TYPES OF CONSTRUCTION CONTRACTS

Fixed Price Contract - a phrase used to mean that no bargaining is allowed over the price of the goods or services included in a contract. Fixed price contracts require significantly more time in advance, for all parties involved, to determine the price of each item to be included in the contract. Additionally, each fixed-price item must be specified in an addendum to the contract in order to determine the exact value and scope of the entire project. Once a fixed-price contract has been agreed to and the contractor has begun the project, making changes to the contract and/or the materials and work specified, becomes difficult for all parties because the purpose of a fixed price contract is to establish a specified price and items to be included for that price.

Cost Plus - Time & Materials Contract - a standard phrase for a construction contract in which the buyer agrees to pay the contractor based upon the cost of all work performed by the contractor's employees and subcontractors as well as all materials used to complete the construction; plus a percentage of all costs to compensate the contractor for his management and supervision skills.

With a cost plus contract, the owner never pays more to the contractor than what he receives and this keeps the overall costs manageable and predictable. Furthermore, it allows the owner to specify and change the building materials and installation procedures to complete the project up to his/her standards and personal tastes.

A cost plus contract is common when the original contractor abandons the work that was detailed in a fixed price contract, and the owner needs to locate a new contractor to repair damage caused by the first contractor and complete the remaining work specified in the original contract. However, when this situation occurs, the owner has usually paid a substantial advance deposit to the fixed price contractor to cover payments for the purchase of building materials. This unfortunate situation causes the owner to absorb the losses paid to the fixed price contractor after he abandons the project.

Cost Reimbursement Contract - a contract where a contractor is paid for all of its allowed expenses, plus an additional payment to allow for a profit. Cost-reimbursement contracts contrast with fixed-price contracts, in which the contractor is paid a negotiated amount regardless of incurred expenses. Cost-plus contracts first came into use in the United States during the World Wars to encourage wartime production by large American companies.

Cost Plus Fixed Fee (CPFF) - contracts pay a pre-determined fee that was agreed upon at the time of contract formation.

Cost-Plus-Incentive Fee (CPIF) - contracts have a larger fee awarded for contracts which meet or exceed performance targets, including any cost savings.

Cost Plus Award Fee (CPAF) - contracts pay a fee based upon the contractor's work performance. In some contracts, the fee is determined subjectively by an awards fee board whereas in others the fee is based upon objective performance metrics.