Taking Advantage of Good Prices in a Bad Economy

How to Protect Your Department as You Take Advantage of Lower Construction Costs

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Protecting Your Department as You Take Advantage of Lower Construction Costs

By Ken Newell

As I write this article, the world is deep into the COVID19, Corona Virus pandemic. The loss of life and health has been tragic. Additionally, this crisis has led to many economic problems that have rarely been witnessed in the US. The ramifications of this event have impacted the finances of each individual and every organization's finances. However, for the fire or police department that has a capital project planned, there may be a bright spot during these challenging times.

During our firm's fifty year history of providing public safety design, we have witnessed that economic downturns typically result in significantly lower construction costs. In fact, because we receive construction bids on public safety projects so regularly, we have already noticed construction bids starting to decreasing due to the slowing economy – and that was prior to the COVID19 event. During the last significant economic downturn (2008-2011), construction bids for fire and police stations were dropped anywhere from 25 to 40 percent from only one or two years earlier. So, if your Municipality or Department is serious about building new, or even renovating, NOW may be the time to position your project for maximum savings.

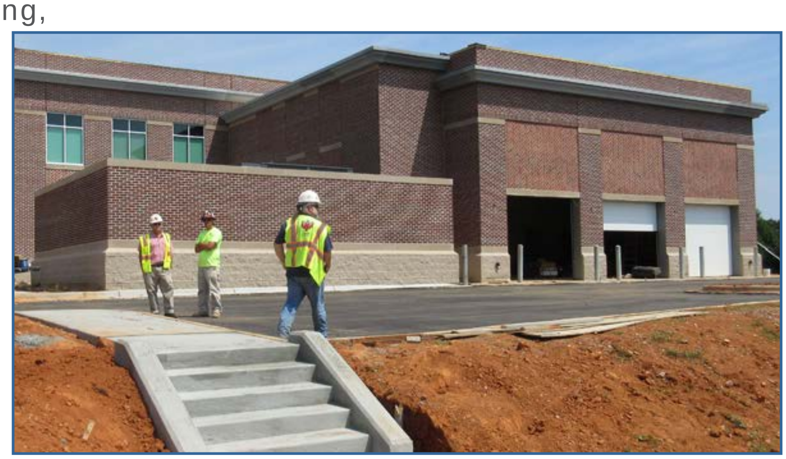
However, planning a project and building during a poor economy has some potential hazards. These detriments can and should be avoided with wise decision making. So don't let the fear of them distract you from moving forward quickly.

The most significant problems involving a planning or construction project that comes with a bad economic environment are often associated with three of the major players: the contractor, the lending institution, and the design team. Let's consider some of the problems and how you can best safeguard against them.

BUILDING CONTRACTORS

This construction climate is great if you want something built, but it is horrible if you are a builder. Building contractors are suffering and many are going out of business. Therefore, if there is even a hint that you might be planning a project, every builder and his brother will be pounding down your door to get a shot at it. This is particularly true for publicly funded Departments that must open the bidding to all bidders. In a strong economy, 6 to 10 general contractors may have shown up to bid a typical, 10,000 square foot station. In a bad economy, it is not uncommon for 30 to 40 general contractors to bid.

While large numbers of bidders will help to drive construction costs even lower, many of these bidders may be unqualified to bid and build your project. With the home building sector suffering as well, many "non-commercial" builders are throwing their hat in the ring on projects for which they are not qualified. One way to make sure that the builder is at least turning in a qualified, dependable bid, is to require a bid bond.



Holly Springs Law Enforcement Center

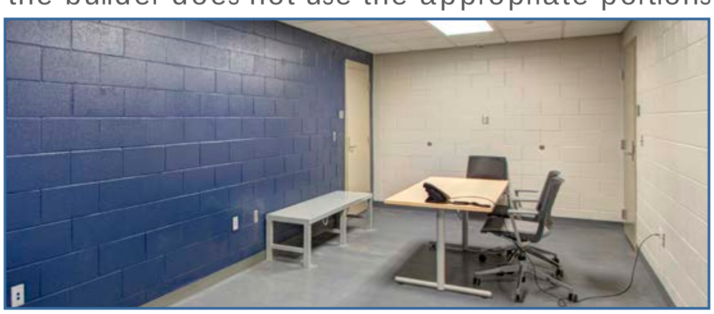
This means that a surety (insurance) company is guaranteeing that the bid submitted can be counted on for a specified period of time, or the builder will be required to forfeit a set sum of money (typically 5% of the bid total) to the Department.

Next, evaluating the Apparent Low Bidder (ALB) becomes even more important in a bad economy. Does the ALB have the financial strength and backing to perform the project they have bid? You certainly don't want to contract with a builder who may go out of business any day. Part of qualifying an ALB is to review their current financial statements, along with any active claims against them on other projects. Another way to safeguard your interests is to require performance bonds, labor and material bonds, and payment bonds as part of the contract. As in the bid bond, this will make a third party company responsible for performance if the builder defaults on the project.

By the way…you also want to confirm the financial stability of the surety company providing bonds for the builder. It is bad enough when your builder goes under. You sure don't want his surety company to go under as well.

After construction starts there are other opportunities for builder financial problems that you will want to avoid. Each monthly payment request from the builder should be closely evaluated by the architect to verify that the request is not for more than the value of the work performed. If the builder is in financial trouble, they may be tempted to try "getting ahead" on your project payment applications.

When an unethical builder is in financial trouble on other projects, he may use payment on your project to pay overdue balances on the other projects. If the builder does not use the appropriate portions of your payment to pay his sub contractors and material suppliers for your project, you may soon be getting lien notices on your project. Industry standard is to require that the builder provide you with complete lien waivers, signed by all subs and suppliers, prior to your final payment to the builder. However, in a bad economy, you may want to consider requiring partial lien waivers with each monthly payment request.



Interrogation suite

Another potential problem during a poor economy is a constant change of personnel by the builder on your project. The qualifications of the builder's project manager and site superintendent for your project should be carefully evaluated before the contract is awarded. The general construction contract should state that you as the client should have approval authority for any changes in these key personnel positions. Due to a lack of work in a poor economy, you often will have very qualified builder personnel on board. But if the builder lands "bigger/better" projects, he may try to move the more qualified staff from your project to the new project, possibly leaving your project with less qualified staffing.

> WHILE LARGE NUMBERS OF BIDDERS WILL HELP TO DRIVE CONSTRUCTION COSTS EVEN LOWER, MANY OF THESE BIDDERS MAY BE UNQUALIFIED TO BID AND BUILD YOUR PROJECT.

Should the builder's performance become questionable, you or the architect should request an immediate remedy. If the builder is not able to provide a quick, satisfactory remedy, then the surety company should be made part of the process as soon as possible.

LENDING INSTITUTIONS

If you are using a lending institution to fund your project, ensuring the financial stability of that institution is critical…especially during these times when lending institutions are strained also.

While government lending institutions (USDA, State Credit Unions, etc.) require more bureaucratic hoop jumping, they may be more attractive to qualifying Departments due to their unending financial backing, i.e. taxpayers.

During negotiations with a private lending institution, the loan terms and conditions are more prone to be moving targets during a poor economy. Move as expeditiously as possible to get the agreement in place.

ARCHITECTS
If most builders and most lending institutions are suffering due to a bad economy, then most architects will be suffering as well. The result is that there will be an abundance of architects pursuing your project. It is still important to select an architect that has extensive, successful, experience in station design.

Many of the same pitfalls apply to the architect as to the building contractor. Determining the financial stability of the design firm is critical in projecting their likelihood of surviving an economic downturn.

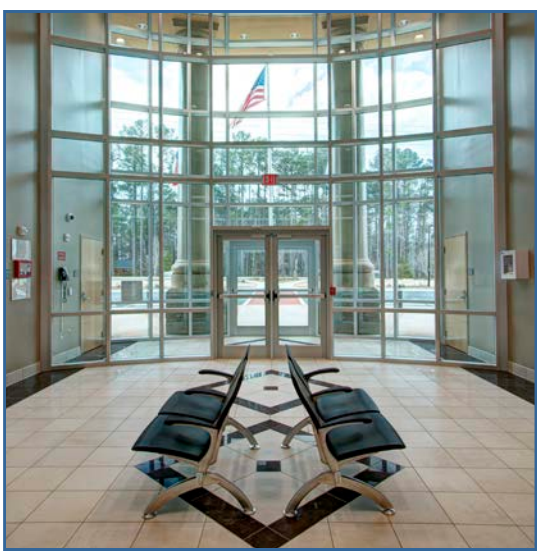
Be sure to set up your design contract with specified milestones so that your Department will always know the level of invoicing you can expect to receive from the architect each month. Like an unethical builder, an unethical architect may attempt to front load their billing beyond the services actually performed at that phase.

Maintain your authority to approve any personnel changes that the design firm will make during your project. While some personnel changes are inevitable for any firm, your goal is to maintain a high level of designer personnel qualifications.

In bad and good economies, the Department faces the temptation to reduce the designer's scope of work in order to reduce their fees. If you have selected an ethical and qualified designer, then maintaining a complete scope of services by the architect will best protect you against change orders and claims. Also, be sure to select your architect based on qualifications. Saving one-half of one percent on a design fee to hire a less qualified architect will cost you money in the long term.

CONCLUSION
Conventional thinking has Departments delaying their projects for fear of a down economy. The problem with this mindset is that by the time the economy is good again, the construction costs will be high again. The beneficiaries of the current economy will be those who have access to funding and can take full advantage of the depressed construction costs. By all means, be one of those beneficiaries. Just make sure you protect your decision by using these and other cautious procedures.

Lockers



Main Lobby

Reception

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