

CONSTRUCTION TIP

Purchase of Surplus Material



Overview

Use the following guidance on purchasing surplus materials from contractors when design quantity errors or Department-initiated changes create excess products or bulk materials. The objective is to ensure consistent decision-making when project changes create excess materials and the cost of purchasing the material outweigh the costs of paying for contractor damages related to the material.

When should we consider purchasing surplus materials from the contractor?

- When a change order reduces or eliminates the need for a product or significantly decreases the required quantity of a bulk material, resulting in contractor damages related to restocking, transportation, or other handling of the surplus material.
- When a design quantity error produces excess bulk material and the contractor incurs damages associated with restocking, transporting, or otherwise handling the material.
- When surplus material is not project-specific, it is impractical for the contractor to use the material on other projects, and the contractor's damages support consideration of a purchase by the Department.
- When the surplus material is unique to the project and cannot be used elsewhere.
- When the material was fabricated, partially or fully, before the Department notified the Contractor of the reduced need.
- When bulk materials have been delivered to the project, project-specific yard, or plant.

Costs eligible for reimbursement

- Actual costs directly related to the surplus materials.
- Actual invoice cost of the product or material.
- Transportation costs for moving the material.
- Costs for preparing a storage area specifically for the material.
- Labor costs and associated labor burden for transporting and handling the materials.
- Additional costs for long-term storage beyond what was required under the original contract. These costs must be demonstrated to exceed the Contractor's normal yard lease for the project, any additional yard space used solely for the surplus material, or storage at a fabricator that exceeds what would have been required under the planned work
- Administrative costs in purchasing and handling the materials, limited to 5%.

Alternatives to purchasing surplus material

- The contractor or supplier may restock the material be compensated damages in the form of restocking fees, storage, hauling, and handling costs.
- The surplus material may be transferred for use on another project with the same contractor. Damages could be paid for the additional handling or transportation fees to facilitate the transfer.

Costs not eligible for reimbursement

- Prorated or full cost of land or yard space owned by the contractor, including existing yards that share storage space with other materials or equipment.
- Duplicate costs such as insurance already included in labor burden.
- Duplicate supervision when supervision is already accounted for elsewhere.
- Markups for overhead and profit.
- Any risk amount proposed by the contractor.

Handling subcontractor requests

- For subcontractor-exclusive requests, the prime contractor may receive an additional 5% for administrative costs.
- An additional 5% markup is allowable for the subcontractor responsible for the purchase and handling of the material.

Support

Contact the CST Construction Support Group for additional assistance.