



2-44.1 General

The purpose of the cost reduction incentive (CRI) clause is to encourage innovative, groundbreaking ideas involving improved work methods, new products, and improved equipment. The CRI can include more efficient techniques, substitution of contract items, or elimination of contract items. The major intended result is cost savings for the department, but secondary results include decreased shutdown time for the motoring public, less material use, and significant savings for the contractor. The department equally shares the net cost savings with the contractor. This is a win-win situation for both the department and the contractor, and the department highly encourages the use of the cost reduction incentive.

2-44.2 CRI Concept

The original cost savings idea may be generated by the contractor, the department, or a subcontractor, but the CRI submittal must come from the contractor. As specified in [standard spec 104.10](#), the submittal of a CRI is a two-step process. The initial submittal is referred to as a concept, and the second submittal is a CRI proposal. The CRI concept contains the contractor's estimate of overall CRI savings, and the proposed costs involved to develop the proposal. If the department deems the concept has merit, and will not introduce an inappropriate level of risk, the department will write a change order directing the contractor to develop and submit the CRI proposal.

2-44.3 CRI Proposal and Acceptance

Coordination in the region is encouraged at the time a proposal is being reviewed, to determine if the idea was considered during project development and rejected, or if it has been accepted previously by the department. Accepted proposals and the idea behind them become the property of the department for possible use on future contracts, and the department does not intend to pay for an accepted proposal more than once. Check the past CRI approvals with the central office construction oversight engineer in Bureau of Project Development to avoid duplication of previously accepted proposals.

The department is the sole judge of acceptability of a CRI proposal, and will accept or reject the CRI proposal in writing. If a proposed CRI is initially deemed by the department to have merit, and the contractor develops the CRI, but the department later rejects the CRI, the department will reimburse the contractor for development costs, and the issue will be dropped.

2-44.4 Payment

2-44.4.1 General

There are 3 components of payment for a CRI that has been accepted by the department.

1. Development cost
2. Cost of the work
3. 50% of the department's net savings, as defined in [standard spec 104.10.4.2](#):

$$NS = CW - CRW - CC - DC$$

Where:

NS = Net Savings

CW = The cost of the work required by the original contract that is revised by the CRI. CW is computed at contract bid prices if applicable.

CRW = The cost of the revised work, computed at contract bid prices if applicable.

CC = The contractor's cost of developing the CRI proposal.

DC = The department's cost for investigating, evaluating, and implementing the CRI proposal.

The contractor's cost of developing the CRI proposal, as well as the costs incurred by the department in evaluation and modification of the plans and contract, will be deducted from the total estimated savings of an accepted proposal. The resulting net savings is split equally between the contractor and the department. Time savings resulting from the CRI should not be included in the calculation of net savings.

2-44.4.2 Change Orders

The intent of the CRI specification is that the engineer write a change order to compensate for development costs just after approving the concept. In cases when the department has not initially paid the contractor for development costs, or when the timeframe between the development and completion of work is very short, the development costs and savings payment can be performed under one single change order.

It's important that all costs are carefully documented on the change order. Whether done under separate change

orders or one change order, the development costs and the payment for 50% of department savings to the contractor should be paid using Administrative Item 801.0150. The change orders should adjust contract time and/or interim completion dates, if necessary.

See [CMM 2-42](#) for additional instructions in completing the CCO. The supplemental description on the CCO will be utilized in the preparation of CRI reports for future use in incorporating the concepts in other projects, so provide a supplemental description that is specific enough to fulfill that purpose, in addition to the normal considerations.

2-44.5 CRI Process Flow Chart

[Figure 1](#) below describes the CRI process in a flow chart format:

Figure 1 Cost Reduction Incentive

