

DESIGN / BUILD PROCESS

Customer



KESSEL CONSTRUCTION INC

345 High Street
Bradford, PA 16701

Phone: (814) 362-4696
Fax: (814) 362-2176

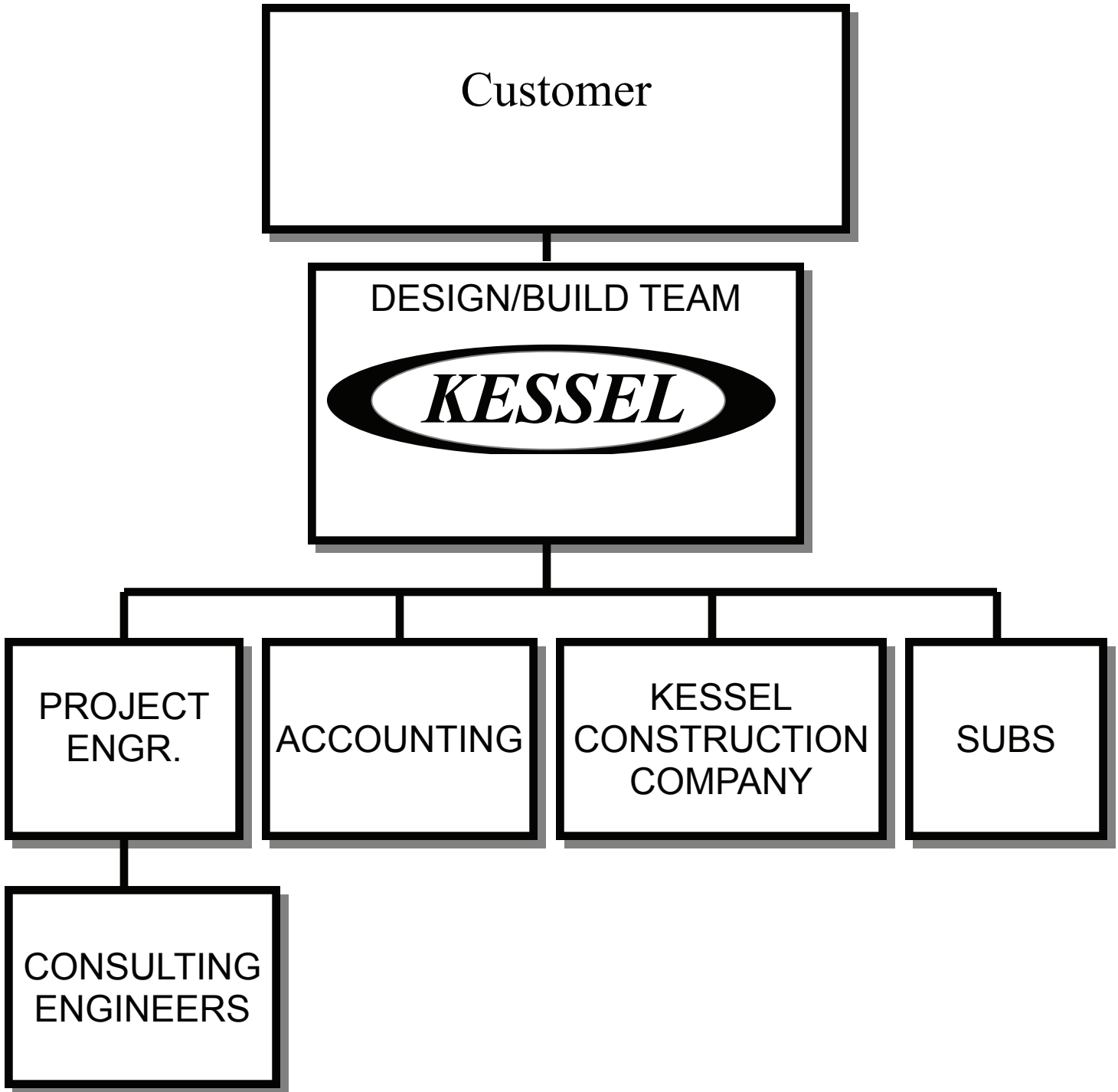
DESIGN / BUILD PROCESS

TABLE OF CONTENTS

1. ORGANIZATIONAL STRUCTURE
2. HOW PROJECTS ARE BUDGETED
3. ESTABLISHING THE GUARANTEED MAXIMUM PRICE (GMP)
4. FORM OF CONTRACT
5. MONITORING PROJECT COSTS
6. BIDDING
7. CONTINGENCY FUND
8. CHANGES
9. MONITORING PROJECT PROGRESS
10. INVOICING
11. ADVANTAGES OF DESIGN / BUILD

ORGANIZATIONAL STRUCTURE

(SUGGESTED)



HOW PROJECTS ARE BUDGETED

In the Design / Build process, the construction professionals does all budgeting and cost reviews. Kessel Estimators would assume this responsibility.

The system used for developing construction estimates follows a standard CSI (Construction Specification Institute) 16-Division format as follows:

- Division 1 - General Conditions
- Division 2 - Site Work
- Division 3 - Concrete
- Division 4 - Masonry
- Division 5 - Steel
- Division 6 - Carpentry
- Division 7 - Thermal and Moisture Protection
- Division 8 - Doors and Windows
- Division 9 - Finishes
- Division 10 - Specialties
- Division 11 - Equipment
- Division 12 - Furnishings
- Division 13 - Special Construction
- Division 14 - Conveying Systems (Elevators)
- Division 15 - HVAC, Plumbing and Fire Protection
- Division 16 - Electrical

ESTABLISHING THE GUARANTEED MAXIMUM PRICE (GMP)

The GMP is the price established by the Design / Builder, which is the basis of the contract and is the amount that will not be exceeded. Typically, the GMP includes all estimated costs (labor, material, equipment, subs) plus an amount for overhead and profit and a contingency.

The Owner will be invoiced for only the actual project costs plus overhead and profit. If these costs exceed the Guaranteed Maximum Price, there are no additional costs to the Owner beyond the GMP. However, if these costs fall below the Guaranteed Maximum Price, the difference remains with the Owner.

KESSEL CONSTRUCTION INC

KESSEL

FORM OF CONTRACT

Contracts typically take one of the following forms:

- Cost plus a percentage
- Cost Plus a fixed fee

Cost Plus a Percentage Fee

This Contract reimburses the Design / Builder for all direct project costs incurred including labor, material, equipment, and subcontractors plus a fee. The fee is established as a percentage of the direct project cost. As the project costs fluctuate, so does the contractor's fee. The contract is written for the guaranteed maximum price (GMP).

Cost Plus a Fixed Fee

This Contract reimburses the Design / Builder for all direct project costs incurred including labor, material, equipment, and subcontractors plus a fee. In this case, the fee is a fixed dollar amount. If the costs of the project fluctuate, the contractor's fee remains the same. The contract is written for the guaranteed maximum price (GMP).

KESSEL CONSTRUCTION INC



MONITORING PROJECT COSTS

Direct Labor and Material Cost

After a budget is established, the estimated labor, material, equipment and sub-contract costs are assigned a code number for tracking throughout the project.

Each “coded task” is traced throughout the project to monitor actual costs as compared to the estimate. The Owner can be provided with periodic reports for each task.

The builder generally prefers to do a certain portion of the work with their own forces to control the pace of the project. Any work performed by the contractor’s own forces would be coded and monitored as described above. The work typically includes:

- General Conditions
- Demolition
- Miscellaneous Carpentry
- Structural Issues

The unit costs established for the individual work tasks are developed from many years of actual feedback from the field. These costs are broken down into appropriate units (square foot, ect.) These units are industry standards, which can be monitored through numerous outside pricing services such as Means, ect.

BIDDING

All items of work not done by the contractor's own forces would be competitively bid to subcontractors. Kessel Construction Company will pre-qualify subcontract bidders and coordinate the bid process. Owner-preferred subcontractors will be included as specified by the Owner.

After receipt of competitive pricing, bids will be reviewed with the Owner, who may participate in the selection. After selection of the subcontractor, a contract is signed between the Design / Builder and the Subcontractor and the Design / Builder coordinates their work into the project.

CONTINGENCY FUND

A Contingency amount is included in the budget and is a part of the GMP. The Contingency line item is used to store money that varies from the various “coded tasks”.

- If final costs are less than the budget for the task, the additional money is deposited into the contingency fund.
- If final costs exceed the budget for the task, the money is withdrawn from the contingency account.
- Any Subcontracts that are above or below the budget are handled in a similar manner.
- After the end of the project, all money remaining in the contingency is returned to the Owner.

Periodically, the Owner can be provided with a schedule showing the status of the contingency fund.

CHANGES

OWNER REQUESTED CHANGES

Any work requested by the Owner that increases the scope of the work will be estimated ahead of time. Reviewed with the Owner, and the guaranteed maximum price is increased by that amount by written change order.

The Additional item of work is broken down on a coded budget line item and costs are monitored in a similar manner as the rest of the project. The Contractor takes the risk of guaranteeing the increased total project cost.

If an Owner reduces the scope of work, the guaranteed maximum price is reduced accordingly and the budget line item are removed from the reports.

MONITORING PROJECT PROGRESS

MEETINGS

The Design / Builder will coordinate meetings on a regular basis (typically weekly) which are attended by the Builder, Architect, Engineers, major subcontractors, vendors, and Owner's representative. Agenda items reviewed at these meetings typically include the following:

- Coordination Issues
- Schedule updates
- Project look-aheads
- Owner concerns
- Budget review

Design / Builder prepares and distributes minutes of the meetings that outlines actions and responsibilities. These minutes are reviewed and updated at each meeting.

SCHEDULES

A schedule is prepared at the beginning of the project outlining the major tasks and the "critical path" of the project. The schedule is a working tool that is used to guide the design and construction team and is reviewed and updated on a regular basis.

INVOICING

Contracts of this size which are done on a time and material basis are typically invoiced twice monthly. Twice monthly billing will minimize the interest cost to the project.

Design / Builder will provide the Owner with the following reports as needed or requested:

- List of individuals and the hours worked on this project
- List of the individual “coded” tasks to which hours were charged
- List of all miscellaneous invoices including the amount and to whom paid
- List of all subcontractor invoices received

KESSEL CONSTRUCTION INC



ADVANTAGES OF DESIGN / BUILD

The advantages of construction the building in this manner are numerous and we will try to summarize them below:

- Independent research has shown that the Design / Build method of project delivery is the least costly method of delivering the project. See attached study.
- Independent research has shown that Design / Build projects have a higher possibility of meeting the Owner's expectations.
- Independent research has shown that the Design / Build method results in the quickest delivery of the finished project. (See attached study).
- This method allows Owner's input on a selection of subcontractors and vendors.
- This method allows donated labor and / or materials to be incorporated into the project throughout the course of the work.
- This method uses the "partnering" of all the participants who have, as their goal, the completion of a successful project on time and on budget rather than the adversarial relationships that exist in the traditional Design-Bid-Build process.
- This process will be using a team with good chemistry and is experienced in this method of project delivery.
- The financial books are open for review by all.
- This process is the least litigious way to deliver a project.