporting 244
F. Penalties and Sanctions 245

III. Project Labor Agreements 246
A. Historical Background 246
B. Components of the PLA 247
   1. Union as the Exclusive Bargaining Representative 247
   2. Incorporation of the Local Union Master Labor Agreements 248
   3. Required Use of Union Hiring Hall or Referral Systems 248
   4. Mandatory Payment of Fringe Benefit Contributions 248
   5. Prohibition Against Work Stoppages and Lockouts 248
   6. Expedited Grievance and Arbitration Procedures 248
   7. Procedures for the Resolution of Jurisdictional Disputes 248
C. Executive Orders and Regulations 249

Part 3: Insurance, Bonding, and Licensure 251

Chapter 13  
Insurance 253
Scott P. Pence, J. Anthony Penry, and Michael LaGiudice

I. Introduction 253
II. Commercial General Liability Insurance 254
   A. Coverage 254
   B. Occurrence 255
   C. Common CGL Exclusions 257
      1. Contractual Liability Exclusion 257
      2. Your Work Exclusion 258
III. Professional Liability Insurance 258
IV. Builders Risk Insurance 259
V. Workers’ Compensation 260
VI. Automobile Coverage 261
VII. Owner-Controlled and Contractor-Controlled Insurance 261
VIII. Miscellaneous 262
    A. Certificates of Insurance 262
    B. Waiver of Subrogation 263
    C. Common Endorsements 263
       1. Additional Insured Endorsement 263
       2. Notice of Cancellation Endorsement 264
    D. Procuring Coverage 265
    E. Claims 265
Contents

1. Notice Requirements 265
2. Timeliness of Notice 265
3. Duty to Defend 266
4. Duty to Indemnify 266

IX. Conclusion 267
Appendix 1: Standard ISO Additional Insured Endorsements 268

Chapter 14
Surety Bond Issues 271
Laurence Jortner and Ben Patrick

I. Introduction 271
   A. What Sort of Animal Is a Construction Surety? 272
   B. Distinguishing Between Suretyship and Insurance 274

II. The Miller Acts and the Modern Rise of Payment Bonds 275
   A. The Origins of the Payment Bond 275
   B. State “Little Miller Acts” and Their Relationship with the Federal Statute 275
   C. Subcontractors and Suppliers as a Protected Class 277
   D. Types of Claims Covered 278
      1. Payment for Material Not Installed 279
      2. Payment for Project Delays 279
      3. Lost Profits 280
      4. Attorneys’ Fees 280
      5. Interest 280
   E. Public Bonds Versus Common Law Bonds 281
   F. Common Law Bonds Covering Private Projects 282
   G. The Effect of Contingent Payment Clauses in Subcontracts on Payment Bond Claims 283

III. Performance Bonds 284
   A. Was the Notice of Default Timely? 285
   B. Was the Declaration of Default Proper? 287
      1. Does the Declared Default Qualify as a Default Under the Law? 287
      2. Does the Declared Default Qualify as a Default Under the Circumstances? 288
   C. What Are the Surety’s Options? 289
      1. Surety Can Take Over the Project and Complete Performance 289
      2. Surety Can Tender a New Contractor That Will Complete Performance 290
      3. The Surety Can Allow the Obligee to Complete the Project 291

IV. Mechanic’s Lien Discharge Bonds 291
V. Conclusion 293
Chapter 15
Licensure 295
B. Michael Clark, Jr., and Ryan Manies

I. Introduction 295
II. Who Needs a License 295
   A. General Contractors 295
   B. Subcontractors 296
   C. Suppliers 296
   D. Design Professionals 296
   E. Exceptions 297
III. What Licenses Are Required 298
   A. Types of Licenses 298
   B. Licensing Authority 298
IV. When Licenses Are Required 299
V. Consequences When a Subcontractor Fails to Comply with Licensing Laws 300
   A. Effects on the Unlicensed Subcontractor’s Payment Rights 300
      1. The Unlicensed Subcontractor May Not Enforce the Subcontract 300
      2. An Unlicensed Subcontractor Is Unlikely to Maintain Lien Rights 301
      3. An Unlicensed Subcontractor May Not Recover in Equity 302
   B. Other Consequences to the Unlicensed Subcontractor 303
      1. In a Few Jurisdictions the Unlicensed Subcontractor May Be Subject to Disgorgement 303
      2. An Unlicensed Subcontractor May Be Fined or Face Criminal Charges 303
   C. Effects on the Licensed Party That Contracts with an Unlicensed Subcontractor 304
   D. Rights Between the General Contractor and Owner When an Unlicensed Subcontractor Is Used 305
   E. Warranty Obligations 306
   F. Exceptions 306
      1. Substantial Compliance 306
      2. Other Exceptions 308

Part 4: Disputes 309

Chapter 16
Disputes 311
Candace Duff and Timothy A. Kolaya

I. Introduction 311
II. Typical Subcontract Provisions 311
   A. Duty to Continue Work Pending a Dispute 311
Contents

B. Direct Discussion and Escalation 312
C. Alternative Dispute Resolution 312
   1. Mediation 312
   2. Arbitration 313
D. Choice of Venue and Choice of Law Clauses 314
E. Attorneys’ Fee Provisions 315

III. Litigation of Prime-Subcontractor Disputes and Pass-Through Claims 315
A. Documentation and Preservation of Evidence 316
B. Initiating Litigation 317
C. Responding to the Complaint 318
D. Case Management 319
E. Discovery 320
F. Joint Defense and Common Interest 322
G. Special Issues in Litigating Pass-Through Claims Against Owners 323

IV. Alternative Dispute Resolution and Dispute Avoidance 325
A. Mediation 325
B. Arbitration 327
   1. Generally 327
   2. AAA Construction Arbitration Tracks 329
C. Dispute Avoidance 332
   1. Dispute Resolution Boards 332
   2. Project Neutrals 336

Part 5: Special Project Issues 339

Chapter 17
Public Projects (Federal, State, and Local) 341
Robert M. Osier and Aaron P. Silberman
I. Introduction 341
II. What Is a “Public Project”? 341
III. Who Is a “Subcontractor” Under Public Project Rules? 342
V. Competitive Bidding 343
   A. Protecting the Bidding Process for Subcontractors 344
      1. Competitive Bidding Generally 344
      2. Subcontractor Listing Laws 345
   B. Preference and Incentive Programs 347
      1. Typical Features 347
      2. Federal Programs 347
      3. State and Local Programs 351
      4. Constitutional Issues and Challenges 352
   C. Bid Protests 352
VI. Government Approval Issues
   A. Consent Required for Certain Subcontracts 353
   B. Government-Directed Subcontractors 354

VII. Subcontractor Claims on Public Projects
   A. Claims Against the Prime Contractor 354
   B. Direct Claims Against the Government 354
   C. Pass-Through Claims
      1. Where Allowed 355
      2. Severin Doctrine 356
      3. Procedure 356

VIII. False Claims Laws 357
IX. Improper Pricing Practices
   A. Bid Rigging 362
   B. Subcontractor Kickbacks 363

X. Flow-Downs
   A. Mandatory Flow-Down Clauses 365
   B. Permissive Flow-Down Clauses 366
   C. The Christian Doctrine 366

XI. Mandatory Disclosure and Internal Control Systems 367

Chapter 18
Alternative Project Delivery 369
Eileen M. Diepenbrock, Suzanne H. Harness, and Tracy L. Steedman

I. Introduction 369

II. Design-Build
   A. Managing Subcontractors’ Design Obligations 370
   B. Subcontracting Structure 372
   C. Owner’s Control over Selection of Subcontractors 373
   D. Managing Contract and Subcontract Terms 374
   E. Errors and Omissions Insurance Considerations 376
   F. Owner’s Remedies Against Subcontractors 377
   G. Conclusion 377

III. Integrated Project Delivery, Tri-Party Agreements, and Other Collaborative Arrangements 378
   A. Integrated Project Delivery Defined 378
   B. IPD and the Government 380
   C. Sharing Risk and Reward 380
   D. Liability Waivers Among Key Participants 382
   E. Subcontractor Roles in IPD 382
   F. Lean Construction 384
   G. Insurance and IPD 385
   H. Conclusion 387

IV. Public-Private Partnerships 387
   A. Risk Shifting and Challenges on P3s 389
Chapter 19

Green Building 393
Logan A. Hollobaugh and Tracy L. Steedman

I. Introduction 393
   A. What Is Green Building? 393
   B. Green Building Is Here to Stay 394
   C. Why Is Green Building Important to Subcontractors? 394

II. Green-Building Rating Systems 395
   A. Leadership in Energy and Environmental Design (LEED) 395
      1. LEED Rating Systems 395
      2. Subcontractor-Responsible LEED Credits 396
   B. Green Globes 397
   C. Building Research Establishment Environmental Assessment Method (BREEAM) 398
   D. Other Ratings Systems 398
      1. Earth Advantage 398
      2. The Living Building Challenge 399
      3. DGNB 399
      4. Comprehensive Assessment System for Built Environment Efficiency (CASBEE) 400
      5. Green Star 400
   E. Energy Star for Commercial Buildings 400

III. Governmental Approaches Promoting Green Building 401
   A. Incentives 401
   B. Mandates 401

IV. Managing Contract Risk on Green Projects 402
   A. Compliance with Applicable Laws 403
   B. Performance Specifications Versus Design Specifications 403
   C. Guarantees/Warranties 404
   D. Material/Product Substitutions and Delays 405
   E. Substantial and Final Completion 405
   F. Other Considerations 406

V. Form Contracts Addressing Green-Project Concerns 406
   A. Green Form Contracts Generally 406
      1. New “Green”-Related Terminology 406
      2. Increased Cleanup Requirements 407
      3. Increased Documentation Requirements 407
   B. Specific Green Form Documents 408
      1. AIA A401-2007 SP, Standard Subcontract 408
Chapter 20
Globalization and International Projects

William F. Bresee, Deborah Bovarnick Mastin, and Matthew J. Straub

I. Introduction

II. U.S. Prime Contractor, Foreign Subcontractor, Foreign Project
   A. Applicable Laws
      1. Local Laws
      2. U.S. Laws
      3. International Laws
   B. Labor Issues
   C. Arbitration/Dispute Resolution
      1. Joinder
      2. Other Considerations
   D. Insurance
   E. Other Practical Considerations
      1. Availability of Materials and Equipment

III. Foreign Prime Contractor, U.S. Subcontractor, Foreign Project
   A. Business Structure
   B. Applicable Laws
      1. Local Laws
      2. U.S. Laws
   C. Labor Issues
   D. Arbitration/Dispute Resolution
   E. Cultural Considerations and Contracting

IV. U.S. Prime Contractor, Foreign Subcontractor, U.S. Project
   A. Labor and Immigration Issues
      1. Immigration and Employment Eligibility
      2. Mandated Security Checks
      3. Minimum Wage and Benefit Requirements
   B. Dispute Resolution Issues
      1. Dispute Review Boards and Dispute Adjudication Boards
      2. Pre-Suit Mediation
      3. Prehearing Discovery and Public Records
   C. Procurement Issues Arising Before Contract Award
D. Subcontract Issues 433
   1. Indemnification 433
   2. Insurance 434
   3. Disadvantaged Business Enterprise or Small-Business Subcontracting Requirements 434
   4. Risk of Monetary Fluctuations 434
   5. Claims Submittal Issues, Including False Claims 434

V. Conclusion 435

Part 6: Other Contracting Arrangements 437

Chapter 21
Subconsulting Design Contracts and Design Issues 439
Matthew Ninneman, Theresa Ringle, and Stephen Scharr

I. Introduction 439
II. Specialty Subconsultants 440
   A. Hybrid Role of Designer and Manufacturer 440
III. Subconsulting Agreements 441
   A. Form Contracts for Design Professionals 441
      1. American Institute of Architects 442
      2. Engineers Joint Contract Documents Committee 442
      3. ConsensusDocs 442
   B. Purchase Orders 443
   C. Letters of Agreement 444
IV. Standard Contract Terms and Conditions 444
   A. Prime Contract Flow-Downs 444
   B. Standard of Care 444
   C. Scope of Work 445
      1. Subcontractor’s Coordination Responsibility 446
      2. Who Stamps Drawings and Related Liability Issues 447
      3. Avoiding Scope-of-Work and Time-of-Performance Disputes 449
   D. Limitation of Liability 450
   E. Broad-Form Indemnity 451
      1. Duty to Defend and Indemnify 452
      2. Insurance 453
   F. Intellectual Property Rights 454
      1. Ownership of the Documents 455
      2. Building Information Modeling 456
      3. Digital Data 456
   G. Payment 457
   H. Additional Services 457
   I. Disputes Provisions 458
   J. Assignability 459
V. Contract Performance, Claims, and Disputes 460
   A. Breach of Contract 460
   B. Breach of Warranty 460
   C. Negligence 462
   D. Economic Loss Rule 463
   E. Professional Stamp Claims 463

Chapter 22
Supply Contracts and Equipment Leases 465
Elizabeth A. Larsen and Kimberly A. Manuelides

I. Introduction 465
II. Subcontractor and Supplier Defined 465
III. Applicability of the Uniform Commercial Code to Construction Supply Contracts and Equipment Leases 466
   A. Agreements Between Merchants 467
   B. What Qualifies as a Sale of Goods Governed by Article 2? 467
   C. Differences Between Article 2 and the Common Law 468
      1. Statute of Frauds 469
      2. Offers 470
      3. Acceptance: “Battle of the Forms” 470
      4. Modification of Contracts 471
      5. Parol Evidence Rule 472
      6. Supplementary Terms or “Gap Fillers” 472
      7. Warranties 473
   D. Other Key Provisions of Article 2 475
      1. Tender, Delivery of Goods, and Risk of Loss 475
      2. Buyer’s Right to Inspect 477
      3. Acceptance and Rejection of Goods 478
      4. Revocation of Acceptance 480
      5. Repudiation 480
      6. Rights of Sellers’ and Buyers’ Creditors 481
      7. Remedies for Breach/Damages 483
      8. Statute of Limitations 485
   E. Conclusion 486

IV. Price Escalation 486
V. Purchase Orders: Pitfalls and Best Practices 487
   A. Entering into a Purchase Order Relationship 487
   B. Terms and Conditions: What Should Be Included 488
      1. Indemnity, Insurance, and Performance Assurance Provisions 488
      2. Delivery and Storage Specifications 489

VI. Equipment Rentals 490
   A. UCC Article 2A 490
      1. Lease Versus Security Interest 490
      2. Default 491
B. Practical Considerations 492
   1. Unexpected Costs 492
   2. Late Fees for Delayed Return or Extended Use 492
   3. Early Termination Fees 492
   4. Capping Rental Fees to a Figure Less Than the Purchase Price 493
   5. Indemnification When Equipment Failure Causes Personal Injury or Property Damage 493
   6. Obligation to Repair 493
C. Conclusion 494

Chapter 23
Teaming Arrangements 495
David L. Fine

I. Introduction 495
II. Joint Venture Agreements 496
   A. Basic Terms 497
   B. Funding 497
   C. Control and Management 497
   D. Costs 498
   E. Profit and Loss Sharing 498
   F. Default and Termination 498
III. Teaming Agreements 498
   A. Roles and Responsibilities 499
   B. Intent 500
   C. Exclusivity 500
   D. Confidentiality 500
IV. Benefits of Teaming Arrangements 501
   A. Pooling Talents and Resources 501
   B. Increased Working Capital 501
   C. More Control 501
   D. Local Contacts 501
   E. Better Estimating and Bidding 501
   F. Increased Bonding Capacity 502
   G. Increased Federal Procurement Opportunities 502
   H. Favorable Tax Treatment 502
V. Risks of Teaming Arrangements 502
   A. Fiduciary Liability 502
   B. Contractual Liability 503
   C. Agency Liability 504
   D. Liability to Third Parties 504
   E. Ambiguous Division of Responsibility 505
   F. Loss of Control 505
   G. Insurance Coverage 506
   H. Performance Bonds 507
## CONTENTS

I. Costs Charged to the Joint Venture 507  
J. Distributions and Cash Contributions 507  
K. Cash Management 507  
L. Termination 508  

VI. Enforcement of Teaming Agreements 508  
A. Agreement to Agree 508  
B. Intent 509  
C. Pre-Award Exposure 510  

VII. Federal Procurement 510  
A. Small-Business Set-Asides 511  
B. Affiliation 511  
C. Exceptions to Affiliation 512  
D. The Ostensible Subcontractor 512  
E. Enforceability in the Federal Procurement Context 513  

VIII. Conclusion 515  

*Table of Cases* 517  
*Index* 557