

April 26, 1995

VHA MEMORANDUM  
NO. 10-95-002

**MANAGEMENT OF MAJOR CONSTRUCTION PROJECT  
MARKET CONDITIONS ALLOWANCE**

1. **PURPOSE:** This Under Secretary for Health memorandum establishes a Veterans Health Administration (VHA) policy of strict internal controls on the management and release of the 5 percent market conditions allowance included in major construction projects.

2. **BACKGROUND:** During the fiscal years immediately prior to Fiscal Year (FY 1991), there had been a significant increase in the number of major construction project bid openings and 8(a) negotiations that resulted in costs in excess of Congressionally approved project budgets. This trend was attributed to several factors, including an apparent difficulty in developing the necessary construction market forecasts that are required to produce a construction project cost estimate 2 to 3 years in the future. The inclusion of a market conditions allowance in the project estimate is a common practice in the private sector to allow for the historic volatility in the construction market. This allowance is typically 5 percent of the total estimated construction cost at the time of bidding. Since the FY 1991 program, this 5 percent factor has been included in the estimated total project cost for VA major construction projects.

3. **POLICY:** The 5 percent market conditions allowance (MCA) is included in all major construction total project costs for the specific purpose of accounting for potential changes in the projects' eventual bidding climates. The dollars represented by the 5 percent MCA are not to be considered funds available for any design changes recommended by the client, project manager or architect-engineer (A/E) design firm contracted to design the particular major construction project.

4. **ACTION**

a. The "limiting construction cost" is formally communicated to the A/E through the A/E contract under the General Provisions Clause 52.236-22 (Design Within Funding Limitations). This cost is derived from VA Form 08-6227, Construction Project Cost Estimate. The actual figure is located on the line titled "CONSTRUCTION COST" under the heading "A/E AWARD." This cost does not include the 5 percent MCA.

b. The General Provisions Clause 52.236-22 also includes established notification requirements to the contracting officer (Project Director) by the contractor (A/E) in the event budgeted funds (limiting construction cost), at any time, are considered inadequate to design a usable facility. The limiting construction cost is adjusted based on any changes to the Boeckh Index figure provided to the A/E in the Special Provisions of the A/E Contract in Article 1. The period of change is from the date of A/E contract award (construction documents) to bid opening.

c. The 5 percent MCA is indicated on the VA Form 08-6227 by the Office of Construction Management, Facilities Quality Office, Program Support (087B) after the calculation of the total construction cost and before the calculation of the estimated total project cost. The 5 percent MCA and/or VA Form 08-6227 are NOT to be released at any time to the contracted A/E firm. If this should be deemed necessary by the contracting officer (Project Director), prior approval must be obtained from the Area Project Director (085/086).

**THIS MEMORANDUM EXPIRES APRIL 26, 2000**

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d. The only costs that are under the purview of the A/E are the components of the total base construction cost and any projected escalation as indicated on VA Form 08-6227. These costs ultimately make up the limiting construction cost that is indicated in the A/E's final contract.

5. **REFERENCES**: None.

6. **FOLLOW-UP RESPONSIBILITY**: Director, Facilities Quality Office (087).

7. **RESCISSIONS**: O/F Memorandum No. 08-89-19, dated October 11, 1989. This VHA Memorandum will expire April 26, 2000.

S/ by Thomas Garthwaite, M.D. for  
Kenneth W. Kizer, M.D., M.P.H.  
Under Secretary for Health

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