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PREQUALIFICATION OF CONTRACTORS



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NEW JERSEY STATE HIGHWAY DEPARTMENT

New Jersey State Library

THE New Jersey State Highway Department classifies prospective bidders in accordance with the provisions of a statute enacted in 1931. This requires that all contractors proposing to submit bids on public work shall furnish a sworn statement which develops the financial ability, the adequacy of plant and equipment, the organization and past performance and such other data as may seem desirable.

The law permits the Department to establish reasonable regulations for controlling the qualifications of the applicants. We have not changed our classifications as to the type of work which a contractor is qualified to perform, but in 1954 we added four classes as to the amount of work. Our "Unlimited" formerly followed two million dollars. In 1954, we added three million, four million, five million and six million dollar classes before our "Unlimited". With the scope of the projects presently being let under the Federal Interstate Program, we shall soon have to include classes so that seven million, eight million, nine million and ten million dollars are removed from the Unlimited Ratings.

During our thirty years of experience the New Jersey Highway Department has awarded 1,666 contracts to 418 individual contractors and six joint ventures. The award value of these contracts totaled \$589,559,344.35. Of these 418 contractors, 127 or 30.38% are still prequalified. They were granted 911 contracts or 54.68% of the total number. The amount of these contracts was \$428,582,398.25 or 72.70% of the total.

We have, during the thirty-year period, prequalified 1,265 applicants. Approximately one-third of these have become prime contractors. Our current approved list contains the names of 255 contractors, half of whom have been successful bidders. We have kept no records of the number of applicants that have failed to qualify but we feel that 20% would be a conservative figure.

In New Jersey, we require that sub-contractors be prequalified if the value of the items subcontracted amounts to \$25,000. Many of our qualified contractors who have not obtained prime contracts have been performing work as sub-contractors on our projects. We have not kept a tabulation of either the dollar amount or the number of the subcontractors over the past thirty years, but, from our more recent experience, we feel that five subcontractors on each contract is average.

Over this thirty-year period there has been a total of only four failures to complete the projects contracted for involving projects totaling \$2,644,900. Of these four failures three were completed by the Bonding Company. The fourth case was rather unique. It involved a joint venture in which one of the two participants in the venture went into receivership. The second member of the venture completed the work with the paying to the receiver and the surviving contractor on a basis set up by the Referee in Bankruptcy.

From our experience we have drawn certain conclusions.

1. Contractors should be prequalified before bidding on a project. This is not only a means of protecting the investment for the taxpayer, but also a means of assuring the State's inspection forces on the project that there is some experience and reliability behind the successful bidder.

2. Each contractor should be rated on a Confidential Past Performance Report by the Project Engineer at the conclusion of each project. Up to now too little emphasis is placed on this phase of the rating as compared with dollar assets.

3. Equipment should be evaluated on a have or have not basis modified by a use factor. If a contractor has all of the equipment necessary, but from past experience does not employ an adequate amount on our projects his equipment rating should be lowered.

4. The excess of the applicant's liquid assets over his current liabilities gives us the amount of money which he will have available to procure materials and pay his employees. This is the figure that we must start with before applying factors developed because of size, type of work or experience.

While perhaps this phase according to all prequalification plans should have been listed first, I purposely have placed it last.

Universally it seems that all methods of prequalification place too much stress on financial responsibility and too little stress on how efficiently the contractor performs his work. This criticism applies to New Jersey's approach to the problem as well as to others. To the man on the job and and to the individual States, it makes little difference that a contractor has unlimited cash resources, if during the course of a project continual conflict or twice the inspection force is required to obtain a respectable product.

Only recently a contractor, with assets sufficient to place him in the \$2,000,000 classification, ignored instructions on a \$500,000 project, carried from 0 to 8 employees on that project, had property owners' front lawns torn up with no effort to quickly shape them up, and was 53% completed when

he should have been 100%, successfully bid another project for upwards of one million dollars. Through a technicality the project was awarded to the second bidder. We believe this to have been done in the public interest. Yet no State Officials should be placed in the position of possible criticism when his actions are motivated by nothing more than the public's interest.

We in New Jersey have not solved this "fly in the ointment" of prequalification. We have discussed a plan of separating financial responsibility from operational responsibility with an idea of refusing prequalification if the applicant falls below a certain percentage on the operational side. To put such a plan into effect will require much investigation, both from a legal and a practical viewpoint. It is something however in which we should all be interested, since I am certain *we all* face similar problems in this matter.

In conclusion it is needless to say that in the over-all picture New Jersey feels strongly that Prequalification is an essential part of our scheme of things.

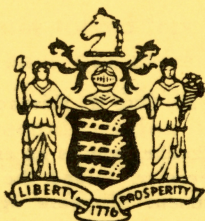
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Mr. Otto H. Fritzsche

Mr. Otto H. Fritzsche, who is an engineering graduate of Lehigh University, joined the New Jersey State Highway Department 36 years ago and is the first career employee to be appointed State Highway Engineer. Since his appointment in 1956, he has been directly responsible to the State Highway Commissioner for all phases of location, design and construction of State Highways.

Mr. Fritzsche is now serving as President of the Association of Highway Officials of the North Atlantic States. His past activities and honors in the field of highway engineering include service as a Regional Vice President of the American Association of State Highway Officials, the "Career Merit Award" of the New Jersey Association of Chosen Freeholders, and the 1961 "Engineer of the Year" award of the New Jersey Society of Professional Engineers.

The material included in this brochure was prepared by Mr. Fritzsche for the American Association of State Highway Officials and was first published in the April, 1961, issue of American Highways, official publication of that organization. It deals with a vital ingredient of any successful highway construction program -- A thorough review of prospective contractors to insure that the low bidder on every job has been previously qualified on the basis of experience, past performance, ability to complete the job properly and last but not least, the bidder's financial condition.



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