Guaranteed Maximum Price Contracting: The Promise and the Pitfalls

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Speakers:
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Defining Terms

Management Options

Delivery Systems

Procurement/Selection

Contracting/Payment/Reimbursement
Defining Terms

Management Options

Delivery Systems

Procurement/Selection

Contracting/Payment /Reimbursement
Defining Terms

- Management Options (in-house or outsourced)
- Contracting/ Reimbursement
  - (GMP, cost plus, lump sum, ...)
- Delivery Methods (DBB, CMR, DB, Other)
- Procurement/Selection
  - (low price/ best value / qualification based)
Contrast Delivery System and Management Options with 
**Contract Type**

- Firm fixed price (lump sum)
- Guaranteed maximum price
- Cost plus
- Negotiated lump sum
# HYBRIDS - VARIOUS MANAGEMENT OPTIONS and CONTRACT TYPES

## Theoretical Possibilities: 144

### SELECTION TYPES

<table>
<thead>
<tr>
<th>Low Bid</th>
<th>Best Value</th>
<th>Qualifications Based Selection</th>
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<tbody>
<tr>
<td><strong>Design-Bid-Build</strong></td>
<td><strong>CM At-Risk</strong></td>
<td><strong>Design Build</strong></td>
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Guaranteed Maximum Price (GMP)

- A price mechanism or contract type
- Owner Agrees to reimburse the costs of the work, up to a prescribed ceiling amount—the Guaranteed Maximum Price.

*Project Delivery Systems for Construction, The Associated General Contractors of America*
So You Want to Use a GMP?

- When do I hire the GMP contractor?
- When do I set the GMP?
- What if we can’t agree on a GMP?
- Can the GMP ever be exceeded?
- Do I need a contingency?
- What’s an allowance?
- What is this design development - scope change dilemma?
GMP - Contractor’s View

- Private Industry
- Public Agencies
“Aligned Incentives”

- Relationships / Trust
- Understanding of the Project Scope & Budget
Contingencies

- Design / Pricing
- Owner
- Construction
GMP BUILDUP
GMP BUILDUP
General Conditions

Costs of the Work

Contingency

Fee
Costs of the Work

General Conditions

Fee

Contingency

Savings

Final Cost
Construction Agreement Types

- **60 percent** are nominally fixed price for a given set of “final” construction documents.
- **20 percent** are GMP contracts, which often are based on only 75–85 percent complete construction documents.
- **20 percent** are various open-ended agreements (e.g. time and materials, cost plus fee, fees based on unit costs).

“Saving the Construction Industry from Itself”, Barry LePatner, AIA Practice Management Digest, Winter 2009
Getting the Best Value for Our Construction Dollars
A Primer on Construction Delivery Methods for Owners

**COMPETITIVE BID (DESIGN/BID/BUILD)**

Often referred to as Design/Build/Bid, this method is the one with which most Owners are familiar. It is a linear process where one task follows completion of another with no overlap possible. Plans and specifications are completed by the architect and then bids are issued. Contractors bid the project exactly as it is designed with the lowest responsible responsive bid awarded the work. The design consultant team is selected separately and reports directly to the owner.

**CONSTRUCTION MANAGER AT RISK (CMAR)**

CMAR allows the owner to interview and select a fee-based firm, based on qualifications and experience, before the design and bidding documents are fully completed. The construction manager and design team work together to develop and estimate the design. A guaranteed maximum price (GMP) is provided by the CM, who then receives proposals from and awards subcontracts to subcontractors. The final construction price is the sum of the CM's fee, overhead, and contingencies and the subcontractors' proposals. Any unused contingency at the end of the project reverts to the Owner. The design consultant team is selected separately and reports directly to the owner.

**DESIGN/BUILD (DB)**

The contractor and architect are one entity hired by the Owner to deliver a complete project. A guaranteed maximum price (GMP) is provided by the DB early in the project, based on design criteria prepared by the school and a moderately developed design by the architect. The contractor/architect then develops drawings that fulfill the criteria and complete the design, while staying below the furnished GMP. The contractor then receives proposals from and awards subcontracts to subcontractors.

**Advantages**

- Single point of responsibility for design and construction
- Selection of contractor based on qualifications, experience and team
- Faster project delivery than traditional bid, slightly faster than CMAR; fast track construction possible
- Guaranteed price possible earlier in process
- Price tends to match quality (also a disadvantage)
- No change orders written for this Consultant costs and submittals- covered through allowance on GMP. Owner is responsible for other change costs.
- **BEST SUITED FOR:** Construction projects that are highly time sensitive, projects with smaller user groups or reduced need for user review and mid-course design changes.

**Disadvantages**

- No check and balance between contractor and architect; Owner left to fend for himself versus the contractor, creating potential for reduced quality and increased potential for conflict between Owner and DB team
- Difficult for Owner to determine whether the best price has been achieved for the work
- Initial costs likely higher than traditional bid due to increased consultant risk, reduced competition in pricing of contractor overhead, fee and sub-contract costs
- Changes difficult and expensive to make once construction begins, due to phased construction and cost overruns, inflating budget
- Considered “simplified.” Owner must have a clear idea of scope and concept before selection
- Owner has no input on selection of proposed design team
- Over-estimates on price may compromise quality
- Increased speed and fewer reviews increase potential for mistakes, missed items, etc.