



Volume 44

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Chair's Report

By John Evans – John Evans Law, PLLC

Fellow Section Members:

Hopefully you were all able to enjoy our fantastic summer. After a break for the month of August, the Council for the Construction Law Section resumed monthly meetings to plan this coming year's Section activities. First and foremost, please mark your calendars for October 29 at 5:30 when we will host a not-to-be-missed event at Seattle's Town Hall located in Seattle at Eighth and Seneca. If you are not familiar with it, Town Hall was constructed in approximately 1922 as a church, but since 1999 has been a Seattle community cultural center, offering a broad program of music, humanities, civic discourse, and world culture events. Many of Seattle's cultural and civic organizations use the facility for concerts, lectures, meetings, and fundraising events. At almost 100 years of age, Town Hall needs seismic and modern upgrades and the team of Weinstein A+U Architects and Sellen Construction will be present to talk about the particular architectural and construction challenges presented by the building. We will also have a tour of the public spaces. I hope that you can attend and network with your fellow section members. This event is free of charge and includes refreshments. More information will follow.

We have almost completed a model design services agreement for small and/or residential projects. As with the form residential contracts available on our Section website, the goal will be to provide a neutral contract that can be used and modified by owners and designers. The process we have followed is to have several Council members draft the contract, present it to the Council for review and comment, obtain input from a qualified lawyer who is not a member of the Council, and finally, once approved by Council, present the contract to the Board of Governors for authorization to post it on our section website. We hope to have this available to you by year end. *continued on next page*

2015 Fall Forum: Seattle Town Hall Renovation Project

October 29, 2015, 5:30-7:00

This year's Fall Forum will be a tour of the Town Hall, located in downtown Seattle at Eighth and Seneca, and a discussion of its planned renovation project. To prepare the Construction Section members for the forum, we asked Town Hall to provide background on Town Hall and information about the project. Town Hall was happy to oblige:

Who We Are

Founded in 1999 as a shared home for a small group of partner organizations, Town Hall has grown into a community cultural center hosting 400+ events annually. Produced in equal parts by Town Hall or the 90 community partners utilizing this space, it is a home for nationally and internationally recognized speakers and artists alongside grassroots and community-based voices.

Town Hall Seattle is a beloved community asset that is recognized nationally as a new kind of cultural organization: for its informality, unique approach to access, collective calendar and efficient, leveraged operating model.

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UPCOMING EVENTS

Fall Forum (Seattle Town Hall) – October 29, 2015 at 5:30

Third Annual Dinner Meeting – February 2016 (date and location TBD)

Spring CLE – (date and location TBD)

Midyear CLE – June 2016 (date and location TBD)

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Thanks to the efforts of past section chair Bob Olson we are again planning a February, 2016 dinner event at a Seattle area restaurant complete with an adult beverage hour, a construction speaker and CLE credit. As soon as we have the date and speaker finalized, we will let you know.

We are already planning our June Midyear CLE and are choosing selected topics on intermediate to advanced construction issues along with an hour of ethics and our longstanding tradition of case law and legislative updates. If there is any topic in particular you would like to see presented, we would enjoy hearing from you. You may email me at john@johnevanslaw.com.

Lastly, please join me in thanking Athan Tramountanas for his efforts in organizing and editing this newsletter.

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Project

A complete and forward-looking restoration of our iconic century-old building will advance Town Hall as a vital 21st Century organization. Once renovated, Town Hall will offer a high-caliber experience with services, facilities and capacities that today's audiences and performers expect.

Town Hall's capital restoration will protect the building's iconic, landmarked features while improving visitor experience and safety. The project will feature:

- a) **An enhanced performance environment,** featuring acoustical upgrades and audio-visual improvements, will allow for more technically demanding programs, such as TED Talks, film screenings, and amplified concerts, as well as a new digital program platform;
- b) Essential structural upgrades will include seismic stabilization, a new roof, an improved elevator, expanded and ADA-accessible restrooms on the main floor, and a climate control system for year-round programming; and
- c) Transformation of the ground floor of Town Hall, creating a new informal performance venue, with enhanced food and beverage service, designed to foster pre- and post-lecture audience engagement and dialogue. This will feature a new, West-facing entrance, opening Town Hall to downtown Seattle.

Project Team

The capital project is being led by a stellar team featuring: project manager Chris Rogers (Point32), architects Weinstein A+U, Sellen Construction, acousticians Jaffe Holden, fundraising counsel Collins Group, and marketing and communications counsel ShowPony. A Campaign Steering Committee, comprised of Board and community volunteers, is leading the capital fundraising campaign co-chaired by Sheena Aebig and Deborah Person.

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John Evans, Chair John Evans Law, PLLC 1001 4th Ave., Ste. 4400 Seattle, WA 98154 206-389-1527

Marisa Bavand, Chair-elect Groff, Murphy PLLC 300 E. Pine St. Seattle, WA 98722-2029 (206) 628-9500 mbavand@groffmurphy.com

Athan Tramountanas, Vice-chair Short Cressman & Burgess PLLC 999 3rd Ave., Ste. 3000 Seattle, WA 98104 (206) 682-3333 athant@scblaw.com

Ron J. English, Secretary Seattle Public Schools Office of General Counsel MSC 32-151 P.O. Box 34165 Seattle, WA 98124-1165 (206) 252-0651 renglish@seattleschools.org

Annmarie Petrich, Treasurer Attorney at Law 1900 Nickerson St., Ste. 209 Seattle, WA 98119-1650 (206) 282-1262 annmarie@abpetrich.com

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Council Members

Term Ending 2016

Sherman Knight Knight Mediation 5400 Carillon Pt. Kirkland, WA 98033-7357 (425) 576-8777 knight@mediate.com

Mark Berg P.O. Box 13410 Seattle, WA 98198-1006 (206) 310-9482 mark.berg@alaskaair.com

Roy Lundin Oseran Hahn Spring Straight & Watts PS 10900 NE 4th St., Ste. 1430 Bellevue, WA 98004-8357 (425) 455-3900 rlundin@ohswlaw.com

Term Ending 2017

Amber L. Hardwick Green & Yalowitz, PLLC 1420 5th Ave., Ste. 2010 Seattle, WA 98101-4800 (206) 622-1400

Jennifer McMillan Beyerlein Lane Powell PC 1420 5th Ave., Ste. 4200 Seattle, WA 98111-9402 (206) 223-7000

Brett Hill Ahlers & Cressman PLLC 999 3rd Ave., Ste. 3800 Seattle, WA 98104-4023 (206) 287-9900 bhill@ac-lawyers.com

Term Ending 2018

Bart Reed Stoel Rives LLP 600 University St., Ste. 3600 Seattle, WA 98101 (206) 624-0900

Janelle Brennan

Garco Construction, Inc. 4114 E Broadway Ave. Spokane, WA 99202-4531 (509) 789-1505 janelleb@garco.com

Diane Utz

Watt, Tieder, Hoffar & Fitzgerald 1215 4th Ave., Suite. 2210 Seattle, WA 98161-1016 (206) 204-5800 x5812 dutz@watttieder.com

Special Projects Chair

Jason Piskel (2015-16)

BOG Liaison

Keith Black 13302 53rd Ave NW Gig Harbor, WA 98332-8865 (253) 851-7401 keithmblack.law@gmail.com

Young Lawyers Liaison

Daniel Berner Cushman Law Offices, P.S. 924 Capitol Way S Olympia, WA 98501-1210 (360) 534-9183 danielberner@cushmanlaw.com

Lenders in Washington May Not Be Able to Rely Upon Lien Release Forms in Light of a Recent Ruling

By Colm P. Nelson – Foster Pepper PLLC

As case law evolves, so do best practices. A recent lien foreclosure opinion published by Division II, Court of Appeals of the State of Washington, Shelcon Const. Grp., LLC v. Haymond, 2015 WL 3419603 (2015), may cause construction lenders to examine their practice of wholly relying upon recorded lien releases and, moving forward, to seek further assurances from the releasing party that it has been paid in full. Shelcon not only breaks new ground on whether lenders can reasonably rely on recorded lien releases, it also clarifies Washington law on when a mechanic's lien attaches to property. In securing priority ahead of a lender's deed of trust, the contractor in *Shelcon* was successful in arguing that: (1) its lien rights attached "several hours" ahead of a lender's deed of trust, as the contractor had begun marking boundaries before the deed of trust was recorded; (2) even though it had already executed a lien release required by the lender, the contractor could later file a *second* lien to recapture those earlier, released amounts; (3) the lender was not entitled to rely solely on a lien release executed by the contractor and instead should have obtained further assurances from the contractor that it had been paid; and (4) the contractor was entitled to an award of legal fees and costs against the lender.

In hindsight, the lender may have avoided a lien priority dispute by using lien release forms containing explicit lien release language, ensuring that the contractor executed a subordination agreement, and securing written representations *from* the contractor confirming receipt of payment in full. Developers and owners may also learn from this ruling and consider reviewing their lien release forms in order to avoid "resurrected" liens on their projects.

I. Factual Background

While the Court of Appeals describes this case as having a "long and complicated history," certain unique facts are prominent in the court's findings. In early 2006, a developer, Scott Haymond ("Haymond"), through his business entities began contract negotiations for clearing, grading, demolition and excavation with an earthworks contractor, Shelcon Construction, LLC ("Shelcon"). A scope and fixed price were eventually established, and Shelcon began measuring the property's boundary lines at 8:35 a.m. on July 5, 2006. Shelcon identified boundaries using fluorescent ribbon, a practice it followed on all its projects. That same day, but several hours later at 2:14 p.m., Washington First International Bank ("Washington First") recorded a deed of trust against the property in the amount of \$1,540,000. The sequence of when Shelcon began marking boundaries and when the deed of trust was recorded would later dictate the result of this case.

Approximately two years later on June 20, 2008, Shelcon recorded a mechanic's lien in the amount of \$303,291.29. By then Haymond was behind on payments and in need of ad-

ditional financing. He had begun negotiations with Anchor Bank, but when the Shelcon lien clouded title, Anchor Bank required that the lien be released as a condition of financing. On July 16, 2008, a fully-executed lien release was recorded, stating in part that "THE UNDERSIGNED LIEN CLAIMANT hereby releases the lien on the property owned or reputedly owned by...." The release, however, contained "no language addressing whether Haymond had paid Shelcon or whether the lien release was limited or conditional in any way."

After the release had been recorded, Haymond advised Anchor Bank that the lien was a misunderstanding and falsely claimed that the amount owed was for an unrelated project. Anchor accepted this explanation without securing any confirmation from Shelcon. Shelcon, meanwhile, was unaware of Haymond's misrepresentation.

Haymond then submitted several invoices to Anchor Bank, which were approved by Anchor Bank after it had inspected the project. But, Anchor Bank never communicated with Shelcon during this due diligence period – not even to secure a priority agreement. Ultimately, Anchor Bank relied primarily upon the lien release in approving and processing a loan to Haymond. Anchor Bank recorded its deed of trust on August 22, 2008.

In the fall of 2008, Haymond and Shelcon agreed to modify their agreement. A written contract was circulated, which included new payment provisions changing the contract to a cost-plus-fee arrangement, a standard merger clause, and a provision for 18 percent interest on all unpaid amounts.

Neither party signed the contract. Nonetheless, Shelcon began billing on a cost-plus-fee basis and Haymond paid the invoiced amount. Shelcon continued to work on the project until February 2009 and two months later recorded a second lien. Notably, the second lien included amounts owed under the first lien, which had been purportedly released.¹

II. Legal Analysis

A. The Lien Release Did Not Constitute a Complete Waiver of Lien Rights, Even Though the Release Was Never Conditioned on Payment.

The trial court found that Shelcon's first lien release "did not affect the amount for which Shelcon could subsequently lien after it had finished its work" Anchor Bank on appeal essentially conceded that Shelcon never executed a subordination agreement, a waiver or any document (other than the lien release) purporting to limit Shelcon's lien rights. Anchor Bank mainly focused its efforts on arguing that, as a matter of law, the first release Shelcon signed precluded Shelcon from later liening for the (purportedly) already-released amounts. Lenders in Washington May Not Be Able to Rely Upon Lien Release Forms in Light of a Recent Ruling from previous page

The Court of Appeals, however, disagreed. Noting that there was no case law directly on point, the court drew analogies to other cases discussing lien releases – cases some might find highly distinguishable. Ultimately, the court's decision hinged on a "liberal" reading of the mechanic's lien statute and the fact the contractor had never been paid for the amounts intended to be released. This finding may cause lenders and owners to raise an eyebrow, because the lien itself never stated that the release was conditioned on payment. Title companies and others in the industry have relied upon lien releases of similar ilk in the past when removing clouds on title. Moving forward they may not.

B. The Lender Was NOT Entitled to Rely Solely Upon the Lien Release.

As a secondary argument employed to defeat the contractor's lien priority, the bank claimed that Shelcon should be prevented from recapturing the earlier, released amounts under the legal doctrine of equitable estoppel. For purposes of argument, the court assumed Anchor Bank could meet all the requisite elements of the doctrine, except reasonable reliance. To invoke the doctrine, the court held that Anchor Bank was required to prove that it had acted reasonably in relying on the release. The court, however, found quite the opposite: that Anchor Bank's reliance was *not* reasonable. This conclusion rested on the finding that "Anchor Bank had the means to discover the true facts [that Shelcon had not been paid to date], but it failed to do so." The court expressly adopted Shelcon's argument that "Anchor Bank's reliance was unreasonable in part because it failed to inquire of Shelcon." While not discussed in the opinion, perhaps the bank felt it didn't need to consult with Shelcon because it had already secured a lien release. It would now seem that releases alone are insufficient, depending on their wording.

C. A Contractor's Lien Attaches the Day it Begins Marking Boundary Lines.

Those in the industry know that a contractor's lien generally (there are exceptions) attaches the first day labor, materials, equipment or professional services are furnished to the site. In order for the lien to attach, however, the furnished items must be done for the "improvement of real property." As a consequence, disputes have arisen over what type of work triggers attachment of a lien. For instance, drilling test pits has been found to be insufficient to allow a lien to attach because such tests do not constitute an "improvement" of the land.

From this murky legal precedent, the court determined that marking boundaries fits the definition of professional services, as it is preparatory work in advance of "construction work." In further support of this finding, the court noted that the Shelcon's boundary marking occurred just days before the construction work began. Because Shelcon's first day of work occurred before both deeds of trust were recorded, Shelcon's lien had seniority.

The court awarded legal fees and costs in favor of the contractor. This award was not only against the owner under an attorney-fee clause in the contract but also against the bank under the mechanic's lien statute.²

III. Conclusion

The upshot of *Shelcon* is owners and lenders should consider updating their lien release forms, requiring priority agreements from contractors (most do already), and securing written representations *from* contractors confirming receipt of payment in full satisfaction of work performed (while careful to not make representations *to* the contractor). Whatever mechanisms are used, seeking further assurances that a contractor has been paid and that its lien rights have been waived seems prudent before relying upon a recorded lien release, in light of this unique case.

This publication is for informational purposes only and does not contain or convey legal advice.

Colm Nelson is a member (partner) at Foster Pepper PLLC and focuses his practice primarily on construction and real estate matters. He can be reached at colm.nelson@foster.com or 206.447.4400.

¹ This article focuses on the lien priority issues discussed in the opinion, and does not discuss the court's findings regarding contract ratification by partial performance.

² While not squarely addressed by the Court of Appeals (because the matter was moot), it is interesting to note that the trial court ruled that the Anchor Bank deed of trust stepped into the shoes of the Washington First deed of trust for priority purposes, under the doctrine of equitable subrogation. Without getting into the complexities of that doctrine, whether it applies when a mechanic's lien is involved has not (to the author's knowledge) been addressed by any appellate court in Washington. Other states have not applied the doctrine uniformly when mechanic's liens are involved, meaning practitioners should monitor application of the doctrine in Washington.

The following article was the winning submission in the inaugural WSBA Construction Law Section Writing Competition. Interested 2L and 3L students in the three Washington law schools were invited to write no more than 2,200 words on a construction law topic of current interest to Washington attorneys. Tom Wolfendale chaired the competition committee with help from others in the Section. The committee selected the submission of Samantha Case from Gonzaga University School of Law as the winner. Ms. Case's submission follows in full below. Thanks to Tom for your work on this project, and congratulations to Samantha!

Washington Transportation Project Delivery Methods

by Samantha Case

I. Introduction

Perhaps the most important decision an owner must make during the development of a construction project is the delivery method it will want to use to design, administer, and construct the project. A project delivery method determines how the project will be designed and constructed.¹ The owner's decision and choice on which contract method to use varies based on the time to complete the contract, complexity of the work, risk allocation and budget.² States adopt statutes to govern these contracts, ultimately defining which contract methods will be appropriate and permissible. There are varying project delivery methods that allocate the liability among the owner, the designer, and the contractor. Based on the specific needs of the project, it is important for the owner to research and choose the most effective project delivery method prior to contract award and construction. Nationally there are three predominant contract methods used within the construction industry. These contract methods are the Design-Bid-Build, Design-Build, and General Contractor Construction Management (GC/CM).

Historically, Washington State Department of Transportation (WSDOT) has used the traditional method of Design-Bid-Build for the majority of its projects with limited use of Design-Build for more complex infrastructure and transportation projects. Only recently has WSDOT considered expanding the use of additional methods such a GC/CM as directed and implemented by the state legislature. In a 2014 amendment Washington authorized the GC/CM contract method's use in transportation and infrastructure projects.³ This method better balances the liability between the owner and the contractor through heightened communication and involvement at the design stage in the project.⁴ Ultimately the best possibility for a successful project begins with choosing the best contract delivery method based on the specific needs of the project.⁵

II. Project Delivery Methods

Each project delivery method has a different effect on the overall approach to the construction project. The Design-Bid-Build method provides a systematic approach to construction development as it breaks the process apart and divides responsibility among the owner, designer, and contractor.⁶ In the Design-Build method, the owner will select a contractor who both designs and constructs the project.⁷ The final method is the GC/CM method, in which a contractor is selected to work with the owner and jointly develop the design and construct the project.⁸

Alternative procurement delivery methods, like Design-Build and GC/CM, allow the owner to "prequalify" contractors, ensuring the owner will have a better chance of contracting with a qualified firm that can deliver the projects on time and within budget. The GC/CM method is currently the most progressive as it allows the contractor to get involved earlier in the project to assist in the development of the design, assessment of the risks and aid in the overall constructability of the project.⁹ Critics of the GC/CM method claim many smaller firms cannot compete on the same level with larger, potentially more qualified firms.

i. Design-Bid-Build

The most common contract method is called Design-Bid-Build.¹⁰ This has been the primary method used in the United States largely due to endorsements from the American Institute of Architects, Engineers Joint Contract Documents Committee and the Association of General Contractors.¹¹ This method breaks the project into three phases.¹² The project begins with the owner procuring a designer for the project, or choosing to design the project itself.¹³ The design is then presented to general contractors who bid on the project.¹⁴ The final stage is the execution of the construction phase where the contractor carries out the design.¹⁵ This method seeks to share risk between the owner and the contractor, but often results in more change orders and claims because the contractor is responsible for building the project solely based on the preestablished design.¹⁶ As a result the method effectively shifts more risk to the owner, who has selected both the designer and the contractor for their respective parts in the construction project.

ii. Design-Build

Another method is called Design-Build.¹⁷ The Design-Build method was initially developed to save time and money for the parties involved in the project.¹⁸ The Design-Build method "offers reduced delivery schedule, early cost establishment, and the ease of working with one entity that delivers both the design and construction services for the project."¹⁹ Currently all 50 states, as well as Washington, D.C., Puerto Rico, and the Virgin Islands, have adopted statutes that allow the Design-Build contract method.²⁰ Washington

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only allows for Design-Build contracts when the project is estimated to exceed 10 million dollars.²¹

The Design-Build method allows the contractor to both design and construct the project, and as a result the contractor carries the majority of the risk.²² The contractor is selected based on the years of specialized experience, ability to carry out the contract, past performance, and any kind of accident prevention program.²³ Other criteria owners will be interested in are the company's safety records, quality history, resume, and technical skills in order to determine prequalification on procurements.

Because in a Design-Build method the owner selects the contractor based on qualifications in addition to the low bid, the goal is that the project will save both time and money.²⁴ The price and qualification requirements are generally outlined in the Request for Proposal. This method allows the design and construction phases of a project to overlap; since the contractor is the creator of the design, he may start ordering materials prior to the complete execution of the design.²⁵ Additionally, the liability is limited to one party, removing confusion that results from multiple parties coordinating various parts of a construction project.²⁶

iii. General Contract Construction Management

The third and most progressive method is called the GC/ CM model.²⁷ Currently, 15 states have adopted GC / CM legislation.²⁸ This method breaks the process down into two steps.²⁹ A construction manager is selected from a prequalified short list. Some of the qualifications include: the manager's past performance in complex projects, the ability to meet time and budget requirements, location of the company and particular vision for the project.³⁰ The manager then collaborates with the owner and designer to evaluate the project, develop the design, assess the risks, and price the work.³¹ The manager contracts with a general contractor, addressing the known risks and costs that were already designed in phase one. A third party will then verify the price through a different contract with the owner to ensure quality of design.³² The main intent with this method is to minimize and balance the risk between the contractor, designer, and owner. At the end of the design phase the owner has the ability to accept or reject the bid.³³ This effectively minimizes the potential disputes that arise through changed work conditions and work orders.

Washington has authorized the GC/CM method when (1) the project involves complex scheduling, phasing, or coordination; (2) the construction occurs at a facility that must remain open; (3) a contractor is needed during the design phase; (4) the project involves other complex technical or specialized work; or (5) the project requires work on a building that is historically significant.³⁴ In a 2014 amendment, Washington extended the use of the GC/CM method to also pertain to heavy civil construction projects, namely infrastructure and transportation projects.³⁵

III. Washington Projects

Based on construction contract methods that have developed nationally, Washington primarily utilizes the Design-Bid-Build method.³⁶ In a 2013 report on WSDOT delivery methods and selection, CH2MHILL advised, "alternative contracting approaches should be considered for mega projects, significant risk projects, complex projects, projects in need of competitive innovations, or time-sensitive projects."³⁷ The two common methods of contract delivery, Design-Bid-Build and Design-Build, effectively shift liability between the contractor and the owner, rather than striking a balance of risk allocation. The GC/CM method finds this balance through the collaboration between the owner and contractor during the design process.³⁸

i. SR 520 Bridge

Due to stability concerns, WSDOT executed a construction project to build the new SR 520 Bridge.³⁹ The project had an authorized budget of \$2.72 billion dollars, a portion of which was directed to design and construct pontoons for the new bridge.⁴⁰ WSDOT utilized a Design-Bid-Build approach to construct the pontoon portion of the SR 520 Evergreen Point Floating Bridge.⁴¹ Pursuant to the Design-Bid-Build protocol, WSDOT designed the pontoons and hired a contractor to execute the construction of the pontoons.

In a statement made by the WSDOT secretary Lynn Peterson on January 8, 2014, she announced WSDOT had a design error in the pontoons that resulted in change orders "consuming much of the SR 520 program's \$250 million risk reserves."⁴² This was a huge and costly mistake that occurred in the design phase, resulting in numerous change orders and increased cost for the completion of the project. Costly mistakes at the design phase could have potentially been avoided if WSDOT had followed a more collaborative approach, as is provided with the GC/CM method.

ii. Alaskan Way Viaduct

The Alaskan Way Viaduct was built in Seattle, Washington in the 1950s in an effort to aid in the city's traffic problems.⁴³ During an earthquake that occurred in 2001 the viaduct was severely damaged.⁴⁴ In 2009 Seattle addressed its plans to repair and replace portions of the viaduct, both at the south and north end.⁴⁵ In its execution of the Alaskan Way Viaduct, WSDOT utilized both the Design-Bid-Build and the Design-Build contract methods.⁴⁶

Seattle Tunnel Partners ("STP") won the initial bid for a portion of the project "after promising to finish that work months ahead of a late 2016 target date."⁴⁷ The overall contract amount awarded to STP is a \$1.44 billion contract.⁴⁸ However, one of the tools necessary to complete the tunnel portion of the project involves the use of a large digging machine nicknamed "Bertha."⁴⁹ Bertha broke in December of 2013 after hitting a steel wall.⁵⁰ This led to an argument over whether STP or WSDOT was liable for the cost of repairs, resulting in a massive change order and long delay.⁵¹ This dispute has *continued on next page* WASHINGTON TRANSPORTATION PROJECT DELIVERY METHODS from previous page

yet to be resolved.⁵² Overall STP has sought around \$210 million dollars in change orders due to problems it alleges were WSDOT responsibility.⁵³

IV. Conclusion

Washington has primarily utilized the Design-Bid-Build and the Design-Build contract methods, which has limited the ability to cohesively design and execute large construction projects. The adoption of the GC/CM method should contribute to owners' and contractors' collaboration and potentially reduce problems that arise during the construction project. In 2014 Washington amended the Alternative Procurement contract method GC/CM to also apply to infrastructure and transportation projects.⁵⁴ The aim of GC/CM is to assess and to mitigate risk at the outset of the contract process.⁵⁵ Authorizing an additional contract method will likely reduce litigation in the future by providing WSDOT the ability to choose a contract that best fits within the specifics for each projects circumstances.

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- 5 Construction Management Association of America, supra note 1.
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- 14*Id*.
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- 17 Edward J. Pabor and Richard Pennington, *The growth (and growing pains)* of design-build construction, (April 1, 2012), http://americancityandcounty. com/contracts/growth-and-growing-pains-design-build-construction 18 *Id*.
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- 23 Rodger Benson, supra note 4.
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- 29U.S. Department of Transportation Federal Highway Administration, Construction Manager/General Contractor, (last updated Feb. 25, 2015), http://www.fhwa.dot.gov/construction/contracts/acm/cmgc.cfm
- 30 Rodger Benson, supra note 4.
- 31 CH2MHILL, supra note 10.

- 33*Id*.
- 34 RCW 39.10.340 (2014)
- 352014 Wash. Sess. Law ch. 42.
- 36 CH2MHILL, supra note 10.

37 Id.

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- 40 Washington State Department of Transportation, *WSDOT executes new SR 520 pontoon change order*, (Jan. 8, 2014), http://www.wsdot.wa.gov/ News/2014/01/SR520PontoonChangeOrder01082014.htm
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44*Id*.

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53*Id*.

542014 Wash. Sess. Law ch. 42.

55 CH2MHILL, supra note 10.

²⁵*Id*.

³²*Id*.

³⁸ Id.

⁴⁵*Id*.

⁵⁰*Id*.

⁵¹ Id.

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Athan Tramountanas

Short Cressman & Burgess PLLC 999 Third Avenue, Suite 3000 Seattle, WA 98104 athant@scblaw.com

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