H. Changes 24
I. Safety of Persons and the Work 24
J. Dispute Resolution 24
K. Insurance, Bonding, and Indemnification Provisions 25
L. Environmental Issues 26
M. Warranties and Correction of Defective Work 27
N. Termination 27
IV. Who Is the Owner? 28
A. Public Owners 28
B. Private Owners 30
V. Conclusion 31

CHAPTER 2  THE LENDER’S PERSPECTIVE 33
Richard M. Shapiro

I. Introduction 33
II. The Lender 33
A. The Lender’s Objectives 33
B. Types of Lenders 34
III. Construction Loan Structure 35
A. Loan Agreement 35
B. Promissory Note 39
C. Mortgage or Deed of Trust 39
D. Other Loan Documents 39
E. Guaranties 40
IV. Loan Underwriting Issues 41
V. Relationships with Other Project Participants 44
VI. Defaults and Workouts 45
VII. Conclusion 47

CHAPTER 3  THE DESIGN PROFESSIONAL 49
L. Tyrone Holt
Matthew J. Ninneman
Carrie L. Okizaki

I. Introduction 49
II. Who Is the Design Professional and What Is His Role? 51
III. The Phases of the Design Process 55
A. Programming 55
B. Schematic Design 56
C. Design Development Phase 56
D. Construction Documents Phase 57
E. Bidding and Negotiation Phase 57
F. Contract Administration 57
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>IV. Defining the Traditional Duties of the Design Professional</td>
<td>58</td>
</tr>
<tr>
<td>A. The Common Law “Standard of Care” for Design Professionals</td>
<td>60</td>
</tr>
<tr>
<td>V. Defining the Rights of the Design Professional</td>
<td>63</td>
</tr>
<tr>
<td>A. Ensuring Payment for “Additional Services”</td>
<td>65</td>
</tr>
<tr>
<td>B. Ownership of the Design Documents</td>
<td>66</td>
</tr>
<tr>
<td>VI. Sources of the Design Professional’s Liability</td>
<td>68</td>
</tr>
<tr>
<td>A. Breach of Contract and Negligence</td>
<td>68</td>
</tr>
<tr>
<td>B. Breach of Warranty</td>
<td>71</td>
</tr>
<tr>
<td>C. Site Safety Claims</td>
<td>73</td>
</tr>
<tr>
<td>D. “Professional Stamp” Claims</td>
<td>74</td>
</tr>
<tr>
<td>VII. Managing the Design Professional’s Exposure to Liability</td>
<td>76</td>
</tr>
<tr>
<td>A. Indemnification</td>
<td>77</td>
</tr>
<tr>
<td>B. Limiting Liability for Failing to Construct in Accordance with the Plans and Specifications</td>
<td>80</td>
</tr>
<tr>
<td>C. Economic Loss Doctrine</td>
<td>80</td>
</tr>
<tr>
<td>VIII. Arbitration or Litigation</td>
<td>81</td>
</tr>
<tr>
<td>IX. Conclusion</td>
<td>82</td>
</tr>
</tbody>
</table>

## CHAPTER 4  THE ROLE OF THE PRIME CONTRACTOR  

*John T. Clappison*

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction</td>
<td>83</td>
</tr>
<tr>
<td>II. Variations in Construction Projects: Public Versus Private</td>
<td>84</td>
</tr>
<tr>
<td>III. Project Delivery Systems: Different Ways to Do the Work and Different Roles for the Prime Contractor</td>
<td>85</td>
</tr>
<tr>
<td>A. The Traditional Design-Bid-Build Model</td>
<td>85</td>
</tr>
<tr>
<td>B. Alternative Project Delivery Systems</td>
<td>86</td>
</tr>
<tr>
<td>IV. The Bidding Process: Getting the Work</td>
<td>88</td>
</tr>
<tr>
<td>A. Overview</td>
<td>88</td>
</tr>
<tr>
<td>B. Bid Invitation</td>
<td>89</td>
</tr>
<tr>
<td>C. Bid Preparation</td>
<td>90</td>
</tr>
<tr>
<td>D. Bid Submission</td>
<td>93</td>
</tr>
<tr>
<td>V. Contract Formation: The Conditions Governing the Work</td>
<td>94</td>
</tr>
<tr>
<td>A. The Prime Contract</td>
<td>94</td>
</tr>
<tr>
<td>B. Subcontracts</td>
<td>96</td>
</tr>
<tr>
<td>VI. Contract Performance: Doing the Work</td>
<td>97</td>
</tr>
<tr>
<td>A. Staffing the Project</td>
<td>97</td>
</tr>
<tr>
<td>B. Scheduling the Work</td>
<td>98</td>
</tr>
<tr>
<td>C. Submittals and Shop Drawings</td>
<td>98</td>
</tr>
<tr>
<td>D. Requests for Information</td>
<td>99</td>
</tr>
<tr>
<td>E. Change Orders and Construction Change Directives</td>
<td>100</td>
</tr>
</tbody>
</table>
CONTENTS

F. Payment 101
G. Project Safety 102
H. Other Roles of the Contractor 102
VII. Conclusion 103

CHAPTER 5 THE ROLE OF THE SUBCONTRACTOR 105
David A. Senter

I. Introduction 105
II. Role of the Subcontractor in the Project 105
   A. The Traditional General Contractor/Subcontractor Relationship 106
   B. Alternative Subcontractor Relationships 108
III. The Bidding Process from the Subcontractor's Perspective 109
   A. In General 109
   B. The General Contractor's Use of a Subcontractor's Bid 110
IV. Subcontract Agreements 113
   A. Standard Form Agreements 113
   B. Commonly Used and Litigated Subcontract Provisions 115
V. Contract Performance 126
   A. Changes 126
   B. Acceleration, Out-of-Sequence, and Delay Costs 127
   C. Shop Drawings and Submittal Requirements 129
   D. Site Inspection, Acceptance of Underlying Work, and Site Conditions 131
VI. Disputes and Remedies 132
   A. Mechanic's Liens 132
   B. Stop Notices and Liens on Funds 137
   C. An Alternative Remedy: Payment Bonds 138
   D. Payment Bonds on Nonpublic Projects 140
   E. Pass-Through Claims against the Owner 140
VII. Conclusion 141

CHAPTER 6 A PRIMER IN CONTRACT SURETY LAW 143
Marilyn Klinger
Patricia H. Thompson
Daniel G. Enriquez
Robert H. Shaffer
Joseph R. McFaul

I. Introduction to Suretyship: What Is the Difference between Suretyship and Insurance? 143
II. Surety Underwriting 144
## III. Surety’s Liability and Defenses under the Bid Bond 148

## IV. Surety’s Liability and Defenses under the Performance Bond 151

## V. Surety’s Liability and Defenses under the Payment Bond 153

## VI. Release or Discharge Bonds 155

## VII. Surety’s Right of Subrogation 157

## VIII. Surety’s Right to Indemnification 159

## IX. Conclusion 161

### Chapter 7  CONSTRUCTION INSURANCE: AN INTRODUCTION 163

*Stephen D. Palley*

I. Introduction 163

II. Understanding Construction Insurance 164

   A. Seventeen Questions to Ask about Construction Insurance 164

III. Conclusion 185

Appendix 187

### Chapter 8  DELIVERY SYSTEMS 189

*Robert A. Rubin  
Linda M. Thomas-Mobley*

I. Introduction 189

II. The Anatomy of a Delivery System 190

   A. The Cost-Risk Framework 190
   B. The Relationship Framework 193
   C. The Agreement Framework 201
   D. The Party Framework 202

III. Assembling the PDS 203

IV. Conclusion 204

References 204

### Chapter 9  PAYMENT PROVISIONS 207

*L. Wearen Hughes  
Brian M. Dobbs*

I. Contract Price 207

   A. Pricing Arrangements 207
   B. Contractor’s Request for Financial Assurance 209

II. Progress Payments 210

   A. Schedule of Values 210
   B. Application for Payment 211
   C. Certification of Payment 212
D. Payment for Materials 213
E. Overpayment 213

III. Payment upon Completion 214
A. Substantial Completion 214
B. Final Completion 215
C. Waiver of Claims upon Payment or Acceptance 216

IV. Payment Applications as Information Sources 216
V. Miscellaneous Payment Issues 217
A. Prompt Payment Laws 217
B. Mechanic’s Liens and Stop Notices 218
C. Lien Releases and Joint Checks 218
D. Pay-If-Paid and Pay-When-Paid Clauses 219

VI. Conclusion 220
VII. Further Reading 220

CHAPTER 10 CONSTRUCTION PROJECT SCHEDULING 221
Richard F. Smith
John Marshall Cook

I. Importance of Scheduling 221
A. Minimizing Time-Related Costs 221
B. Avoiding Inefficiencies 222
C. Completing Projects on Time 223
D. Using Scheduling as a Management Tool 224

II. Types of Scheduling 224
A. Bar Chart Scheduling 224
B. Critical Path Method Scheduling 225

III. Key Concepts in Scheduling 228
A. Float Concepts and Ownership of Float 228
B. How the Critical Path Changes 230
C. Concurrent Delay 231
D. Acceleration 231
E. Right to Finish Early 232

IV. Determining Responsibility for Delay Using CPM Schedules 233
A. Total Time Technique 234
B. Impacted As-Planned Technique 234
C. Fragnet Technique 235
D. Windows Technique 236
E. Collapsed As-Built Technique 237
F. Selecting an Appropriate Technique 238

V. Conclusion 242
CHAPTER 11 CHANGES IN THE WORK 245

Fred D. Wilshusen
Christopher D. Montez

I. Introduction 245
II. Contract Law and Changes 246
III. Notice Requirements 248
IV. Initiating Change Orders 248
   A. Force Account 248
   B. Construction Change Directive 249
   C. Contractor Claims 250
   D. Architect-Initiated Claims 251
V. Documenting Change Orders 251
   A. Requirement that Changes Be in Writing 251
   B. Authority to Approve Changes 252
VI. Pricing and Payment Issues 253
   A. Determining the Price 253
   B. Pay-If-Paid Issues 254
   C. Post-Performance Audit Rights 255
VII. Differing Site Conditions 256
VIII. Force Majeure 257
IX. Constructive Changes 258
X. Cardinal Changes 258
XI. Waiver and Release of Changes 259
XII. Conclusion 261

CHAPTER 12 TERMINATION 263

Gregory L. Cashion

I. Introduction 263
II. Grounds for Termination by an Owner 264
   A. Substandard, Defective, or Nonconforming Work 264
   B. Failure to Pay Subcontractors or Suppliers 265
   C. Failure to Pursue Work Diligently 265
   D. Violation of Laws, Ordinances, or Regulations 266
C. Structural Deficiencies 301
D. Mechanical and Electrical System Defects 301
E. Defects in Building Life Safety Systems 301

III. Theories of Liability for Construction Defects 302
A. Theories of Liability that Require Privity of Contract 302
B. Theories of Liability Not Dependent on Privity 305

IV. Common Defenses to Claims for Construction Defects 309
A. Time-Related Defenses 309
B. Category-Based Defenses 311

V. Special Problems Relating to Homeowner Associations 316
A. Rights of Associations 316
B. Liabilities of Associations 317

VI. Insurance for Construction Defects 318
A. Overview: Identifying Policies and Providing Notice 318
B. Types of Policies to Look For 319
C. General Liability Policies 319
D. Builders Risk and Professional Liability Policies 320
E. Property Policies 321

VII. Conclusion 321

CHAPTER 15 CONSTRUCTION DAMAGES 323
Andrew D. Ness

I. Introduction and General Principles 323
A. Basic Principles of Contract Damages 323
B. Damages for Breach versus Price Adjustment under the Contract 326
C. The Duty to Mitigate Damages 327

II. Damages for Added and Deleted Work 327

III. Damages for Construction Delays 328
A. Contractor’s Actual Delay Damages 329
B. Liquidated Delay Damages 334
C. Owner’s Actual Delay Damages 334
D. No-Damages-for-Delay Clauses 336

IV. Damages for Inefficiency and Acceleration 337
A. Identifying Labor Disruption and Inefficiency 337
B. Methods for Measuring Inefficiency Damages 337
C. The Total Cost and Modified Total Cost Methods 339
D. Acceleration Costs 340

V. Damages for Defective Construction 340
A. Cost to Repair 340
B. Diminution in Value 341