

MONITORING AND CONTROLLING COSTS AND COMMUNICATING REGARDING COST ISSUES

Cost control is a central Reich process by which the project team develops specific methods to control the individual elements of the project that ultimately affect cost. In a successful project, cost is controlled before the ground is ever broken. Our approach to cost control is detailed, upfront preparation before construction starts. It is always an open book process.

Reich uses three steps to effectively control cost:

1. Identification of cost
2. Establishment and execution of cost control methods
3. Cost reporting

IDENTIFICATION OF COST (COST ESTIMATE)

The first step in a successful cost program is identification of all elements of cost and risk associated with the project. We accomplish this with a comprehensive cost estimate and the budget report. The cost estimate identifies all costs which are known to be in the project. The budget report identifies all elements of risk, potential cost not identified in the estimate (if any), and specific strategies to manage both the estimated costs and the risks. We can create accurate cost estimates and budget reports using our extensive experience, in-house database, firm subcontractor bids, and sharing cost information with the architect.

A working cost estimate and budget report will be prepared for each phase of the project. This will prove to be a critical activity in the beginning phases of the project. We will update the cost estimate and budget reports for each phase of the project, based on schematic design, input from the project team, and our database. Each phase will have both a dollar value and a time associated with it. This creates the ability to make early scope and quality decisions with full confidence of the cost impact. Estimates are created based on the stages of completion of the design process.



PNC Park
Pittsburgh, PA

Once the conceptual design drawings are complete and approved, Reich prepares a preliminary cost estimate using real costs from suppliers and our database. Once approved, it will be used as a guide throughout the design activities of the project. Design progress will be periodically compared to this budget to ensure consistency and aid in design and material decisions.

When the design process is 50-60 percent complete, you will have a sufficient comfort level with the project design and cost to begin making financial commitments to expedite the project. At this time, we can order any long-lead materials or equipment and start the permitting process.

CONSTRUCTION MANAGEMENT

When the drawings are 75-80 percent complete or sufficiently complete as determined by the team, Reich will prepare a cost estimate to be used as the basis for the Guaranteed Maximum Price. Since the drawings will not be 100 percent complete at this point, we will supplement the bid documents with the outline of specifications and details to ensure that subcontractor's bids are accurate and complete.

EXECUTION OF COST CONTROL METHOD

Now armed with a complete knowledge of scope, cost, risk, and management objectives, we can execute the plan. In order to execute the strategies contained within the budget report, management performs the following:

- Assigns buyout, procurement, sub-contracting, verification, and reporting responsibilities.
- Formally identifies the final budget.
- Creates a comprehensive code of accounts.
- Establishes a proven system for handling the data.
- Establishes provisions for timely and accurate review and forecast of costs.
- Establishes provisions for prompt action to adjust to changing conditions.

Each Reich member of the project team will be involved in the development and pre-construction phases of the work and recognizes the importance of cost-conscious behavior throughout the project.

SUBCONTRACTORS AND PRE-CONSTRUCTION BIDDING

The project team will work ensure subcontractor bids are accurate. This process starts long before subcontractors are hired.

Subcontractors are given a bid package that contains a complete and clear description of the subcontract agreement, scope of work, and schedule. By defining all intended elements of the project and communicating them to the subcontractors, their pricing reflects exactly what the project requires. Reich also has the opportunity to extract any contingency dollars from their estimates.



Jacksonville Veterans Memorial Arena
Jacksonville, FL

In the final selection of subcontractors, Reich evaluates their capability to perform with respect to cost, manpower requirements, quality, and general attitude.

The subcontracts are properly written to fix as many change order cost elements and leave as few variables as possible. We accomplish this by negotiating the following items up front:

- Open cost breakdowns for change orders
- Basis for manpower productivity rates
- Labor rates (maximum allowable per trade)
- Basis for material costs (wholesale not retail)



- Fixed mark-ups for:
 - Profit
 - Overhead
 - Tools and equipment
 - Trucks and transportation
 - Handling or delivery
 - Supervision
- Exclusion of other indirect costs

Sandy Lane Reosrt
Barbados, West Indies

Once subcontractors are selected, Reich reviews value-engineering ideas with them and proposes suggested changes for consideration. This process takes advantage of each subcontractor’s knowledge of the project and maximizes the cost effectiveness of the design.

When subcontractors have a clear understanding of what is to be included in their scope of work and change orders, contingency is eliminated from their price. The result is accurate pre-construction bids and an accurate overall budget.

MATERIALS

The materials purchased for the project are also handled to control cost. The materials purchased by Reich personnel are priced by competitive pricing. They are identified, scheduled, and ordered in sufficient time to ensure “non-critical” pricing and delivery.

SELF PERFORMANCE

Any work considered for self performance by Reich is cost justified via competitive bids from sub-contractors. Any decisions to self perform work will be made by the entire project team in light of the best interests of the project.

GENERAL CONDITIONS

Each element of the general conditions will be closely evaluated by the project team during the pre-construction and pre-planning phases. Only those personnel and costs deemed necessary by the project team will be expended.



CHANGE ORDERS

Managing and preventing change orders is a critical part of controlling construction costs. Effective change order control starts by limiting exposure through controlling subcontracts. Tight controls and careful technical examination of the required cost breakdowns will ensure fair consideration and pricing.

COST REPORTING

To monitor and evaluate our performance in controlling costs, we employ several forms of cost reporting. Reich tracks project status through our cost accounting system. The following reports will provide team members with up-to-date information on the status of each aspect of the project.

Budget Report

This report establishes the final budget by summarizing our operational plan for the project.

Ben Hill Griffin Stadium
Gainesville, FL

Cost Commitment Report

This is the most detailed job cost report available. The report tracks incurred job costs and cost commitments.

Project Status Report

This report allows the project team to re-forecast anticipated job costs on a monthly basis.

Labor Plan Report

This labor plan report contains a plan for the self performance of a particular trade, along with manpower and productivity rates for each activity.