

# Selecting a General Contractor

*This worksheet is designed to help organizations choose the right general contractor to build or renovate their new facility.*

In most cases, the contract with the general contractor may be the single largest item in the development budget. A contractor can bring a project in on time and under budget, saving time and money, but can also be responsible for long delays and cost over-runs, costing time and money. In addition to being responsible for the construction of the building, the contractor is responsible for coordinating, supervising; and paying all subcontractors; ordering equipment and materials; submitting paperwork associated with payment requests; and site security. The success or failure of a project can rest on the skill of the contractor. It is critical to carefully select an experienced contractor and to hire an attorney experienced with construction contracts to negotiate on your behalf.

In selecting a contractor to meet your organization's expectations and project demands, it is important that you consider the overall size, experience and business approach possessed by each candidate. Your organization should choose the contractor that has performed well on similar projects, and brings to the project the optimum balance of experience, positive references and working chemistry.

## **Decide on the Selection Process and Type of Contract**

Your architect or project manager can assist you in prequalifying several contractors by looking at:

- The reputation and relevant experience of the contractor and team members.
- The contractor's experience working with nonprofit organizations.
- The budget-and-schedule track record of the contractor as confirmed by references.
- Evidence of repeat clients as well as the contractor's recent project history.

- The proposed construction monitoring process.
- The quality and durability of the contractor's work.

Decide whether to competitively bid the project or choose a general contractor early to work with your architect to provide a Guaranteed Maximum Price contract (*see below*).

Your architect and project manager should recommend the type of contract you should enter into with the general contractor and manage the bidding and selection process on your behalf.

Competitively bidding usually means securing the best pricing, but not always. The methods for contracting with general contractors are as follows:

- A *Cost Plus Fee* contract requires a lot of time from the designated staff person or project manager. It is an open-ended agreement that requires a strong relationship and a high level of trust between the project manager and the contractor. The contractor will charge for the actual cost of the work plus a fee. This type of contract transfers most of the project risk to you. If possible, negotiate a cap on the total to remain within the project budget.
- A *Guaranteed Maximum Price (GMAX or GMP)* does not require a large time commitment from the designated staff person or project manager. The contractor will provide you with a price that will not be exceeded before drawings and specifications are 100% complete. If the cost of the project is exceeded the contractor is responsible for the additional expense. Savings may be negotiated to go back to or be split with the owner. This type of contract transfers most of the project risk to the contractor. The contractor may price the project higher to ensure that his or her expenses are completely covered.

- A *Lump or Stipulated Sum* may require a substantial time commitment from the designated staff person or project manager. A contractor, upon reviewing completed drawings and specifications, stipulates the sum that he or she will charge to complete the project. The GMP and the lump sum contracts both allow for “change orders”. A change order is a request for additional expenditures and must be approved by both you and your architect. This type of contract transfers most of the risk to the contractor.
- A *Design Build* contract provides for both architectural and contracting services. The level of paperwork and demands on the designated staff person or project manager’s time can be greatly reduced because there is a single point of contact. It is critical to have developed a scope of work and budget early on in the process in order to communicate the project goals to the contractor. The contractor will design and build the project based on your specifications. The disadvantage to the design build contract is that you have less control over the finished product. This type of contract shifts most of the risk to the contractor.

**Incorporate Project Goals into the Construction Documents**

Be sure that your architect and project manager understand your project goals and incorporate them into your bidding documents and construction contract. For example:

- *Construction start date:* If the project involves new construction or extensive interior work, consider the potential costs and delays associated with construction in winter.
- *Design priorities:* Determine items that cannot be eliminated or substantially changed through the value-engineering process.
- *Community priorities:* Determine the level, if any, of community participation (such as hiring local residents) the organization desires on the construction project.

- *Organizational priorities:* A construction contract can represent a substantial investment in a community. Set goals at or above funding requirements for MBE/WBE (minority/woman-owned business) participation, if applicable.

**Evaluate Bids**

If you decide to competitively bid to select your contractor, your architect and project manager should assist in your review process.

Remember, the lowest price isn’t always the best price.

**Interview Contractors**

If bids come in within a close range, you can interview the contractors to help make a decision. In interviewing contractors, be sure to ask about:

- The proposed project team, including the qualifications of specific individuals assigned to the project.
- The level and type of involvement one can expect from the contractor and key personnel (site supervisor, project superintendent, etc.).
- The contractor’s approach to cost control and value-engineering.
- The contractor’s experience in getting local approvals.
- The contractor’s bonding capacity and insurance coverage. What, if any, set procedures the contractor has for solving design problems.
- The contractor’s approach to the construction of the building.

- The contractor’s experience working with nonprofit agencies, public financing or relevant projects.
- The contractor’s approach to employment inquiries on site.
- Participation requirements for your organization. If there are requirements associated with your funding sources, ask about the contractor’s history of MBE/WBE (minority/woman-owned business) participation.

**Check References**

This final step is critical. Your principal question should be aimed at discerning whether the previous client would use the same contractor again, and why or why not. Other questions to ask references include those listed above under the interview questions.

**Negotiate a Contract**

The draft contract should be included in the “bid documents”. Before signing a final contract, however, you should consider the following:

- When signing a contract, know that pricing is normally good for 90 days.
- AIA (American Institute for Architects) contracts are the industry standard.
- Review the contract carefully with an attorney familiar with standard construction practices.
- The contract with the contractor governs the relationship and lays out the date of commencement and substantial completion, the contract sum, payments, responsibility for obtaining permits, dispute remedies and termination or suspension.
- If you hire a project manager, the contract should include language authorizing your project manager to act on your behalf.
- The contract must outline any residency, MBE/WBE, and/or wage restrictions associated with the project financing.