

## Frequently Asked Questions - Construction

Updated June 28, 2018

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Note: This longer document also contains some information from the shorter "Hiring a Builder" document.

1. Construction and Materials Warranties:
  - a. Contractor and all subcontractors should provide 1-year warranties
  - b. Longer warranties should be provided for items such as:
    - i. Windows (could be lifetime)
    - ii. Roofing (30-50 years, lifetime)
    - iii. Water heater
    - iv. Appliances
    - v. HVAC equipment
  - c. Warranties should be provided to Owner in a binder and most warranties should start at project completion date (i.e. Notice of Completion)
  - d. 2/10 warranty: see #14 below
2. How to Keep Your Build on Time:
  - a. Work with a contractor who has verifiable references. Talk to past clients about your contractor's ability to hold to his projected schedule
  - b. Request a construction schedule from your contractor and review it on a weekly basis
  - c. Many delays are Owner-related due to changes and/or lack of timely decisions
  - d. Delays do happen. Minimizing them is the key
3. How to Make Sure Your Construction Quality Will Be Comparable:
  - a. Work with a contractor who has verifiable references. Talk to past clients about your contractor's quality of work
  - b. Make sure your architect/designer properly specifies materials and provides adequate details
  - c. Inspect the work weekly and consider having your architect do periodic inspections
  - d. Having some sort of submittal process is a good idea to make sure correct/desired materials and equipment is being provided
4. Contractor Choice/Selection: Items Specific to Hiring a Building Contractor:
  - a. Contractor needs to have a type B (General Building Contractor) license from CSLB.
  - b. All contractors need to have a current license issued by the California Contractors State License Board (CSLB). You can check the status of any license here: <https://www2.cslb.ca.gov/OnlineServices/CheckLicenseII/checklicense.aspx>
  - c. How long has the contractor been in business? You might want to be leery of a contractor promising to be an overnight success. A long-time, well-established contractor is likely to be a safer bet. Considering the length of time a contractor has been in business is a good indicator of their ability; however, there are many contractors who claim years of experience. Protect yourself by asking for proof of business length
  - d. Does contractor have a headquarters? Homeowners should want their contractors to operate from a permanent place of business. If the contractor is not permanently established, how can you be confident that they will complete the work or be in business tomorrow should there be any problems?
  - e. Can contractor show you a portfolio of previously completed work on projects of your size?

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- f. Can contractor give you a list of previous clients? A contractor should be able to 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? You also could tell the contractor that you'd like to visit jobs in progress.
  - g. Is contractor in good standing with a trade association?
  - h. How many other projects would contractor have going at the same time and what is the anticipated construction schedule?
  - i. Is contractor insured, and is the coverage adequate? Confirm minimum limit requirements you're your insurance company. Contractor should have:
    - i. General Liability
    - ii. Worker's Compensation
  - j. Future note: Ask for copies of insurance certificates, make sure you are named as additional insureds, and make sure they're current, or you could be held liable for any injuries and damages that occur during the project
  - k. Does contractor provide sufficient details for the project being performed?
  - l. Will contractor help you through the permitting process?
  - m. How much of the work will contractor be self-performing? It's good to know how much of the work will be subcontracted. If work is subcontracted,
    - i. Will contractor be obtaining multiple bids for each scope of work?
    - ii. How long has contractor worked with their subcontractors?
    - iii. Make sure the subcontractors have current insurance coverage and licenses
  - n. What are contractor's anticipated job overhead (on site costs related to running the project) and management fee and profit (bottom line cost to manage project from the office and for profit) costs/fees
  - o. Does contractor have previous work experience with insurance companies and/or construction lenders?
  - p. Payment requirements. Will contractor propose any special payment requirements or will there be standard monthly billings and payments? Your insurance company should be involved with this
  - q. Preliminary lien process. See #11 below for construction lien process. Here is a link to CSLB information:  
[http://www.cslb.ca.gov/Consumers/Legal\\_Issues\\_For\\_Consumers/Mechanics\\_Lien/How\\_To\\_Prevent\\_A\\_Mechanics\\_Lien.aspx](http://www.cslb.ca.gov/Consumers/Legal_Issues_For_Consumers/Mechanics_Lien/How_To_Prevent_A_Mechanics_Lien.aspx)
  - r. Make sure everything is in writing. See #12 below for contracts
5. Local vs Out of Area Builders:
- a. Working with a local contractor could have advantages when it come to warranty items but having said that, there are many very reputable and qualified out of area builders. See #4 above for hints in selecting a contractor
6. Custom Builders vs Home Construction Companies:
- a. Builders typically specialize/focus on certain project types and sizes. Again, the selection process should explore a contractor's past experience and capabilities. Having said that, it is possible to get a successful and quality project from a contractor doing a project larger than their standard past projects. For the most part, all home construction has the same basic elements. What changes are the contract sizes and finish expectations

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7. Code Upgrades:
  - a. Fire sprinklers
  - b. Structural including seismic (foundation/framing)
  - c. Wildland-Urban Interface
    - i. Water storage and draft hydrant
    - ii. Gutter covers
    - iii. Covered soffits
    - iv. Special roof and foundation venting
    - v. Fire resistant siding materials
    - vi. Tempered glass at all openings
8. Green Building. CALGreen and Title 24:
  - a. Erosion control
  - b. Recycling materials
  - c. More efficient HVAC
  - d. Insulation values
  - e. LED lighting
  - f. Low VOC (volatile organic compound) finishes and paints
  - g. Occupancy sensors
  - h. Tankless water heater
  - i. Commissioning and inspections
  - j. Manage storm water runoff and downspouts tied to underground storm system
  - k. Low flow plumbing fixtures
  - l. Operation and maintenance manual
  - m. Direct vent fireplaces
  - n. Envelope barriers (u/ slab, walls, roof)
  - o. Whole house fan
9. Accurate Quotes and Avoiding Cost Overruns:
  - a. Note that breakdowns you may have seen from your insurance company are not standard (i.e. 2 pages is typical versus 100+ pages)
  - b. Pay to get the plans fully completed and materials specified. This will allow you and your contractor to obtain more and more accurate bids/pricing. Your permit and bid set should 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. HOA approval (if needed)
    - xii. Site surveying
  - c. Understand your contractor's bid process
    - i. Are they obtaining multiple bids for every scope of work?
    - ii. Which items are they planning to self perform?

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- d. Owner items like permits, insurance, contingency, testing, inspections,... Your contractor should have and exclusions list
10. Billings/Payments:
    - a. The billing process and payment schedule should be specified in your Contract
    - b. A standard billing process is billing for work through the end of the month with payment expected by the 20<sup>th</sup> of the following month
    - c. Advance payments for certain materials may be required
    - d. Your Contractor can not request a deposit exceeding \$1000
    - e. Retention 0, 5, 10%.
    - f. Retention payment to be released 35 days after the NOC if filed
    - g. Your contractor billing should include subcontractor and material invoices with associated conditional and unconditional releases
  11. Construction Lien Process: If you are not familiar with what it takes to have a "lien free" project, discuss this with your contractor. Have them explain their lien and payment processes.
    - a. Having a lien free project is obviously desired. Does contractor issue joint checks to pre-liened suppliers if conditional releases are provided? More information can be found here:  
[http://www.cslb.ca.gov/Consumers/Legal\\_Issues\\_For\\_Consumers/Mechanics\\_Lien/How\\_To\\_Prevent\\_A\\_Mechanics\\_Lien.aspx](http://www.cslb.ca.gov/Consumers/Legal_Issues_For_Consumers/Mechanics_Lien/How_To_Prevent_A_Mechanics_Lien.aspx)
    - b. You'll 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
  12. Contract Types: 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.
    - a. 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.
    - b. **REMEMBER**
      - i. **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."
      - ii. **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. You also may wish to review the proposed contract with an attorney.
      - iii. **Make sure the contract includes everything that is agreed to,** up to and including complete cleanup and removal of debris and materials
      - iv. **Never sign a blank or partially blank contract.** Once you sign, both you and the contractor are bound by everything set down in the contract. Make sure to get a copy of the contract, and keep it for your records.

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- v. **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.
  - vi. **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. You should expect to make a down payment on any home improvement job. A down payment should never exceed 10 percent of the contract price or \$1,000, whichever is less.
  - c. Make sure your Contract references your plans and specifications
  - d. Make sure your contract references your contract sum breakdown
  - e. Several contract options are "Stipulated Sum (A101)", "Guaranteed Maximum Price (A102), and "Cost of Work Plus a Fee (A103)"
  - f. Get your attorney to review your contract!
13. Profit types:
- a. Mark-up. Labor + materials + subcontractors = cost of work. Cost of work x mark-up = total cost. Example: cost of LMS = \$1000, mark-up is 20%.  $1000 \times 1.2 = 1200$ . This method provides a profit of 20%
  - b. Margin. If contractor's goal is 20% margin the 20% is calculated on the total project cost. Example: total project cost is \$1000.  $20\% \times \$1000 = \$200$ .  $\$200 / \$800$  (cost of work) = 25%. This method provides a profit of 25%
14. 2/10 Warranty: Sample from one provider:

### *Structural Warranties*

*We offer a 10 year, insurance-backed new construction structural warranty. It covers qualified physical damage or defects to load-bearing elements of a new construction home, including:*

- *Load-bearing walls/partitions*
- *Beams/girders*
- *Columns*
- *Floor Framing*
- *Roof Framing*
- *And more!*

*The 2-10 HBW Structural Warranty may only be purchased by a builder who is a member of 2-10 HBW. If you are buying a new construction home, click here to email your builder information about 2-10 HBW and the 2-10 HBW Structural Warranty.*

*PLEASE NOTE: Certain items and events are not covered through a homeowners warranty. For specific coverages, please refer to the New Home Warranty or Service Agreement for specific coverage and exclusions.*