



## Contract Change Order Policy

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### I. Purpose

Contract change orders (CCO) are a tool for modifying construction contracts as needed to accommodate unforeseen conditions on the construction site and/or make necessary additions or deletions to complete the project work.

Change orders have been independently authored and processed by the various departments managing construction projects, without the benefit of consistent, tested contractual language, payment methods and authorizations. Additionally, change orders are currently authorized only by the department responsible for the contract and not consistently reviewed and approved by all departments providing funding.

Information regarding the status of projects relative to changes and total project budget is not consistently reported to upper management.

Construction costs are a significant proportion of the City's expense. Overruns and claims create budget uncertainty and concern for all. Proper project planning and design minimizes the need for changes during the construction phase. Properly and consistently managing necessary change orders ensures fiduciary responsibility.

A Construction Contract Change Order Policy Committee was established to review and make a policy recommendation. This policy establishes this process and procedure for issuing change orders City-wide.

### II. Policy

All City construction contracts subject to competitive bidding under Section 68 of the City Charter, and all City contracts awarded using the standard minor construction contract, and all PCDC construction contracts subject to competitive bidding under Section 20688.2 of the Public Contract Code, and all PCDC construction contracts awarded using the standard minor construction contract shall comply with this policy and procedure for preparing, processing and executing change orders.

#### **Format**

The attached form, as amended from time to time, shall be used for all change orders and transmittal memos. The following information is to be included in change orders in the spaces provided therefore:

#### **Scope of Work**

Describe any changes to the project scope of work, specifications, plans, drawings, etc., pursuant to the change order (and attach revised scope of work, specifications, plans, drawings, etc., as necessary) in sufficient detail so that the impact of the

change order on the current scope of work, specifications, plans or drawings is clearly and unambiguously documented. Method of Payment: Specify either Lump Sum, Agreed Unit Price, Extra Work at Time and Materials or Other. Time of Completion Adjustments: Clearly specify contract days added or deleted from contract as a result of the impact of the change(s) on the schedule's critical path. Specify days consistent with the contract (i.e., calendar or working). Wherever possible, each change order should include all changes in contract days resulting from that change order and not defer changes in contract days to later in the project.

### **Transmittal Memo**

All change orders must be accompanied by a transmittal memo formatted as shown in the attached example. The purpose of the memo is to provide management with a brief justification for the change (e.g., unforeseen conditions, value engineering, etc.), report on the impact of the change on the budget, and advise if and how the change order relates to any prior change orders. Change order transmittal memos are not for distribution to the contractor.

### **Authorization**

Department directors are authorized to execute change orders of up to \$20,000, so long as the change add order, when added to the original contract amount and all prior change orders, does not exceed the amount of the approved project contingency. All change orders over \$20,000 require City Manager authorization. Change orders that, when added to the original contract amount and all prior change orders, would exceed the current, approved project contingency, must be approved by the City Manager and the City Council and/or PCDC.

The construction contingency shall be as authorized by City Council/PCDC in the construction project budget established in the construction award resolution. The construction contingency represents the best available estimate of the uncertainty in the project scope or conditions for which we must be prepared. The Council/PCDC shall be advised in the award resolution and agenda bill as to the percentage of construction costs the construction contingency represents and the reason for the specified amount.

Council/PCDC approval must be obtained for any increases in the contingency above the prior authorized amount. The contractor shall not be directed or authorized to perform any work not covered by an authorized and approved budget.

All departments providing funding must review and approve change orders utilizing those funds.

The construction contract allows the City to issue City-directed change orders. Occasionally, contractors refuse to sign the change order for various reasons. Except for City-directed, unilateral change orders executed in accordance with the construction contract, all change orders shall be signed by an official authorized to bind the contractor prior to obtaining City approvals.

In the event of an emergency or extraordinary circumstance as determined by the City Manager, the City Manager may authorize change orders exceeding the approved contingency. The City Manager shall notify the City Council/PCDC by memo within five business days of the event and recommend adoption of a resolution or order authorizing the additional contingency and ratifying the City Manager's action at the next regularly scheduled City Council/PCDC meeting.

**Distribution**

Two wet signature copies of all change orders shall be executed. Upon execution, one original is provided to the contractor and one to the City Clerk/Recording Secretary.

Photocopies and/or electronic copies of the executed change orders will be provided to the City Manager, Administrative Services, the other department(s) providing project funding, and the project records.

**Council/PCDC Reporting**

The City Council/PCDC shall be advised by memo from the City Manager within five business days when 80% of the approved construction contingency is expended or if the project is anticipated to exceed the authorized contingency. The memo will define the status of the project, identify if the project is anticipated to exceed the contingency and, if so, the options for proceeding with the project (e.g., authorize additional contingency, reduce scope of the project). Requested increases in the construction contingency will be presented at the next regularly scheduled City Council/PCDC meeting.

**Financial Impact**

This policy improves staff efficiency and provides a measure of protection to the City from contractor claims, therefore reducing costs of City projects.

**Effective Date of Policy: January 23, 2006**

Approved:

Michael A. Bierman  
Michael A. Bierman, City Manager

1/23/06  
Date

CONTRACT NO.  
CONTRACT CHANGE ORDER NO.

SHEET [1] OF [1] SHEETS

PROJECT NAME:

To:

You are hereby directed to make the herein described changes to the plans and specifications or do the following described work not included in the plans and specifications on this contract. Upon execution by representatives authorized to bind the parties, this Change Order will become a part of the contract. The consideration specified in this Change Order (whether an adjustment of the contract price, an adjustment of time, and/or other consideration) is the full and sole compensation owed to the contractor as a result of the changes and issues described in this Change Order. Such consideration includes, but is not limited to, any and all direct and indirect costs incurred by the contractor as a result of the changes and issues described in this Change Order for any labor, equipment, materials, overhead (additional, extended, field and home office), profit, or time adjustments. By signing this Change Order the contractor waives and releases the owner from any and all claims for additional compensation concerning any of the changes and issues specified in this Change Order.

**NOTE: This Change Order is not effective until approved by the Director.**

To follow is the description of work to be performed, estimate of quantities and prices to be paid, segregated between additional work at contract price, agreed price and force account. Unless otherwise stated, rates for rental of equipment cover only such time as equipment is actually used and no allowance will be made for idle time.  
Change requested by (City or contractor)

**SCOPE OF WORK**

Describe work here, including any plan sheets (as attachments), defining all material specifications and work standards.

**METHOD OF PAYMENT: Options: Lump Sum, Extra Work at Force Account, Increase/Decrease Unit Price and/or Agreed Unit Price**

Estimated Cost: Decrease \$ \_\_\_\_\_ or Increase \$ \_\_\_\_\_

By reason of this order, the time of completion will be adjusted as follows:

We, the undersigned contractor, have given careful consideration to the change proposed and hereby agree, if this proposal is approved, that we will provide all equipment, furnish all materials, except as may otherwise be noted above, and perform all services necessary for the work above specified, and will accept as full payment the prices shown above.

Accepted Date: \_\_\_\_\_

By: \_\_\_\_\_ Title: \_\_\_\_\_ Date: \_\_\_\_\_  
Contractor

Prepared by: \_\_\_\_\_, Project Manager Date: \_\_\_\_\_  
Approval Recommended by: \_\_\_\_\_, Division Manager Date: \_\_\_\_\_  
[WR, Parks, other] Funding Authorized by: \_\_\_\_\_, [Other Funding Dept] Date: \_\_\_\_\_  
Approved by (under \$20,000): \_\_\_\_\_, Dept. Director Date: \_\_\_\_\_  
Approved by (over \$20,000): \_\_\_\_\_, City Manager, Date: \_\_\_\_\_

Originals: Contractor, City Clerk  
cc: funding departments, contract file, Admin Services, City Manager

# City of Petaluma, California Memorandum

11 English Street, Petaluma, CA 94952

(707)

Fax (707)

E-mail:

@ci.petaluma.ca.us

DATE:

TO: , Department Director

FROM:

SUBJECT:

**Contract Change Order #**

This change order provides for:

History/Background:

Other Departments/Entities:

Financial Impact to Construction Budget:	Original Amount of Contract:	\$ _____
	Original Amount of Contingency:	\$ _____
	Supplements to Contingency:	\$ _____
	Total Authorized Budget:	\$ _____

(If change is only with the terms or conditions, state "terms" in the dollar column)

**NEW VALUE OF CONTRACT**

Date _____	Change Ord # _____	\$ _____	\$ _____
Date _____	Change Ord # _____	\$ _____	\$ _____
Date _____	Change Ord # _____	\$ _____	\$ _____
Date _____	Change Ord # _____	\$ _____	\$ _____
Date _____	Change Ord # _____	\$ _____	\$ _____
Date _____	Change Ord # _____	\$ _____	\$ _____
Date _____	Change Ord # _____	\$ _____	\$ _____
Date _____	Change Ord # _____	\$ _____	\$ _____
Date _____	Change Ord # _____	\$ _____	\$ _____
Date _____	Change Ord # _____	\$ _____	\$ _____

Time Impact: