

Member Communication Experience

Contingency Is An Agreement About Uncertainty

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On more than one public institutional project, I watched a decision sit in a hallway for weeks while the building kept charging rent. A surprise would surface: a differing site condition, a regulatory change, or a shift in what the end user needed. The answer required several parties to agree before anyone could move: the user group, the people holding the funding, the code officials, sometimes all of them at once. While they worked toward agreement, general conditions kept accruing. Extended overhead kept accruing. Idle trades kept accruing. On a contract of a few million dollars, that ran to tens of thousands a week, and it was almost always absorbed quietly, booked as the cost of doing business. The contingency reserve covered it. Nobody wrote "indecision" on the change order.

That is the part worth sitting with. The money was real, the cause was clear, and the cause was never named. Contingency had quietly become the budget line for latency.

Here is what I have come to believe after enough of those hallways: contingency gets spent twice. It is spent once by the event, the condition or the change itself, and spent again by the time it takes the owner to decide what the event means. The first spend is often unavoidable. The second is governance, and it is the one owners control.

It helps to be precise about what contingency is, because the word gets stretched until it stops meaning much. In their overview of contingency calculation methods, Bakhshi and



Touran are clear that contingency is a reserve for the risk and uncertainty around a defined project, and that it is a different thing from major scope change, from management reserve, from escalation, and from allowances, which are scope items at an uncertain price and belong in the base cost. That boundary matters in the field. On some project types, allowances are not permitted at all; on others they survive but get squeezed out of honest proportion by funding limits, until a number meant to price in-scope work is quietly doing the job of a risk reserve. When that happens, the contingency line stops protecting the project from uncertainty and starts covering a base-cost problem.

None of this would matter much if first estimates were reliable. They are not, and the record on complex work is not subtle.

Flyvbjerg's data on megaprojects show overruns that have stayed stubbornly common across countries and sectors, and the pattern has not improved over the decades of data. The lesson for an owner is not that every project is doomed; most CMAA-member projects are nothing like a megaproject. The lesson is narrower and more useful: uncertainty does not disappear because the opening budget looks tidy. A clean number at approval is a forecast, not a fact, and treating it as a fact is how contingency gets drafted to cover the distance between optimism and the building.

The harder idea, and the one owners resist, is that they often create or amplify the uncertainty that later eats the reserve. Guo and colleagues, studying transaction costs in construction, found that uncertainty in the owner's behavior, in project information, and in the transaction environment can drive up the transaction costs the owner ultimately bears, both directly and indirectly through the contractor's behavior and the transaction environment. The owner pays on both sides: in the reserve, and in the friction of negotiating what the reserve was supposed to mean. Incomplete design at bid, ambiguous risk allocation, and decisions left unowned do more than create risk. They create the conditions in which every later risk costs more to resolve. That reframes the usual question. Owners tend to ask how much contingency a project needs. The more honest question is how much uncertainty the owner is creating, and how much of it could have been retired earlier, on purpose.

Go back to the hallway. The cost there was not a bad contractor or a bad construction manager (CM). In most of those cases, the CM was doing exactly what the contract asked and waiting, correctly, for the owner to decide. The failure was latency without ownership. No single person held the decision, no date was attached to it, and so it drifted while the meter ran. The reserve absorbed the drift because that is what reserves do, and because absorbing it quietly was easier than admitting that the owner's own decision process was the line-item bleeding.

This is why a short, owner-side discipline must sit beside the estimating method. Before an owner approves a contingency draw, the useful questions are not complicated, but they are often skipped. Is the condition inside the approved scope, or is it scope growth wearing a contingency label? Who

owns the decision, and who is only advising it? What new information would retire or reprice the risk? And by what date does the owner decide to spend, hold, or release the reserve? The questions do not make the answer easy. They make the uncertainty governable. Some of it will still be legal, political, regulatory, or stakeholder-driven, and no four questions will dissolve that. What they do is force the uncertainty into the open, where it can be assigned, priced, and timed, instead of left to accrue in a hallway.

I have also watched the other version, and it is a quiet pleasure to see. Some owners move fast when a surprise hits. They expedite a design solution, invite rapid pricing, and approve at the speed the field needs. It is the exception, and it is tempting to credit the people as simply decisive. They are not magically faster. They bought that speed earlier, through better front-end planning, clear decision rights, funding clarity, and code and stakeholder alignment settled before the surprise rather than after it. The reserve held not because they guessed the number better, but because they had already retired the uncertainty that would have consumed it.

That is the argument for planning, and it is worth saying plainly to anyone who treats planning as paperwork. Planning is stored decision speed. The owner's real work is not only to set the contingency number. It is to name the uncertainty early enough that the number gets to stay a reserve, rather than becoming a second budget for decisions nobody made in time. 

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