



Selecting Your Design and Build Team

The Business Administrator's Calm Voice of Reason in the Midst of an Emotional Decision

We have all heard the unfortunate statistics about church pastors, church building projects, and the inherent legal risk of any building project:

- The average tenure of a pastor after a significant building project is twenty-two months.
- Over half of the churches in the U.S. have a set of plans (stuck behind the pastor's door) that will never be built.
- Construction is the second most litigated industry in the U.S., behind medical.

I have not seen a statistic concerning the average tenure of the business administrator after a building project, but my guess is that it is similar to the pastor's. Long after the excitement of designing and building a facility is gone, the one person who, for better or worse, is left with the decisions of the past is the business administrator. Yet, I am continually surprised at the number of churches that fail to make use of their business administrator's gifts and talents on the building team. The objective of this article is to help churches understand the value that the business administrator brings to the building team, the various pitfalls in the process of selecting a design and build team, and the key criteria that goes into making a more objective decision. Discussions with hundreds of church leaders and administrators has produced the collection of advice and wisdom in this article. These tools will equip your business administrator to assist the building team in making the best possible decision for your church's upcoming building project.

The selection of a design and build team for your building project can unfortunately become a very emotional decision for the building team. When the business administrator is part of the building team, he or she often encourages a more objective discernment during the interview and selection process. The gift of most business administrators is the ability to see through the "pixie dust" of a high-tech, highly emotional presentation and get to the objective components that will make the project a success. The objective temperament of most business administrators insures that the following key research areas of potential design and build firms create a natural safety net for the church. Those key areas are:

- The References of the Design and Build Team
- The Financial Stability of the Firm
- The Chemistry with the Design and Build Team
- The Delivery of the Design and Build Services
- The Clear Understanding of All Fees
- The Transparency of All Project Costs
- The Financial Protection Provided to the Church
- The Level of Involvement and Decision Making by the Church



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The References of the Team

Check references. Really, check the references! The attitude of “they wouldn’t give us the reference if it wasn’t good” needs to change. Any design and build firm that claims to build problem free, either has not built, or is less than honest. The issue is not “if” you are going to run into a problem, but “when”. That is why you owe it to yourself and the church to check, extensively, the firm’s references. There is a saying that companies have resumes, and people have references. Without a doubt, the people you work with will make your project a success, or something less. When speaking with the firm’s references, ask six simple questions:

1. Who were the people that you worked with on your project?
2. What were the problems that took place on your project?
3. How were the problems resolved?
4. Who paid for the problems?
5. How is your relationship with the people that worked on your project?
6. Would you hire them for your next phase?

The local building permit office and the local building inspectors are an additional reference point. Questions for building officials include:

1. What were the problems that took place on the project?
2. Did the firm respond immediately to rectify the situation?
3. Would you hire them for your own church?

The Financial Stability of the Firm

The financial stability of the firm you will work with is important not just to get your facility designed and built, but also to back up various warranties and service requests. The financial group that you partner with for your construction and permanent financing will cover, not just the church’s finances, but also the design and build firm’s financial situation. The following questions posed to the design and build firms that you are considering might narrow down the list a little. If any of the following requests are met with resistance, you should proceed with extreme caution.

1. Will you supply the last two years of Financial Statements?
2. What is your Dunn & Bradstreet rating?
3. What is your firm’s Bondability and Capacity?
4. Who were the last three clients your firm served?
5. Will you arrange for a meeting with our church and your banker to review Financials?
6. What other industries/markets does your firm serve and what percentage of your corporate volume is accounted for in each? Diversification is good.



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The Chemistry with the Design and Build Team

The chemistry and relationship that exists between you and your design and build team is critical. The following set of questions for you to consider deals directly with the relationship side of the equation and are purely subjective, but extremely important.

1. Do you like the design and build team with whom you will work?
2. Are they the individuals with whom you will be working directly?

You want knowledgeable and personable team members leading this venture. The people that will actually manage the pre-construction, design and construction of your project may not be the flashiest salesmen in town, but they will be the people that you are about to make a long term commitment to for the design and build of your new facility. Make sure that the people you interview for your project are also the people who will design and build your new facility.

The Delivery of the Design and Build Services

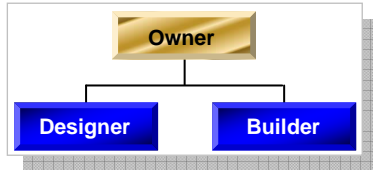
Church building teams spend countless hours wrestling with the approach they will take to design and build their new facilities, and with good reason. Construction still remains the number two most litigated industry in America today behind medical. The result is almost \$.20 of every construction dollar goes towards claims and litigation. So how does a church protect themselves from becoming a statistic, while building positive relationships with their designers and builders? Often the approach taken to design and build is a reflection of the building team, their comfort with risk, and their personal past experiences with similar projects. Today's church building teams face a harder task of selecting an approach than their predecessors, due primarily to the "hybridization" of the traditional three delivery systems: Design-Bid-Build, Construction Management, Design and Build with In-House Designers and Partnered Design and Build. There are distinct Pro's and Con's to each approach. Make sure that you understand the pro's and con's of the various delivery systems and have identified who (you, the designer or the builder) will be responsible for the various situations that will occur on your building project.



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Design-Bid-Build



Design-Bid-Build, or Hard Bid, is the most familiar of the three traditional delivery systems. The normal sequence of events begins with the church selecting a designer. The designer discovers the needs of the church, creates a design, and then bids the plans and specifications to a handful of qualified builders. During the construction stage of the project the designer inspects for quality control and acts as the key customer agent/representative in cases of dispute with the builder.

Pro's

- The owner hires the designer directly, and the designer is his advocate from the beginning.
- The designer becomes the quality assurance and conflict resolution manager for the owner.
- The designer is selected based on his specific experience with the type of project the owner desires.
- Open bidding of multiple general contractors allows for the lowest initial cost for the plans and specifications.
- The designer provides the checks and balances for the owner throughout the process.

Con's

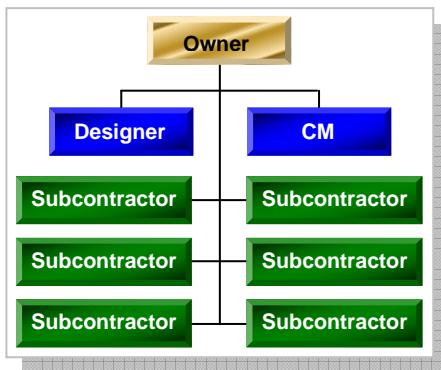
- Lack of teamwork with the builder during the design process results in 6% more cost than a team approach.
- The designer's estimate to establish project budgets may be only moderately accurate due to lack of builder involvement.
- The actual cost of the project is not guaranteed until the design is complete and the builder's bids are received.
- An adversarial relationship often exists between the designer and builder resulting in higher litigation.
- Builders typically operate with a "closed book" accounting approach, thus eliminating any owner provided subcontractors or self performed work.
- Lack of communication and relationship between the owner, designer and builder exists due primarily to sequence of events.
- The average change order increase rate over original contract, due to error or omission, is approximately 15%.



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Construction Management



Construction Management tended to grow as a result of customers not completely understanding the argument between designers and builders/subcontractors and wanting a “third party” to referee the discussion. An added benefit was to rely upon the construction manager’s experience to reduce the costs of the building through open dialogue with the designer and various subcontractors.

Pro's

- The owner hires the designer and construction manager early, and they become his advocate from the beginning.
- The designer and construction manager become the quality assurance and conflict resolution managers for the owner.
- The designer and construction manager are selected based on their specific experience with the type of project the owner desires.
- Open bidding of each individual subcontractor allows for the lowest initial cost for the plans and specifications by trade.
- The designer and construction manager provide the checks and balances for the owner throughout the process.
- The integration of the designer and construction manager increases the level of communication at the earliest and most critical time of the design process.

Con's

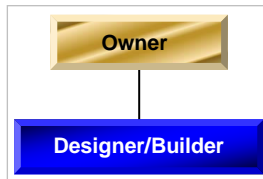
- The owner takes the risk of the subcontractors by direct contracting.
- The direct contracting approach with the subcontractor’s results in 4.5% more cost than a team approach.
- The actual cost of the project is not guaranteed until the design is complete and the subcontractor’s bids are received.
- An adversarial relationship often exists between the construction manager and the subcontractors due to a lack of an actual contract relationship resulting in higher litigation.
- A conflict of interest can exist with the designer and the construction manager because as construction costs escalate, so does their fee.
- The owner represents to all subcontractors that the plans and specifications are flawless and bears the risk of errors and/or omissions in the plans.
- The owner maintains the risk of errors and/or omissions – neither the subcontractor nor the construction manager.
- The average change order increase rate over original contract, due to error or omission, is approximately 10%.



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In-House Design and Build



Design and Build resulted from the customers need to “one stop shop” and to stay out of the arguments that the other two systems tended to generate. With designers and construction managers under the same roof, the finger pointing and fault finding ceased because one contract covered all design and construction.

Basically, all risk and liability is born by the Design-Builder, according to a Penn State study done in 1998. The study found that Design-Build resulted in 6% less project cost, 10% less change orders, and 23% faster than other delivery systems. The key to the success of Design-Build and less change orders is that the designers and builders are partnered together from the very beginning. The result of building upon each team members experience is an “ownership” of the solutions for the church and drastic reduction in the risk of change orders.

Pro's

- There is a single source of responsibility.
- The design-build approach delivers projects at 6% less cost than the traditional design-bid-build approach.
- Communication is greatly enhanced by pulling all critical team members to the table early.
- Design fees are lower due to the high level of builder involvement.
- Pre-construction estimates are highly accurate due to early builder involvement.
- A guaranteed maximum price can be established early.
- The design-builder represents to the subcontractors that the plans and specifications are flawless and bears the risk of errors and/or omissions in the plans.
- Subcontractors are contracted directly to the design-builder.
- The design-builder maintains the risk of errors and/or omissions, not the owner.

Con's

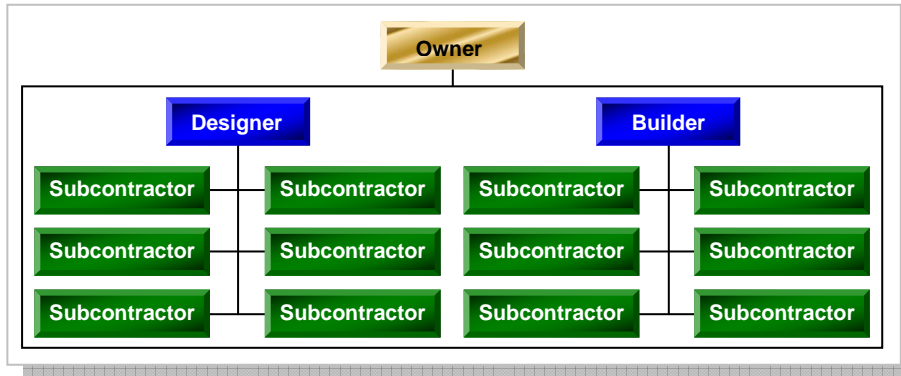
- The designer is often an employee of the builder, thus eliminating important checks and balances on the project. — “The fox guarding the hen house.”
- The design-build designers may not have the experience needed for each specific project.
- The builder can direct the designer to decrease the quality of materials in order to maximize builder-profit.
- Many design-build companies do not share the results of subcontractor bidding with the owner.
- The average change order increase rate over original contract, due to error or omission, is approximately 5%.



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Partnered Design-Build Approach with an Independent Designer



The Partnered approach became a hybridization of the previous three delivery systems, keeping the Pro's of each system and eliminating a great number of the Con's. The key differences lie in complete transparency of costs, a completely open communication system between owner and various professionals, and complete protection from risk through team ownership of the design and build solution. The most valuable attribute to this delivery is the Independent Designer, who provides owner advocacy and builder accountability.

Pro's

- ◆ There is a single source of responsibility
- ◆ A highly accurate guaranteed max price (GMP) is established early in the process at a greatly reduced price.
- ◆ The team-build approach delivers projects at 6% less cost than the design-bid-build approach at GMP plus up to an additional 5% through open teamwork.
- ◆ The team-build approach allows design services to be performed for 2% to 5% less than other delivery systems.
- ◆ A highly transparent and open process allows the owner direct access to all team professionals.
- ◆ The designer and builder are separate, yet unified companies providing the owner checks and balances through the process—partnered accountability.
- ◆ Communication is greatly enhanced by pulling all critical team members to the table early while encouraging open dialogue with the owner.
- ◆ Open bidding of individual subcontractors allows the owner to be involved with the selection of every subcontractor on his job while the builder maintains the responsibility for that subcontractor's performance.
- ◆ Open and transparent dialogue takes place concerning the types and quality of materials used.
- ◆ All work items are competitively bid and subcontracted eliminating high mark-up self-performed items.
- ◆ Due to early buy-in and “ownership” of the project, the change order rate, due to error or omission, is 0%.



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Con's

- ◆ Team-Build is a new concept that is built upon an extremely open and transparent level of sharing that is new and only beginning to be embraced by a traditionally “closed” industry.
- ◆ Providing the opportunity to subcontractors, who are members of the church, to bid on the project, is double-edged: Significant savings to the church, or hurt feelings if not selected to perform the work.
- ◆ “Seeing how sausage is made”: A wide-open, transparent design and build process can be frustrating to the owner as they are able to see the “behind the scenes” sub-processes that are hidden from view with other delivery systems.

A Clear Understanding of All Fees

Buying design and construction services has never been an easy task for the church. In today's economic climate, the challenge has become exponentially harder as struggling builders are becoming increasingly “creative” in how they account, or represent, the various expenses associated with building a place of worship.

Prior to exploring the accounting side of a construction project, let's define what the primary costs for the project are and how these costs can be represented, or even manipulated, to the financial gain of the builder, without the Church even knowing it. The primary cost items for a construction project are design and engineering, general condition costs, building construction costs, reimbursable costs, fixture and furnishing costs, and builder overhead and profit.

Design and Engineering

Design and engineering expenses are related to the architect, building engineer, site engineer, acousticians, mechanical and electrical engineers, and more, who are responsible for the plans from which the builder will construct the building.

General Conditions

General conditions is a very important area for the church to focus on, as it is quickly becoming an area where “Creative Accounting” abounds. General conditions are costs that the builder incurs to build the building, but are not actually part of the building. Examples of general conditions include: the site trailer, temporary utilities, temporary restroom facilities, trash removal, site storage trailers, barricades, safety fencing, first aid kits and various safety equipment, quality control and material testing, traffic control, governmental compliance issues, site cleaning and building cleaning. The largest general conditions cost to any project is the site superintendent. The superintendent is typically the only person who is “charged” to the job. However, firms may often “lower” their stated overhead and profit by “moving up” various office staff costs to general conditions. When comparing several builder's bids, churches should add the general conditions costs to the builder's overhead and profit. This figure will offer a true picture of each builder's fees.



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Construction

Construction costs are the basic bricks and sticks of your project along with the labor to put them in place. Construction costs cover everything from the bulldozer pushing dirt to the carpenter installing studs, to the painter putting the finishing touches on your new facility. Some builders may include self-performed work in their cost summary. Self-performed work is labor and materials that are supplied by the builder's own employees and is rarely competitively bid on the open market.

Reimbursables/Allowances

Reimbursable costs are those costs that the designer or the builder are not able to get a firm estimate or bid, on. Many of these costs are owner preference or weather related. Churches should eliminate as many of these unknown variables, as possible. Every unknown, can, and usually will, lead to cost overruns for the church.

Fixtures and Furnishings

Fixtures and furnishings, also known as FFE, can become a large portion of a church project. Typical items considered FFE are: Seating, audio and visual systems, platform furnishings, office and classroom furnishings, café and kitchen equipment and athletic equipment. Prior to beginning any project, make sure that you have a point person that will work closely with the designer and builder to establish budgets and costing for your FFE accounts.

Builder Overhead and Profit

The builder overhead and profit, needless to say, is an important area for the church to evaluate. The overhead and profit allows the builder to pay their office support staff, maintain their home office, provide warranty on the finished project and supply a profit to the stakeholders for the risk taken and managed to build your building. Choosing a builder, solely on their "low" overhead and profit percentage, has sometimes become a rude awakening for churches around the country when they finally stumble upon the "hidden costs" of the project.

Faced with the daunting task of choosing the right builder for their project, building teams have resorted to shopping building firms based on their overhead and profit percentage, and ignoring the monthly general conditions costs. The thought is that overhead and profit is the only variable between builders. The remaining project costs (Design & Engineering, Construction Costs and Fixtures & Furnishings) are somewhat fixed. That assumption is far from accurate. As a picture says a thousand words, numbers, especially dollars, speak even more.



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Example Project

An example twelve-month project will be used to illustrate the accounting side of a typical construction project. The primary cost items, for the Design/Builders are:

- Design and Engineering \$ 150,000
- General Conditions Monthly Fee
- Construction Costs \$2,500,000
- Builder Overhead & Profit % of GC's & Construction Costs

Design/Builder "A"

- Design and Engineering \$ 150,000
- General Conditions \$ 300,000
 - \$25,000/Mo x 12 Months
- Construction Costs \$2,500,000
- Overhead & Profit @ 10% \$ 295,000
- Total Project Cost \$3,245,000

Design/Builder "B"

- Design and Engineering \$ 150,000
- General Conditions \$ 480,000
 - \$40,000/Mo x 12 Months
- Construction Costs \$2,500,000
- Overhead & Profit @ 7% \$ 219,100
- Total Project Cost \$3,349,100

Design/Builder "C"

- Design and Engineering \$ 150,000
- General Conditions \$ 660,000
 - \$55,000/Mo x 12 Months
- Construction Costs \$2,500,000
- Overhead & Profit @ 4% \$ 132,400
- Total Project Cost \$3,442,400

At first glance, Design/Builder "A", whose overhead and profit is at 10%, appears to be the higher cost solution, Design/Builder "B", whose overhead and profit is at 7%, is in the middle of the pack while Design/Builder "C", whose overhead and profit is at 4%, appears to be the low cost solution. The fact that Design/Builders "B" & "C" are moving much of their office overhead into general conditions, actually makes them the high cost providers by almost \$100,000 and \$200,000, respectively!!!



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Many times, attention is gained with a low overhead & profit figure from a builder, only to find later, that “costs” the builder has moved into general conditions have created a higher actual project cost to the church. When evaluating your design and build team, make sure that the general conditions costs and the overhead & profit are identified and carefully compared.

The Transparency of all Project Costs

Open Book bidding and accounting of your project costs is a must. We just saw how construction accounting is not always as straight forward as it appears. The next major component of your project costs are the subcontractors who will actually build your building. Make sure that your builder allows your team to review the bids and select qualified subcontractors for your project. The simple act of making the numbers open for review alleviates any perception of misappropriation of God’s resources. Questions to ask your design and build team would be:

1. What is your Overhead and Profit percentage?
2. What are your monthly General Conditions costs?
3. Will your entire bidding process and subcontractor selection be open to our review?
4. Will there be any “reimbursables” on our project?
5. Will there be any “allowances” on our project?
6. Will there be additional “general condition costs” for schedule delays on our project?

The Financial Protection provided to the Church

Your financial agent or insurance agent can supply several risk management ideas and devices to protect you and your church. Most of the risk that a church faces can be mitigated by a design and build firm that has systems and processes to reduce, and better yet, totally protect the church. The primary areas of risk for the church are: financial default of your builder or your builder’s subcontractors, injury on the jobsite without proper insurance coverage’s, and errors on the building plans resulting in change orders. Risk management is probably the most important area of financial protection for the church. The following questions are probably just the tip of the iceberg, but a great start to finding a design and build firm that protects you from many of the risks that exist.

1. Will you supply a written program on how you will qualify all bidding subcontractors?
2. Will you hold all of the subcontractor and supplier agreements on our project?
3. Will you supply a Two-Tier Mechanics Lien Waiver with every invoice?
4. Do you have a written, OSHA approved safety program?



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5. What are your insurance coverage limits and what do you require of your Subcontractors, suppliers and vendors?
6. Will there be any Change Orders on our project? Why would they happen?
7. What amount is your Design Errors & Omissions Insurance for?
8. Where is our church at financial risk in your process of building for us?

The Level of Involvement and Decision Making by the Church

Involvement and decision making will take time and there must be a balance between your building team making every single decision, some of which are miss-guided and uneducated, with your design and build team making every decision without your input or approval.

There is a saying that the only place that a building can be built under budget and with the best of all materials is in a building team meeting. There will always be a tension between the square footage needed for ministry, the funds available to build with, and the quality of the materials that you might use. A common "crises" that churches face is too much building, not enough money.

The first step taken, under the premise of stewardship, is to use lesser-cost materials so as to not decrease the size of the building. The National Association of Church Facility Managers (NACFM) has determined that over the first forty-years of a church facility's life the total costs involved with the project breakdown as follows:

- 75.0% Maintenance, Upkeep and Repair
- 14.5% Finance Costs & Interest
- 10.0% Building Construction Costs
- 0.5% Building Contractor Fees

A "stewardship" decision today, often times, equates to a financial burden for the next generation. Every church that had been involved with choosing a "cheaper" material, regretted the decision over time. Make sure that ALL of the costs (today's and tomorrow's) are taken into account when wrestling with the balance of ministry space, money and materials.

If God has blessed your church with a business administrator and if God has blessed your church with growth that requires facility expansion, make use of your blessings. Include the business administrator on your building team and listen to their calm voice of reason.



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