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Capital repair and replacement projects - avoid the pitfalls

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Most volunteers serving on their Governing Boards offer an amazing array of invaluable experience but usually offer little, if any, direct experience with construction or with major capital repair and replacement projects. While it is virtually impossible to cover every aspect of overseeing capital repair and replacement projects in this brief overview I hope to touch on the more significant highlights in this article.

I have found it helpful to think about construction projects in three broad categories or phases.

- * The Evaluation and Study Phase
- * The Bidding and Contract Phase
- * The Construction Phase

Many volunteer board members tend to overlook the mission critical importance of assembling and hiring competent, qualified and experienced architects, engineers and consultants and the need to allocate sufficient time and resources to study and plan for capital repair and replacement projects. Volunteer board members also may not realize the tremendous amount of time and effort required to properly oversee capital repair or replacement projects or the need to focus sufficient time and effort on the details and project related paper work.

It is important that governing boards realize that there are three separate and distinct parties involved in capital repair and replacement projects; the 'owner' (a/k/a: the governing board or its representative), the 'architect' and/or 'engineer' and the 'contractor'. When undertaking a capital repair or replacement project it is advisable to have an attorney prepare an AIA agreement between the owner and the architect and/or engineer and a separate AIA agreement between the owner and the contractor. Carefully prepared AIA Agreements clearly define the roles and responsibilities of each party and, by entering into AIA agreements with their architect and/or engineer, the owner is assured that the responsibilities of the architect and/or engineer are consistent with the provisions of the AIA agreement with the contractor. In other words, the governing board avoids hearing the excuse from their architect or engineer that 'it wasn't my job...'.

Why is it important to allocate sufficient time and resources to study and plan for a capital repair or replacement project?

One of the single most important goals of governing boards is to complete their capital repair or replacement project within the budget they have approved for the project. In order to achieve that goal governing boards must strive to minimize the number of change orders that arise during the project. Unfortunately change orders are an inevitable part of major capital repair and replacement projects. They are virtually unavoidable. Unforeseeable and unknowable conditions come up in even the most carefully studied and well planned construction projects. The problem is that change orders take place after the contract is signed, after a project is underway, when the board has lost the opportunity to competitively bid work and often when there is tremendous pressure to complete a

project. While the AIA agreement provides for review and approval of change orders there is no question that an owner's control of costs and expenses is vastly diminished when work is covered by a change order. By hiring a qualified and experienced architect or engineer to thoroughly study the existing conditions and to prepare detailed drawings and specifications at the leading edge of a project governing boards are assured that bids are based on the exact same scope of work and that there are fewer opportunities for costly change orders.

Once the architect or engineer has completed their assessment of the existing conditions and after competitive bids are received and the contract is signed the governing board must finalize the budget and the funding for the project. Governing boards face tremendous pressure from unit owners to 'guess' at what a project will cost. Guessing almost never produces a positive outcome. While a governing board can seek input from their architect or engineer or from an independent construction estimator there is no truly reliable way to accurately estimate what a project will cost until the governing board has received formal written bids from qualified contractors. Once it has received formal written bids a governing board should then establish a project budget. In addition to considering the written bids it has received governing boards should also consider budgeting separate amounts for; professional engineering services, legal services (mainly to assist with preparing the AIA agreement), project administration services and for a contingency allowance of at least 10% to 20%.

Once it has established and approved a budget for the project the governing board should determine how it will fund the project. The options for funding a project include using replacement reserves, adopting a special assessment and borrowing from a bank, or a combination of one or more of these options.

At this point of a project governing boards should plan for one or more special meetings of the community to present essential information about the project to the unit owners. The first such informational meeting should take place before an AIA agreement is signed and before the governing board has voted to adopt a special assessment. Governing boards should expect their initial meetings with unit owners to be somewhat contentious. No one likes paying special assessments. So, some unit owners will respond negatively to news that the governing board is considering a special assessment. Nonetheless, the governing board should establish its commitment to providing unit owners with information, including information they may not want to hear. The good news is that the vast majority of Unit Owners understands and appreciates the value of maintaining the common facilities of their Community.

No phase of a project is more critical than the construction phase. It is essential that all work is carefully inspected by the architect or engineer and that applications and certificates for payment are thoroughly reviewed before they are certified by the architect or engineer and before payments are issued. In addition to regular inspections it is also essential that the project team meet periodically, usually once per week, throughout the duration of the project. It is also important that the architect or engineer and the other members of the project team carefully review, approve and respond promptly to all proposed change orders, requests for information, mockups, submittals, applications and certificates for payment, etc. in writing.

This article could easily go on from here. I have not addressed topics such as pre-bid meetings, bid review meetings, project closeout meetings or the things that are included in those meetings.

I learned some time ago that check lists are an invaluable tool to assist with covering everything that needs to be covered. Even the most experienced military or airline pilots never leave the ground or

land their planes without completing their pre-flight and pre-landing check lists. Governing boards should think about capital repair and replacement projects like they are flying an airplane by developing and using check lists throughout their projects.

I can honestly say that overseeing construction projects are among the most challenging, rewarding and exciting aspects of property management. So, try to have some fun with your next project.

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