



GUARANTEED MAXIMUM PRICE FAQ

Because multiple agencies seem to be struggling with managing their CMGC and Design/Build GMP projects, this document is here to try and take all the contract and policy information and hit the most often asked questions

What is the FIXED LIMIT OF CONSTRUCTION COST?

WHO: Established by the Owner

WHEN: Typically established when the appropriation is approved as part of the budget and subsequent Construction Project Application (SC4.1)

It can only be increased by Amendment

WHAT: The term "Fixed Limit of Construction Cost" shall set forth a dollar amount available for the total Construction Cost of all elements of the Work as specified by the Principal Representative.

WHAT IS IT REALLY? The Fixed Limit of Construction is the dollar value that the Owner is willing to spend on construction. It has no real bearing on the GMP except that some agencies put a portion of the Owner's Project Contingency into the Fixed Limit of Construction, knowing there will be unforeseen conditions, minor scope creep, failed last-minute inspections etc.

What is the GUARANTEED MAXIMUM PRICE (GMP)?

WHO: It is provided by the Construction Manager (CM) and accepted by the Principal Representative

WHEN: at the end of the **Design Development** phase of the project.

WHAT: The term Guaranteed Maximum Price means the **maximum amount** for which the work shall be accomplished as provided by the Construction Manager. It shall include all of the Construction Manager's obligations to be performed pursuant to the terms of the Contract Documents.

The list of items that should be included and defined by the CM:

- Construction Managers Fee (As defined on Exhibit A of the Base Agreement)
- General Conditions Fee (As defined on Exhibit A of the Base Agreement)
- Total of all prices already bid by the CM
- Estimate of all work that needs to be performed but not yet bid
- Allowances that cannot be defined by an estimate
- Any add or deduct alternates
- Bidding Contingency
- Construction Contingency

WHAT IS IT REALLY? The GMP is a contractor essentially "betting" they can complete a defined, though not fully detailed, scope of work within a fixed cost. This is why they have a Bidding Contingency and a Construction Contingency - to cover their bets.

What is included in the CONSTRUCTION MANAGEMENT SERVICES?

As delineated in *EXHIBIT A, Designated Services and Method of Payment*:

Pre-Construction Services Fee: Means the Work done by the Construction Manager in the management and definition of the project **prior to the awarding of construction contracts** for any bid package.

Construction Services Fee: As defined by Exhibit A

General Conditions Fee: As defined by Exhibit A

Direct Cost of Work – Same as Buy-Out. When the CM has bid out the work, evaluated those bids and is ready to award subcontracts to those bidders. In other words, it is what the contractor is actually going to pay for the work. It never includes Bidding or Construction Contingency, however it can reduce the contingency.

What is the LUMP SUM CONTRACT PRICE: All fees listed as Designated Services plus the Direct Cost of Work for completed bids.

What is the PROJECT CONTINGENCY?

1. BIDDING CONTINGENCY

Equal to 2.5% of the GMP

The intent of the Bidding Contingency is to cover overages between the Estimate and the buy-out.

Any unused Bidding contingency may be used for whatever the Owner (Principal Rep.) wishes to add to the project.

2. CONSTRUCTION CONTINGENCY

(CMGC) equal to 3% of the GMP

(DB/GMP) equal to 3.5% of the GMP

Expenditures from the construction contingency shall be made only by Change Order.

It is not the intent to use this contingency to add scope outside of the approved GMP.

Shall only be used to cover the **Construction Managers costs** for:

- Work to be furnished during the construction phase of the Project.
- Costs (i) arising from estimating cost overruns in the costs of the Allowance Schedule
- Unexpected additional trade coordination costs incurred for Work directly performed by the Construction Manager that could not have been reasonably contemplated
- Items required and reasonably inferable from the Contract Documents
- Items included within the Contract Documents but missed within the subcontractor buy-out which the Construction Manager can show were not specifically called out within the estimate or bid documents of the Construction Manager or any subcontractor
- Losses or damages to property related to the Work not covered by insurance provided by the Construction Manager, but not including any insurance deductible(s)
- Costs arising from expediting or acceleration of the Project schedule where such cost is not a basis for an increase in the GMP
- Bid Package buyout overrun costs for additional Bid Packages that were not part of base agreement but only if bidding procedures were followed and the bidding contingency has been exhausted
- Other costs incurred not reasonably to have been expected that are approved by the Principal Representative in the Principal Representative's sole discretion, so long as those costs are not recovered under any insurance policy

It shall not be used for:

- Costs incurred during the Pre-Construction phase or bidding phase

- Costs to correct any errors, omissions, mistakes or rejected Work caused by subcontractors.
- Scope increase outside the GMP unless mutually agreed upon by the Construction Manager.

What is the OWNER'S PROJECT CONTINGENCY?

This is defined by the Construction Project Application (SC4.1). The percentage is applicable to the sum of Professional Services, Construction, FFE and Misc. Project Expenses.

5% New Construction

10% Renovation

Review OSA SBP *Policies and Procedures: Project Monitoring and Cost Management Guidelines*. Part III Contingency Management.

It is important to recognize that the Owner's Project Contingency is established to **compensate for unknowns**. It is not the intent of this contingency to add scope of work outside legislative intent or added value work unless the project has experienced a favorable bid environment.

As a general rule, the GMP should be established without utilizing the requisite percentage of the Owner's Project Contingency that is attributed to the construction budget, as demonstrated in the *Authorization to Bid (SBP-6.10)* for Design/Bid/Build delivery methods.