

“What You Need to Know Before Hiring a Contractor”

TOP TIPS FROM BUILDING PROFESSIONALS

1. Type of Construction:

There are options. What works best for you?

- a. Custom designed home:
 - i. Pros: get what you want.
 - ii. Cons: takes more time for entire process, could cost more than a pre-designed home.
- b. Rebuild original design:
 - i. Pros: updating existing plans could be faster than a new custom design.
 - ii. Cons: could cost more than a pre-designed home.
- c. Use pre-designed home:
 - i. Pros: faster approval process, best pricing.
 - ii. Cons: house may resemble many others in the neighborhood.

2. Contractor Selection:

- a. References: Use every means possible to find a qualified contractor that you are comfortable with. Check with family and friends, neighbors, material suppliers, or organizations for suggestions. Watch for ads in local and social media.
- b. Do your homework: Before and during a meeting with general contractors, find out all you can about their specific experience and qualifications. Visit their websites and request references, particularly past clients, and contact those references. Possible questions:
 - i. Do they hold a current “B” license with the State of California? If you want to verify, visit the Contractors State License Board website at www.cslb.ca.gov
 - ii. How long have they been in business?
 - iii. Are they local or coming into the area?
 - iv. Do they have a headquarters? You want them to be there in case something happens down the road.
 - v. Can contractor show you a portfolio of previously completed work on projects of your size?
 - vi. How many other projects would contractor have going at the same time and what is the anticipated construction schedule?
 - vii. Can the contractor give you names, addresses, and phone numbers of at least three clients with projects like yours. Ask each client how long ago the project was and whether it was completed on time. Was the

client satisfied? Were there any unexpected costs? Did workers show up on time and clean up after finishing the job?

- viii. Can you visit their jobs in progress?
 - ix. What are their insurance coverages and limits?
 - x. What type of warranties do you provide (statutory, 3rd party)?
- c. When you meet them, do you like them? This rebuilding process will be lengthy and require frequent and ongoing communications. Choosing a contractor, you feel comfortable talking to can make for a more positive experience overall.

3. Pricing:

Do not expect contractors to give you the precise costs of rebuilding your home the first time you meet them. There are too many variables and unknowns for contractors until complete documents are prepared and the best you can hope for is to get rough estimates. Ask the contractor to explain what these variables and unknowns are so that you will have a better understanding of the difficulties they face in pricing your project. Things to understand:

- a. Production builders can likely give you a more accurate price earlier on in the process.
- b. Until the plans and specifications are fully updated and approved (or prepared for a new design), the contractor will not be able to obtain firm pricing from subcontractors and suppliers.
- c. Site related work (building pad and utilities) often won't be known until consultants can do their inspections and design.

4. Pre-construction Process:

- a. Two of the available options for getting your home rebuilt are:
 - i. Hire an architect to coordinate all of the things listed in "b" below. Having a contractor on board during this process is very beneficial because they can help with budgeting, details, and recommendations during the design phase.
 - ii. Find a contractor to coordinate all of the things listed in "b" below.
- b. The pre-construction work that needs to be done is complex and can include:
 - i. Civil engineering
 - ii. Architectural design
 - iii. Soils testing
 - iv. Landscape design
 - v. Fire sprinkler design
 - vi. Structural engineering
 - vii. Interior design

- viii. Mechanical and electrical design
- ix. Title 24
- x. CalGreen
- xi. Encroachment permits (if needed)
- xii. Processing required fee payments
- xiii. HOA approval (if needed)
- xiv. Site surveying
- xv. Permitting

- c. Understand what items will remain the Owner's responsibility (i.e. pay fees, all-risk insurance, consultant costs, compliance / 3rd party testing)?

5. Your Insurance/Lenders:

Have a full understanding of your home insurance policy and be prepared and willing to review that policy with a contractor so that there is a clear understanding of exactly what the policy allows. Ask if the contractor has previous experience working with insurance companies and/or construction lenders.

- a. Working with insurance companies and/or lenders typically requires more paperwork and it is good to know that your contractor can handle this.
- b. Will you need to contribute additional funds to your insurance settlement to be able to rebuild your home?

6. Contract:

It may seem obvious, but make sure everything you and a contractor discuss or agree upon is put in writing. Different contractors usually have different contract formats so have an attorney review any documents before you sign them. The contract is one of the best ways to prevent problems before you begin. The contract protects you and the contractor by including everything you have both agreed upon.

- a. Get it in writing. Since a written contract protects both you and the contractor, all agreements should be put in writing. It should be as specific as possible regarding all materials to be used, such as the quality, quantity, weight, color, size, or brand name as it may apply. For example, the contract should read "install oak kitchen cabinets, manufactured by Company XYZ, model 01381A, as per the plan," not just "install kitchen cabinets."
- b. Don't sign anything until you understand the contract and agree to the terms. Anything you sign as authorization to move forward with the project could become the contract. Ask questions until you understand and agree to all the terms before signing.
- c. Make sure the contract includes everything that is agreed to, up to and including complete cleanup and removal of debris and materials, along with special requests like saving lumber for firewood or saving certain materials or

appliances. Also give instructions regarding pets, children or areas where materials may not be stored.

- d. Never sign a blank or partially blank contract. Once you sign, both you and the contractor are bound by everything in the contract. Get a copy of the contract and keep it for your records.
- e. Always update your contract. Even after you have signed the contract and the work already has begun, you may want to make some changes. If you have added or subtracted work, substituted materials or equipment, changed the completion date, etc., make sure to note it in writing on a "change order," and include any price changes. After a change order is signed, it becomes part of the written contract.
- f. Make sure the financial terms are clear. The contract should include the total price, when payments will be made, and whether there is a cancellation penalty.
- g. Several contract options are "Stipulated Sum," "Guaranteed Maximum Price," and "Cost of Work Plus a Fee". Some variation or combination is also possible.
- h. If your contract contains allowances, make sure they are listed with corresponding amounts. Understand what the process to convert them to hard numbers will be.
- i. The itemized breakdown provided during the pricing of your home should be referenced in your contract.
- j. Your contract should list all documents being used to build your home. This would include all plans, engineering, reports, and specifications.
- k. Understand deposits and the difference allowed for Home Improvement and New Construction contracts. You should expect to make a down payment on any home improvement job. That down payment should never exceed 10 percent of the contract price or \$1,000, whichever is less for a Home Improvement Contract. Deposits on New Construction can be much more but the CSLB recommends "you ask your contractor to honor the same principles as home improvement projects located in the disaster zone". Understand when deposits will be credited back (i.e. first billing or later in the process)?
- l. See Billings and Payments below for contract recommendations.
- m. Ask to be named as additional insured on their general liability and workers' comp policies.

n. Get your attorney to review your contract!

7. Billings and Payments:

Be sure to ask the contractor “What are your payment requirements?” Include in your discussions the issues of an initial deposit, all fees, and the payment schedule the homeowner is required to follow. Reaching agreement up front can prevent financial and legal problems later.

- a. Payment requirements should be included in the contract. A standard billing/payment cycle is monthly. More often may be requested and should be discussed with your insurance company and/or lender. Note more frequent payments require more billing and lien release paperwork.
- b. Confirm that this process works with whatever your insurance company and/or lender can provide.
- c. Other payment items to discuss are:
 - i. Material deposits. Will any material deposits be required? Often, custom orders for materials require deposit.
 - ii. Pre-construction billings. Will there be billings for pre-construction work (see 4c above for some descriptions)?
 - iii. Final payment. Do not make it until:
 - 1. You are satisfied with the work.
 - 2. A Notice of Completion is recorded with the County.
 - 3. The permit final has been signed.
- d. Avoid paying in cash. Paying via check gives you a better paper trail.
- e. Do not overpay on progress invoices. Paying on a percent complete basis helps prevent this.
- f. Billing format. Does the billing format follow the itemized breakdown? Will they be billing on a percent complete basis or a milestone basis?
- g. Billing inclusions:
 - i. Subcontractor and supplier invoices.
 - ii. Conditional releases from contractor, subcontractors, and suppliers for the current billing.
 - iii. Unconditional releases from contractor, subcontractors, and suppliers for the previous billing.

8. The lien process:

Educate yourself on steps required to ensure a “lien free” project.

- a. Having a lien free project is obviously desired. Have contractor explain their lien and payment processes. Does contractor issue joint checks to pre-liened subcontractors and suppliers if conditional releases are provided? More information can be found here:
 - i. http://www.cslb.ca.gov/Consumers/Legal_Issues_For_Consumers/Mechanics_Lien/How_To_Prevent_A_Mechanics_Lien.aspx
- b. You will want to understand preliminary lien and conditional and unconditional liens upon progress and final payments.
- c. Failing to follow a process could subject the Owner to paying twice for the same work.

9. Scheduling:

- a. There are five important questions you should ask in any meeting you have with a contractor:
 - i. "Can you give me at least a general timeline for rebuilding my home?"
 - ii. "How long will it take once you start construction?"
 - iii. "If we agree on a contract, when can you start?"
 - iv. "How is the construction schedule updated through construction?"
 - v. "Do you have a sample construction schedule?"
- b. Building as part of a group/neighborhood arrangement might mean you do not get to go first. For the builder and the best end result finished product, there are workflows (i.e. back of cul-de-sac to front, or right to left around a court) that work best for the construction process.
- c. You might ask how long it'll take to get through the design and permitting process. This could vary substantially depending on whether you opt to rebuild exactly what you had before or by making changes (or even starting completely over).
- d. Unfortunately, delays happen in construction projects. Although you may clearly understand the terms of your contract, the contractor may experience circumstances (such as weather or material availability) that prevent the construction work from remaining on schedule. This is just a normal part of a construction project.

10. Other Tips:

- a. Keep everything. Keep a file of all documents relating to your project including estimates, contracts, preliminary notices, change orders, schedules, billings, payments, etc.
- b. Take photos. Take photos during all project phases.