

Construction Fee Factors



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“What should the fee be on this construction job?”

This seems like a straightforward question, but it is not that easy for the construction industry professional to answer. Contractors, owners and advisers may have a target percentage in mind as a general rule of thumb, but the actual figure can vary widely from contractor to contractor and can depend on the project scope, the contract risk allocations, the site conditions, and marketplace and macroeconomic factors.

The following four charts are intended to help the professional gauge whether the contractor's fee on a particular contract should be relatively higher or lower than his or her benchmark. For fixed-price contracts, this is a matter of concern chiefly within the contractor's organization as it develops its bid or price proposal; the compensation for profit, overhead and risk generally thought of as the fee is simply part of the lump sum. For reimbursable contracts including those with a guaranteed maximum price (GMP), though, the fee and other separate elements of compensation are of intense interest to others, including the owner and its financiers. One way or the other, the contractor is compensated for its costs and risks—in separately reimbursed items; in a “general conditions” or “general requirements” line item with separate unit costs, a separate percentage, or separate fixed prices; or (if covered nowhere else) as part of the costs and risks the contractor undertakes in return for the percentage or fixed-amount fee.

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FIXED-PRICE AND REIMBURSABLE-COST PRICING

The first question is what is the pricing structure for the project. The distinctions between fixed-price and reimbursable-cost pricing are illustrated in Charts 1 and 2 respectively. The owner has greater visibility into the components of reimbursable-cost pricing and the parties spend more time and effort negotiating them as separate elements.

CHART 1: FIXED-PRICE PRICING COMPONENTS

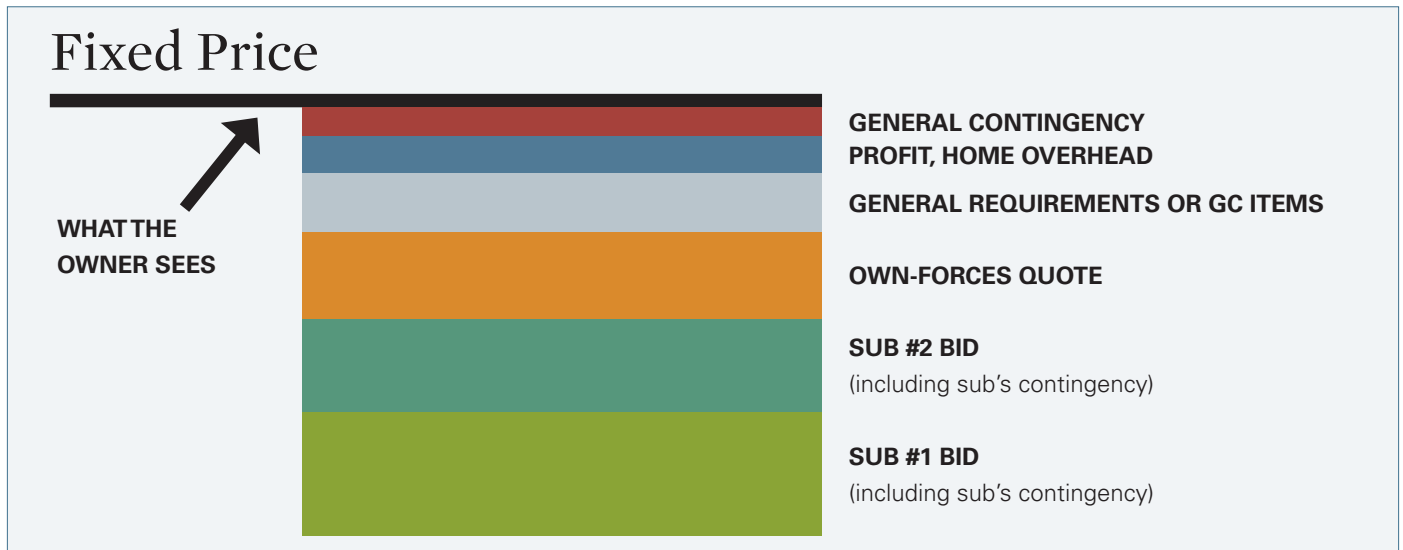
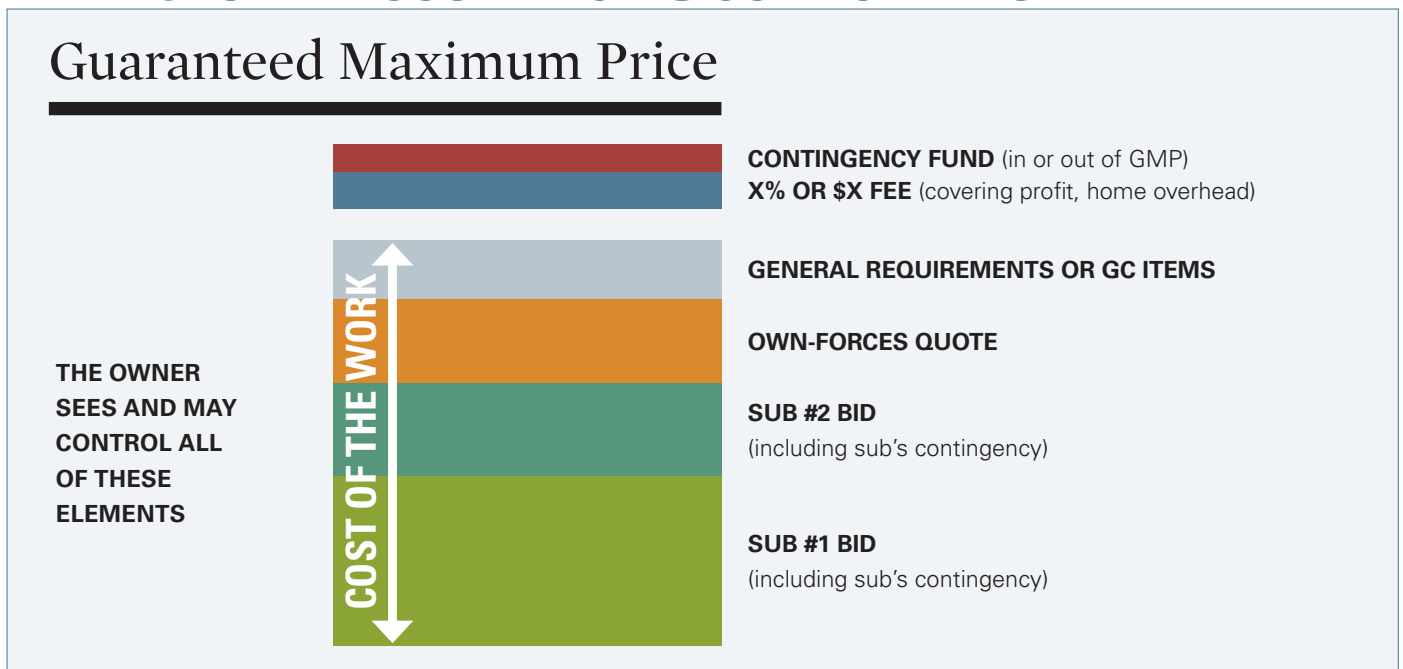


CHART 2: REIMBURSABLE-COST PRICING COMPONENTS



GENERAL REQUIREMENTS ITEMS

The next question is whether the fee must include compensation for construction activities, services or equipment that affect or benefit the contract or project as a whole—what are sometimes called “general requirements items.” This term arises from the MasterFormat classification system of the Construction Specifications Institute (CSI) for project elements and expenses: division 2 site construction, division 3 concrete, division 4 masonry and so on. The first division, division 1, is called “general requirements” and covers items and associated costs not found in the other divisions.

Some or all of these items are occasionally called “general conditions items” or “GCs” for short. Confusingly, “General Conditions” is also the name of a contract document, such as document A201 of the American Institute of Architects (AIA), which may or may not cover the same subjects, costs and risks as the CSI division 1.

In setting or reviewing a proposed fee for a construction project, one needs to know whether that fee must include compensation for the following items. If such an item is priced separately—whether as a reimbursable cost or as part of a per-unit cost, a separate percentage, or a separate fixed amount for “general requirements items”—then the fee does not need to cover it, and one can expect the fee to be correspondingly lower.

Chart 3 illustrates items that are sometimes identified as General Requirements or General Conditions, and compensated for in a General Requirements or General Conditions line item separate from the contractor’s fee. In any given contract, some or all of these may be compensated for as part of the contractor’s fee or, alternatively, priced separately at the contractor’s actual cost (with or without a markup).

CHART 3:

POTENTIAL GENERAL REQUIREMENTS ITEMS

MOBILIZATION

DEMOBILIZATION

JOB ADMINISTRATIVE EQUIPMENT

- Jobsite trailer (rental, setup, utility connection, removal)
- Jobsite office furniture
- Jobsite office supplies
- Jobsite computers, copiers, fax machine
- Jobsite postage and shipping
- Jobsite computer network or wireless
- Landline and cellphones and service
- Small tools

JOB MANAGEMENT & ADMINISTRATIVE PERSONNEL

- Project Representative or Executive
 - Project Manager
 - Project Superintendent
 - Project Engineer
 - Project Administrator
 - Project Safety Engineer
 - Project accounting and computer personnel
- [Some contracts distinguish between onsite and off-site personnel, with latter covered in fee]*

ENGINEERING & SERVICES

- Layout, surveys
- Scheduling services
- Progress photographs

INSURANCE & BONDING

- Insurance policies for workers’ compensation, employer liability, commercial general liability insurance, excess or umbrella insurance
- Builders’ risk insurance for project, or for contractor tools and equipment only
- Other lines of insurance
- Payment and performance surety bonds

CONTRACTOR VEHICLES

- Automobiles, pickup trucks
- Forklifts
- Man hoists
- Skip loaders
- Cranes

[Some contracts distinguish vehicles owned by or under long-term lease to contractor (compensated in the fee) from vehicles rented for the project in question (rental costs being reimbursable).]

UTILITIES & SERVICES

(connection, services, disconnection)

- Electricity, water, toilets, wash stations, janitorial, dust control, site dewatering, tree protection and trimming, winter protection/maintenance, street sweeping
- Site security
- Interim cleanup labor, final cleanup labor
- Debris boxes, recycling and materials separation
- Hazardous materials handling

GENERAL SAFETY

- Traffic control, barricades
- Temporary stairs, scaffolding
- Fire protection and extinguishers
- Protective equipment (extra hard hats, goggles) and first aid

SITE CONDITIONS

- Pedestrian signage and striping
- Temporary roads and parking lots
- Parking shuttle, parking passes
- Staging and storage areas and containers
- Protection of existing facilities, equipment, walkways
- Man hoist pad
- Site fencing, access gates
- Tool shed
- Protection of new elevators, stairs

CHART 4:

CONSTRUCTION FEE ADJUSTMENT FACTORS

Once it is clear what general requirements items are being compensated for outside the fee, it is possible to have a better analysis of how a construction industry professional's benchmark fee might be subject to increase or decrease due to project-specific factors. The following chart identifies factors and characteristics that may tend to lower or raise the fee.

| Lower % Fee | Adjustment Factor | Higher % Fee |
|---|---|---|
| Higher GR compensation | Separate General Requirements (or General Conditions) compensation | Lower or no GR compensation |
| Only home office overhead covered by fee | Fee includes compensation for overhead | Local and home office overhead covered by fee |
| Larger size project | Size of project (relevant to economies of scale, fast recoupment of fixed costs) | Smaller size project |
| Lower risks | Project risks (float in schedule, cushion in price, site conditions, cost and schedule relief for Force Majeure and owner-caused delays) | Greater risks |
| Lower damages, must prove actual damages | Damages for delayed completion or for failure to achieve performance metrics | Higher damages, liquidated damages |
| Consequentials waived or limited | Owner consequential damages | Consequentials not waived or limited |
| Narrow indemnity, risk flowed to insurers or subcontractors | Contractor indemnity | Broader indemnity, not all covered by insurance or subcontractors |
| Complete, high quality | State of designs at time fee is quoted | Incomplete, lower quality |
| Higher self-performed work, contractor confidence in self-performance ability | Self-performed work (with opportunity of additional profit as well as additional exposure) | Lower self-performed work, or contractor concerned about self-performance ability |
| Sharing of underruns, bonus opportunity | Underrun sharing and bonuses | No sharing of underruns, no bonuses |
| Usual and known subcontractors, equipment and vendors | Subcontractors, equipment and vendors | Unusual or unknown subcontractors, equipment and vendors |
| Higher, accessible by contractors | Contingency | Lower, under control of owner or financier |
| Owner bears risk on allowances | Allowances | Contractor bears some risk on allowances |
| Higher change order markups, higher likelihood of change orders | Markups on change orders (opportunity of additional profit) | Lower change order markups, lower likelihood of change orders |
| Lighter oversight | Oversight by owner, agencies, financiers, independent engineers | Greater oversight |
| Favorable conditions | Work conditions (remote location, transportation difficulties, material shortages, weather, etc.) | Unfavorable conditions |
| Fast pay reputation and requirements, low retainage, less bonding or security | Payment and security arrangements and reputation | Slow pay reputation and requirements, high retainage, more bonding and security |
| Depressed market, aggressive contractors | Market conditions | Heated market, contractors more selective or trying to recoup losses |
| Unique job with resume value | Project prestige | Job with no such characteristics |
| Good reputation for efficient administration | Owner and financier reputations | Unknown or adverse reputation |