CCM Consulting Group

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CCM Adds Experience

We are delighted to let our friends know that Joseph M. Stephens has joined CCM Consulting Group as a principal. Joe, who lives in Nashville, spent 30 years with Centex Construction, the last 18 as CFO of various Centex divisions, including the Nashville division that was a nationwide leader in healthcare construction. Almost all of the Nashville division work was performed under GMP contracts. We first met Joe on an audit 18 years ago. In the dozen or so audits that we have performed, when Joe was across the table, we have always been impressed by his integrity and knowledge. CCM and our clients are enriched by Joe's addition to our industry leading team.

Additionally, our Denver office would like to welcome Sr. Associate Betsy Tauer to our group. Betsy joins Sr. Associate Willie Reuter in the mountains along with Principal, Mike Byrne.

Should Lump Sum Agreements, Within the GMP, Be Auditable?

Of course they should, who do you think writes these articles? But, please consider the following situation and you may agree.

An Owner agrees to an overall GMP with several fixed cost components; general conditions and self performed concrete work. At the end of the project an audit is performed and it is discovered that a safety supervisor, small tools, dumpsters, rental equipment, and a MEP coordinator had all been charged to the reimbursable cost of work. The auditor also discovers that these same items are itemized in various parts of the original estimate, including the estimate for general conditions (which is lump sum) and cost of work, as well as a requirement to be provided by the subcontractors bidding the concrete work, which is also lump sum.

In the above scenario, the right to audit the cost charged to general conditions and concrete work would allow the Owner to determine if the GC had apportioned these common costs reasonably or if all of these costs had been charged to the reimbursable cost of work. Of course, the right to audit does not invalidate the lump sum agreement. The right to audit just allows the Owner to verify, more easily, that costs are fairly distributed.

You won't be shocked, we assume, to learn that in this case study, these common costs were disproportionately charged to the cost of work rather than the lump sums. The Owners right to audit gave the GC no valid excuse for the inconsistent charges and a credit was agreed to quickly.

Why Did We Ask for Labor Rates?

Time after time, we get involved with a project where the Owner sends out a RFP which includes the proposed contract, a request for fee, general conditions budget, and asks for the GC to include labor rates for salaried personnel and hourly personnel.

Since the proposed contract is a GMP contract with definitions of reimbursable cost, the request by the Owner for labor rate information is informational only. In fact, we have seen many instances where the Owner has indicated that the award would be based on the GC's budget, Fee and qualifications of the contractor's personnel, only. Regardless, invariably we eventually get into a discussion with the successful GC about labor rates included in their bid, and whether these rates are now fixed.

Let us evaluate the process. The Owner asks for a fee. Why? In a competitive market place, it is the best way to determine a market driven overhead/profit/risk percentage. Why general conditions? Different firms address the dilemma of jobsite overhead in different ways. Some companies need more jobsite management, some need less. Often, you will see an inverse correlation to fee and total general conditions cost.

Finally, why did the Owner ask for labor rates? Some possible reasons are:

1- The Owner wanted to understand the reimbursement expectation of the contractor.
2- The Owner wanted to compare labor costs from GC to GC.
3- The Owner wanted competitive pressure to get the best deal possible.

In item #1, if we wanted to know the reimbursement expectation of the contractor, we may have put the contractor before the contract. After all, the proposed contract that went with the RFP defined reimbursable and non-reimbursable costs.

In item #2, we wanted to compare labor costs from GC to GC. If we assume that the estimate of General Conditions costs, required of the various contractors, was sufficiently detailed, then a comparison of Project Management and Superintendent costs can be made without asking for labor rates.

Lastly, assume that we wanted the competitive bid environment to help us get the best labor cost deal possible. Consider that in almost all commercial construction work performed near a major metropolitan area, with contractors from that area, the labor market supply and demand forces have already decided what a Project Manager will make and what benefits they will receive. The bidding of the construction work will not alter the negotiations that have already taken place between employer and employee.

The final question the Owner may ask is, even if I haven't gained anything, have I done any harm? This of course is the real reason for this article. The answer is, yes! The contractor will almost universally argue that the labor rates were given in a competitive environment and therefore should be fixed in the contract. Of course the contractor is very aware that the selection criteria were Fee, GC's and personnel, not labor rates. In fact, because all the bidding GC's know that fee and GC's are the only items that actually need to be competitive, often we see the proposed labor rates inflated with the hope that the Owner will make them fixed at some later point or that they can be used to negotiate change orders. So the lesson, class, is, if you must ask for labor rate information, be clear that the request is informational only and rates are not intended to be fixed.

What Does Project GL Insurance Cost?

This is difficult question to answer, even for those of us that deal with actual cost every day. The fact that it is a challenge to us, indicates that the average Owner surly does not know. Yet Contractors are attempting, and it appears successfully, to sell project wide GL insurance to Owners everyday.

Usually these programs are bundled with W/C insurance as part of a CCIP (Contractor Controlled Insurance Program). Even when they are a part of a total CCIP, the GL insurance portion is typically separately calculated. We recently have worked on several projects where the GC had sold the Owner on 2% and 1.5% of contract value for the cost of GL insurance.

So what does project wide GL cost? The answer is that we typically see actual cost of a GC's GL and Umbrella cost between .3% and .5% of contract value. We calculated the subcontract GL and Umbrella cost recently on a project in Atlanta and the cost was .5% of subcontract value. This .5% of subcontract value equates to approximately .35% of total contract value. Obviously, projects can have their own dynamics and types of construction may vary the calculations somewhat, however, it appears as if project wide GL costs 1% of contract value or less. Additionally, a subcontractors cost of Umbrella insurance typically runs about 50% of the GL cost and is almost always fixed. It is difficult for the sub to justify a project credit for a fixed expense. Therefore, usually we see the actual subcontractor credits, or bid deducts for CCIP projects to be even less than the cost calculated above. Bottom line, if the contractor wants to charge more than .8% of total contract value, the cost may be too high.