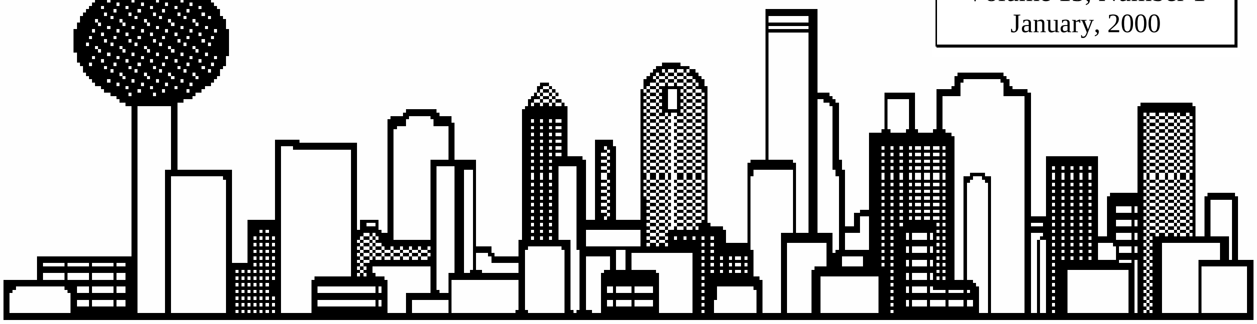

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News, Notes & Commentary

General Conditions Costs Associated With Delay

It has been several years since we have discussed which general condition costs (G.C.'s) are associated with delays. Just as important as which costs are associated with delays is which costs are not. Those of you inclined to agree to G.C.'s on time related change orders also might realize that most G.C.'s don't change when time does not.

Basically, G.C.'s can be characterized in three groups. **1. Volume or contract sum related cost**. These types of cost include bond, general liability insurance and builders risk insurance. In most cases, if the contract price does not increase these costs do not increase and yet if the contact goes up or down these costs do likewise. **2. Event related cost**. These types of cost occur usually once or twice during the job regardless of duration. An example is mobilization and demobilization. **3. Duration related cost**. These costs include project management payroll and trailer rentals as well as all other cost that vary with time.

Often we see contractors arguing that general condition costs should be added to change orders. Often they attempt to apply a percentage to changes that represents the effective percentage of G.C.'s to contract value. Clearly without an extension of time much of this request would be without merit. Likewise, when you are faced with a time extension that is compensable then G.C.'s to be added should only include duration related cost and any effective percentage calculation by the General Contractor would overstate the actual time related cost.

Apprentices and T&M Work

Many construction projects have a fair amount of T&M work. Sometimes the entire job is T&M and sometimes only that work that cannot be bid is subcontracted on a T&M. Additionally, a contractor may self perform certain work and charge to job cost at T&M rates. Regardless, seldom does a contractor offer an apprentice rate on T&M work even though these same contractors are often quick to charge a higher rate for a foreman. First realize that most union jobs have 5% to 15% of the workers at some level of apprenticeship. The first level of apprentice can earn as little as 40% of a journeyman and the final level might be 90%, with typical average of 70% to 80%. Since in some localities the base union journeyman rate can be $30+ per hour and you also include the associated savings in taxes, workers comp and markup, you can see what a difference an apprentice rate can have on total labor billings.

Often we have heard a contractor argue that apprentices are less efficient than journeymen therefore it is not proper to estimate using an weighted average cost that includes apprentices when establishing a T&M budget or estimating a job. This point may well be true, yet, when a contractor bills based on actual time spent, as is the case in T&M work, and the actual time includes apprentices, any inefficiencies are being paid by the Owner so actual cost savings for apprentices should be credited. We recently identified and recovered over $500,000 in overstatement of apprentice labor cost on one job and $180,000 on another.

No Backcharges to Subcontractors

Most of you know that backcharges are where a contractor charges back to a subcontractor the work performed by another subcontractor for damages caused by the first subcontractors field force. Seldom does this situation not occur on a project, yet we often come in near the end of a project and find no credits have been processed to subcontractors for damaged work. This is not to say that on these same jobs that work has not been damaged or that subcontractors have not been given additive change orders to repair work damaged by others.
The above situation might have several explanations. One possibility is that the contractor legitimately could not identify the subcontractor that caused the damage. While this situation does occur, most damage can be readily identified with that trade that was working in the area in question. Another possibility is that the contractor has adequate room in its contract with the owner and the contractor sees no need to collect from a subcontractor

since it is the owners money that being used not the contractors. On jobs where the contractor has no budget pressure lack of backcharges is very common. Also, another possibility is that the contractor was expecting to collect on backcharges owed after it settled with the Owner on cost. We have seen many clever ways attempted by contractors in this area.

If your contract and contractor fits this “no backcharge” profile some inquiry might be in order.

Overstatement of Retirement Cost

Most successful contractors and subcontractors have some form of retirement plan. These plans can include 401K plans in which the company matches a percentage of the employees contribution, up to a cap, or profit sharing plans that the company’s contribution can vary based on the overall profitability of the company. Most companies require some kind of waiting period before employees can enroll in these plans. Some enrollment periods can be as long as 1.5 years. Obviously, longer enrollment periods make it more likely that not every employee of the contractor is enrolled and lack of enrollment means no company expense. A waiting period of one year may mean that the effective cost of retirement to the contractor is reduced by 50%. It may shock you to learn that many contractors ignore this fact when charging owners for the payroll fringe benefit cost of retirement plans.

Pre-Construction Audits

Many of our clients are requiring pre-construction or early construction audits of contractors cost. We have found that this use of our time is very beneficial to the Owner.

Labor is a big part of the cost of any project, and labor is one of the costs that varies the most from contractor to contractor. We see union trade contractors with wide variances in the labor rates billed to the owner even between trade contractors in the same city.

The percentage used for labor burden, how to calculate overtime, and the cost elements included in labor burden can cause the billing rate to vary widely between two trade contractors in the same market in the same union. We recently audited a contractor that included safety, parking, auto and truck rental, welding certification, drug testing, and equipment insurance, etc. in the labor burden. All of these costs were reimbursable on this particular project, but not as part of labor burden and not to the degree estimated.

Just one example, vehicle insurance was being charged as if every employee on the project had a vehicle owned by the contractor. The truth is, only the superintendent had a company owned truck. Parking was treated the same. The contractor assumed every employee had to pay for parking. As it turned out, many of the contractor’s employees rode together to work.

The advantage of the pre-construction audit of the project was that the contractor had not had an opportunity to bill using the inflated labor burden. We reduced the rate by more than 50% and the contractor agreed to bill most of these expenses accompanied by receipts for the expenses. (A savings of over $125,000.)

In another pre-construction audit, we discovered a general contractor with all-inclusive rates planning to bill holiday, sick days, and vacation hours to cost of the work when in fact these benefits were included in the billing rate. By billing for these paid time off days, the contractor was billing the benefits twice. This saved our client over $100,000 for one contractor alone.

On lump sum projects, establishing proper labor rates for change orders can also save thousands of dollars depending on the value of change orders.

The benefits to the owner are greater than just the direct expenses saved. Pre-construction audits require small amounts of hours for the potential return. Usually, a pre-construction audit takes no more than a day or two per contractor. Second, there is no negotiation of the amount of the money owed back to you. Since these amounts are never billed and paid by you, you receive 100% of the savings.

CCM Welcomes a New Member

CCM Consulting Group is excited to announce that Mr. Michael Byrne has joined CCM as a principal. Mike has spent the last 17 years as the CFO and Treasurer for Gerald H. Phipps Construction Co. in Denver, Colorado. Mike attended the University of Northern Colorado. Mike and his wife Vicki have two children and will remain based in Denver. He states that he is excited about looking at problems from a new perspective and the glamorous lifestyle of traveling to a new city every week. The members of CCM first met Mike when we were auditing G.H. Phipps for a client. Immediately we were impressed by Mike’s integrity and knowledge. With Mike’s addition, CCM has strengthened its knowledge base and improved its ability to respond to our clients needs.

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