

Bucketing – the Proper Claim Accounting Method

Executive summary. The categorization of costs incurred in a changed condition scenario is critical in dispute resolution. Account for costs by issue and sub-issue by creating buckets of costs. Do it early!

Here come the extra costs. When you (the contractor) experience a change, whether you have notified the owner yet or not, and whether it has been deemed a change or not, should immediately start accounting for the change in a definable manner.

The bucket. You should understand the scope of work in this changed condition and then separate incurred costs into different *buckets*. *Buckets* is not a technical term, it just makes sense to a contractor, to an attorney, and to a mediator. For example, if your change is the discovery of rock and groundwater in a pipeline trench excavation, you may have identified the following as additional costs:



- a) Harder rock or more rock
- b) Larger voids under and adjacent to the pipeline
- c) Additional dewatering
- d) Additional overtime
- e) Additional supervision

Cost accounting in buckets. Since we have identified where our additional costs are coming from, now we create buckets of cost with discrete cost codes:

Accounting Cost Code	Description	Relates to Issue Above
8000-0100	***Line A Utility Impacts***	
8000-0105	Addl Equip for Rock Excav	(a)
8000-0110	Excessive Backfill Under Pipe	(b)
8000-0115	Addl Pipe Zone Backfill	(b)
8000-0120	Dewatering Equipment	(c)
8000-0125	Dewatering O&M	(d)
8000-0130	Additional Supervision	(e)

Each time you incur costs from labor or equipment or material or subcontractor, you code these costs into the above accounting cost codes.

Buckets allow award to individual issues. The importance of putting these costs in buckets is that when it comes time to prepare this claim and negotiate this claim, you will want the costs broken out for entitlement reasons. You may not be entitled to all of these costs in the Owner's opinion.

You may know, and your attorney or claims consultant may know, that all of these costs are not defensible. Say the geotechnical report talks about the potential of groundwater. If you have already bucketed the costs, it becomes easy to negotiate all of the other issues because you have discretely identified costs **not** associated with groundwater.

Individual issues and their costs can be awarded immediately.

Do it early, do it contemporaneously. Knowing ahead of time what a change or claim negotiation is like is helpful – I just told you what it's like, so now you know. Someone will ask you to separate costs if your issue has multiple components, so you might as well do the cost bucketing at the time it occurs. This is called accounting for costs *contemporaneously* – it will carry more weight in dispute resolution rather than organizing costs later in the job when it can be perceived as the claimant knowing which issues were meritorious and which weren't.

My story. I generated claims as a contractor for over 25 years and now for almost five years I've been reviewing them on the Owner's side. For simple single-issue claims, there is no need for bucketizing of costs – it's just one issue. But, when an issue is complex, contains many components, spans time, spans geography, et cetera, having costs separated makes for a quicker negotiation. A quicker negotiation means a quicker check to you and less professional fees hitting you from attorneys and claims consultants.

So, next time you run into a claim situation, start separating costs immediately. Do it contemporaneously, do it now!

Work Safe!