CCM Consulting Group

Volume 24 - Number 2
October 2010

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Profit Centers and Fee Enhancement

We are often asked to list the greatest areas of additional fee enhancement employed by GC's and Construction Managers. The list below is just the most common areas.

SubGuard – The quoted costs by many GC's is between 1.5% and 1.1% of subcontracts and purchase orders. Lately we have even seen a trend in contractors quoting Subguard, at the same rates, as a function of total construction cost as well, not just subcontracts. True cost to a GC appears to be somewhere between .5% and .6% of subcontracts, but like all insurance, the risk of a default on any one project could cause the GC to be out of pocket, from the deductible costs not reimbursed by Zurich, $750,000 to more than $1,000,000 per claim. On a recent project, the GC joint venture charged the Owner SubGuard on one of the joint ventures affiliate's costs as well as subcontractors. When discussing large projects greater than $50,000,000 it is often useful to try to calculate what the actual subcontractor bond cost would otherwise be and then refuse to pay $1 more than that, at a minimum.

GL and Umbrella Ins. - True cost to a GC is typically less than .4% but many GC's often try to charge at least double to triple that .4% amount. We are working on a project in which the GC charged .45% and the Owner provided the GL and Umbrella. Because of the difficulty of calculation, due to many factors, on large projects, we believe the best approach is to require the GC bidders to quote a fee that includes all insurance except Auto and W/C. We have witnessed this approach on many projects and the fee quoted was often three quarters of one percent less (.75%) than the breakout price of fee and GL insurance on other similar jobs.

Payroll Burden - Most GC's overstate one or more items within the payroll burden charge. One way to overstate cost is to include costs that are not otherwise reimbursable (bonuses based on profitability for instance). Another way is to simply overstate the true cost of an item, like health ins., pensions, or taxes. Additionally, a GC could simply charge some items both directly, as salaries, and also as a payroll burden item (vacation and holidays are typical).
The best way to manage these issues is to make the contract clear, don't agree to a fixed payroll burden rate, and perform a pre-audit.

Shifting Overhead Costs to Job Cost - Shifting costs, such as recruiting, to job cost is an example of this trick. A larger issue is charging a percentage for data processing, data storage, home office accounting, and corporate safety departments as if it was a reimbursable cost and variable to construction volume.

Shared Savings - What sounds like a good idea often ends up with a GC manipulating estimates and bids to "create" savings that becomes a bonus. A recent project had the GC billing a $500,000 shared savings bonus. Review of the original GMP estimate showed that the GC had increased the subcontractor bid amounts by $1,200,000 prior to preparing the GMP thereby creating savings and "earning" a shared savings bonus. Additionally, some Owners allow a stated contingency to be added to the GC's estimate of costs. Occasionally, the Owner forgets that the shared savings provision may apply to those funds as well, and ends up paying a bonus for estimated padding that the Owner allowed.

Early Completion Bonus – The GC uses the Owners money (unspent funds within the GMP from buyout savings or contingency or allowances built into the subcontract values) to fund acceleration costs to subcontractors to achieve an earlier completion and to earn a bonus. So the Owner ends up paying all of the costs so the contractor can get a bonus. Additionally, the Owner is inviting a fight with the GC who will now claim that the earlier completion was possible except for Owner interference by not making decisions or by asking for changes to the work.

Self Performed Work and Fee – Some Owners allow an additional fee for self performed work while other Owners allow a GC to bid certain work and possibly perform the work on a lump sum basis. Both approaches are ripe for manipulation. The possibility of an additional self performed fee, or lump sum work within a larger GMP, for a contractor is like putting chum out in shark infested waters; it is sure to attract attention. For an Owner, it is too hard to define what self perform means, what the fee should apply to and what it should not, too hard to monitor and verify, too hard to verify that real bidders are actually bidding for real, and next to impossible to verify and require the GC to structure bid packages that make sense. A recent project had a GC creating a misc. work package, to be bid by themselves and others, that included purchasing coffee for the trailers, among other items. Another recent project had the GC applying a self performed fee to a scope of work that was 100% purchased through one subcontractor. Lastly, is the case of a GC charging the Owner for self performed work, on a lump sum basis, and actually buying most of the cost through subcontractors that were also charged 100% to the Owner.

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Contractor Controlled Insurance Programs (CCIP) – The concept seems seductively simple and worthwhile, one provider of W/C and GL insurance for both GC and subcontractors at the same or reduced cost to the project. However, the reality is sometimes much different. Many times the Owner is faced with negotiating a CCIP rate without any information on what true GC and sub cost, is. Pegging CCIP cost to subcontractor deducts can be just as subjective, especially if the deducts are negotiated by the GC at the same time as the subcontract buyouts are being awarded and therefore subject to manipulation by the GC. Buying subcontractor Umbrella/Excess liability insurance is also problematic, given that subs purchase such insurance as a fixed cost and therefore cannot credit the project for credits they do not actually receive. We have seen some GC's using CCIP as a way of front end loading the billings or duplicating costs billed. Regardless, it is our view that unless the project requires a specific insurance that is not readily insurable by subcontractors, a CCIP is not typically an option that reduces cost and in many cases actually increases the cost of the project for the Owner.

CCM News

We are delighted to report that Chris Wolbrink has been promoted to Associate Principal. Chris has been with us for seven years and had been invaluable to our audit engagements as well as bringing construction management expertise to our consulting and audit efforts. Chris leads our peer review estimating team and is front and center on construction claims support.

Additionally, early this year, Scott Jaye joined our Group. Scott lives in Atlanta and brings 15 years worth of national general contractor controllership experience to CCM. Scott's local presence in Atlanta will be benefit to our clients there and in the Southeast. Scott attended Auburn University and is a CPA.