

MANAGING CONSTRUCTION FUNDS

The construction contract allows for periodic (usually monthly) payments to reimburse the contractor for labor and materials. Pay the contractor on time so that work continues uninterrupted, but only disburse enough to cover the actual work completed so your funds won't be exhausted before the project is done. Construction contracts typically entitle the client to withhold a portion of the fee, generally 10-20 percent, as "retainage" until the project is completed.

When the contractor requests payments, he provides an invoice that includes receipts and bills for materials and subcontractor services. Before approving a payment request, compare the invoice and backup documentation to the physical progress at the site as reported by the architect or construction manager. Based on their inspection, they will confirm that payment is consistent with the completed work and that the work is satisfactory. If you have a construction loan, the bank will probably require you to pay for a construction inspector who works for the lender. That inspector will also need to approve each requisition.

CONSTRUCTION COMPLETION OR CLOSE-OUT

Completing construction and opening a new facility involves four steps, many of which are overlapping:

1. Substantial Construction Completion
2. Pre-Opening Preparations
3. Final Construction Completion and Payout
4. Opening

SUBSTANTIAL CONSTRUCTION COMPLETION

A project is "substantially complete" when the building inspector issues a **certificate of occupancy** to indicate that the structure is in compliance with all relevant local codes. Even though construction activity will be continuing, it will be limited to relatively minor finish work and repairs. To mark this milestone, a **certificate of substantial completion** is executed by the owner, architect and contractor. At this point:

- The contractor will have completed the clean-up of the site to prepare it for occupancy, which includes removing construction debris and leftover materials, removing any equipment or security fencing around the site, etc.
- The owner can take control of the property, and can begin to occupy the building for pre-opening set-up.
- The owner assumes responsibility for utility service, security, insurance coverage, etc.
- If the contractor has agreed to provide a warranty on the construction work, the time period covered (typically one year) begins when the project reaches substantial completion.
- The contractor, owner and architect have conducted a thorough inspection that results in the "punch list" of items the contractor must fix before the owner will acknowledge final completion and disburse the balance of the construction funds owed to the builder.
- Equipment can be moved into the facility and staff can report there for work; however, until you secure a license from the state to operate a child care program in the facility, you cannot yet open for business.

PRE-OPENING PREPARATIONS

The weeks leading up to and following substantial completion of a child care facility project are hectic ones. In advance of the opening date you must:

- Set a moving date and organize the logistics.
- Order and arrange for delivery of equipment and supplies.
- Recruit new teachers and market the program if your project involves an expansion.
- Make sure that all phone, fax and computer connections as well as electrical and plumbing services are in place.

You cannot move or even store equipment in the facility until you achieve substantial completion, so every step in the process requires close coordination with your contractor. It's helpful to designate one point person to handle pre-opening tasks. Your aim should be to secure a license as soon as possible following the project's substantial completion. Be in close communication with your licensor to enable them to inspect as early as possible. Try to schedule the inspection while the contractor is still at the site in case additional work is needed to satisfy the licensor.

FINAL CONSTRUCTION COMPLETION

Your project is considered to be complete and the contractor receives the final payment when the following tasks are concluded:

- **Final Walk-Through:** When the contractor thinks the project is complete, he will schedule a final walk-through. Your architect and project manager will accompany you and the contractor.
 - **Punch List Review:** The final walk-through is your opportunity to inspect the punch list items to determine whether they have been satisfactorily addressed.
 - **Operations and Maintenance:** During the final walk-through, the contractor will also instruct you and your staff in the proper operation and maintenance of the

facility. Be sure to schedule plenty of time. The contractor will also turn over operating manuals, spare parts and materials left over from the construction, and the warranties for the equipment and materials used in the construction.

- **Releases:** The contractor will deliver affidavits and releases from subcontractors and suppliers proving that all construction-related expenses have been paid in full. If you have a construction loan, the lender withholds the final disbursement until all the releases are provided. If subcontractors or vendors are not paid, they can place a "lien" on the property which transfers the outstanding payment obligation from the contractor to you as the owner of the center. Your lawyer should review the affidavits and releases.

When all of these steps are completed, you can make the final payment to the contractor.

FACILITY OPENING

The final step is when you have your license and the center opens. Don't expect everything to go smoothly. Equipment malfunctions and adjustments are common. For example, when winter comes you may discover that some rooms are too hot and others are not warm enough. Your contractor should help you solve these problems for at least one year following substantial completion.

Schedule a ribbon cutting. Find a prominent role for the children who will occupy the center and for all the people who helped make the project happen. Try to attract local media to get some attention for your program, especially if you still have vacancies.

One of the most important rules of fundraising is to remember to thank those who have helped make your facility improvement project happen. Include on your list the funders who made major gifts and politicians who helped you navigate some of the obstacles. Also remember to invite and acknowledge your neighbors, the construction workers, the licensor, your advisors and your staff.