

CALIFORNIA 20-DAY PRELIMINARY NOTICE

This form is a pre-lien that informs all interested parties that a claimant is providing labor and/or materials and will have rights to a construction lien, stop notice and bond claim if the claimant is not paid for his/her work.

The pre-lien is a pre-requisite for filing a construction lien, stop notice or making a claim against a bond to obtain payment.

You must serve the notice within 20 days after first furnishing labor, service, equipment or materials to the job site.

This notice is required for both private construction jobs and public works of improvement for California's state or local government agencies.

IMPORTANT

- Without giving a Preliminary 20-Day Notice, a prime contractor, a subcontractor and a supplier cannot file a valid mechanic's lien on the property for which they supplied labor or materials.
- Without a proper and timely Preliminary 20-Day Notice, a supplier or subcontractor will find his/ her self without any legal right whatsoever to file a mechanic's lien to obtain any payment from the owner.

*The best way to avoid these problems is to serve a Preliminary 20-Day Notice as soon as the contract is signed. It is legally acceptable to serve the Notice before the materials are delivered and before work is performed, as long as the contract has been made, agreed on and signed.

MECHANIC'S LIEN

A mechanic's lien is a lien that places a "hold" against the owner's property.

This lien is filed if the owner fails to pay the contractor, subcontractor or supplier.

If what is owed remains unpaid, the mechanic's lien allows a foreclosure action, forcing the sale of the owner's property to pay the amount that is owed to the person who files the lien.

STOP NOTICE

A stop notice is a lien that places a "hold" on funds.

Since the stop notice is a lien on funds, it may be preferable to a mechanic's lien in some instances, but you can file a mechanic's lien, a stop notice or both.

In public works, you cannot file a mechanic's lien so your solution for unpaid labor and materials is a stop notice.

WHO HAS THE RIGHT TO A LIEN?

Anyone who helps improve the property and that has filed a 20-day Preliminary Notice within 20 days of entering a contract, but who is not paid for the performed work or supplied materials, may record a lien against that property. This includes but is not limited to the following:

- Prime contractor
- Sub-contractors
- Material suppliers

WHERE AND HOW TO RECORD A LIEN

The unpaid contractor, subcontractor or supplier must file the complaint in the proper court to foreclose on the mechanic's lien. He/She must then record in the office of the county recorder (of the county where the property is situated) a notice of the pendency of the proceedings on or before 20 days after the filing of the mechanic's lien foreclosure action. The owner of the property affected must be notified, in a constructive manner, of the pendency of the action, after the notice is recorded.



THINGS YOU CAN DO TO DIMINISH YOUR CHANCES OF A DISPUTE:

- Communicate with the customer, use punch-lists to let them see the things that need to be done!
- Invoice regularly - don't allow bills to accumulate!
- Document ALL agreements, changes etc. in writing!
- Negotiate changes as they occur and record all changes in writing!
- Meet problems head on, don't dodge resolutions!
- On that same note, don't hide, if there's a problem, face it!

OPTIONS FOR SETTLING A DISPUTE

- Work it out! Lawsuits take time and money, so if possible work it out.
- Small Claims Court: if the project is less than \$5,000 and working it out with the owner was not possible take it to small claims court, it is fast and inexpensive. Judgments are binding, but the defendant has the right to appeal. Things to know: NO attorneys allowed and CANNOT foreclose a Mechanic's Lien in a small claims court.
- Arbitration: Both parties must agree to it. No going to court needed. The arbitrators review the case and make a decision. Decisions made by the arbitrators are non-appealable.
- File a Mechanic's Lien: if you are not paid, you have the right to lien the property.
- Stop Notice: if you are not paid, you have the right to lien construction funds.
- Civil Suit: in addition you can file a Civil Lawsuit for breach of contract.

DEADLINES FOR RECORDING

WHO?	WHAT?	WHY?	WHEN?! DEADLINE!
Contractor, Subcontractor, Supplier... Anyone who contributes to the work of improvement.	File a "20-Day Preliminary Notice"	To retain the right to file a lien (mechanic's or stop notice) if the owner fails or refuses to pay – think about it as insurance of payment for your work!	Within 20 days of signing the contract You are advised to file this as soon as possible!
Subcontractor and Suppliers (Anyone who filed a 20-Day Preliminary Notice that is not the contractor)	File a Mechanic's Lien	To get unpaid payment!	<u>If the owner files a valid order of completion</u> of the work of improvement <u>within 10 days</u> after the date of completion... you have 30 days to file the lien! <u>If the owner does NOT file a valid order of completion</u> of the work of improvement <u>within 10 days</u> after the date of completion... you have 60 days to file the lien.
Prime Contractor	File a Mechanic's Lien	To get unpaid payment!	<u>If the owner files a valid order of completion</u> of the work of improvement <u>within 10 days</u> after the date of completion... you have 60 days to file the lien! <u>If the owner does NOT file a valid order of completion</u> of the work of improvement <u>within 10 days</u> after the date of completion... you have 90 days to file the lien.



MECHANIC'S LIEN AND STOP NOTICE FLOW CHART 13% OF YOUR TEST

TO ALL CONTRACTORS...

Before filing a Mechanic's Lien or Stop Notice:

1. Obtain the legal description of the Property
2. Obtain the name of the owner and the extent of the owner's interest in the property
3. Find out who requested the work. Is the owner requesting the work of improvement? If not, what is the interest of the person requesting it and are there any others who claim an interest in the property (ex. lenders)?
4. Determine whether you are a prime contractor, subcontractor, laborer, material supplier etc.
5. Is there a construction lender? If so, what is the name of the lender?
6. Consider the effect of a bond or joint control.

PROCEDURE PROCESS

CHECKLIST BEFORE FILING

1. Legal address of the property
2. Owner's Name
3. Name of the person who requested the work

PRIME CONTRACTOR

SUBCONTRACTORS

(Material Suppliers, Laborers...anyone who contributes to the work of improvement)

START OF PROJECT INVOLVEMENT

20-DAY PRELIMINARY NOTICE

File a 20 Day Preliminary Notice Form within 20 days of signing the contract with the owner. If possible, file it right after the contract is signed, even if you have not begun the job. Filing it right away will protect your right to file a lien in case of unpaid payment. If you do not file the form you forfeit the right to file a lien.

WORK COMPLETED

90 DAYS IF NOTICE OF COMPLETION IS NOT FILED.

If the owner does NOT file a valid order of completion of the work of improvement within 10 days after the date of completion... you have **90 days** to file the lien.

60 DAYS IF NOTICE OF COMPLETION IS NOT FILED

If the owner does NOT file a valid order of completion of the work of improvement within 10 days after the date of completion... you have **60 days** to file the lien.

60 DAYS IF NOTICE OF COMPLETION IS FILED

If the owner files a valid order of completion of the work of improvement within 10 days after the date of completion... you have **60 days** to file the lien.

30 DAYS IF NOTICE OF COMPLETION IS FILED

If the owner files a valid order of completion of the work of improvement within 10 days after the date of completion... you have **30 days** to file the lien!

90 DAYS TO FILE A LIEN FORECLOSURE AND LIS PENDENS

Within 90 days of recording a lien: file a Lien Foreclosure and a Lis Pendens at the same time.



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California Civil Code § 3302(d)(1)

This release covers: *My Agriprocessors payee for the taxes, services, equipment or materials furnished to me only and does not cover any reimbursements received before or after the release date; extras furnished before the release date for which payee has not been reimbursed; extras or items furnished after the release date. Rights in and title to the materials furnished under a written contract which has been fully performed by the parties prior to the release date are covered by this release and are not subject to the release or the release. This release of any contractor's title, stock, option, or bond shall not be construed as the contractor's release, including rights between parties to the contract beyond payment of a retention, abandonment, or breach of the contract, on the right of the unaffiliated to recover compensation for furnished labor, services, equipment, or materials covered by this release or that furnished labor, services, equipment, or materials was not compensated by the employer agency. This release of any receipt of this document shall not, in itself, provide any evidence of payment to the undersigned.*

THE UNDERSIGNED HAVE PERFORMED LABOR FOR WAGES ON THE PROJECT DESCRIBED ABOVE AND HAVE BEEN PAID IN FULL TO DATE

Model	Model Description	Model Type	Model Parameters	Model Results
1	Model 1: A simple linear regression model with one predictor variable (Age) and one response variable (Salary).	Linear	1	0.000
2	Model 2: A simple linear regression model with one predictor variable (Age) and one response variable (Salary).	Linear	1	0.000
3	Model 3: A simple linear regression model with one predictor variable (Age) and one response variable (Salary).	Linear	1	0.000
4	Model 4: A simple linear regression model with one predictor variable (Age) and one response variable (Salary).	Linear	1	0.000
5	Model 5: A simple linear regression model with one predictor variable (Age) and one response variable (Salary).	Linear	1	0.000
6	Model 6: A simple linear regression model with one predictor variable (Age) and one response variable (Salary).	Linear	1	0.000
7	Model 7: A simple linear regression model with one predictor variable (Age) and one response variable (Salary).	Linear	1	0.000
8	Model 8: A simple linear regression model with one predictor variable (Age) and one response variable (Salary).	Linear	1	0.000
9	Model 9: A simple linear regression model with one predictor variable (Age) and one response variable (Salary).	Linear	1	0.000
10	Model 10: A simple linear regression model with one predictor variable (Age) and one response variable (Salary).	Linear	1	0.000

[California Civil Code § 2267(d)(4)]

NOTICE: THIS DOCUMENT WAIVES RIGHTS UNCONDITIONALLY AND STATES THAT YOU HAVE BEEN PAID FOR GIVING UP THOSE RIGHTS. THIS DOCUMENT IS ENFORCEABLE AGAINST YOU IF YOU SIGN IT, EVEN IF YOU HAVE NOT BEEN PAID. IF YOU HAVE NOT BEEN PAID, USE A CONDITIONAL RELEASE FORM.

(California Civil Code § 326(b)(1)(D))

Described by _____

THE UNDERSIGNED HAVE PERFORMED LABOR FOR WAGES ON THE PROJECT HEREIN REFERRED TO ABOVE AND HAVE BEEN PAID IN FULL, TO DATE.

Figure 1. Relative Abundance of <i>Escherichia coli</i> O157	Figure 2. Relative Abundance of <i>Salmonella enterica</i> Serovar Enteritidis

Category	Item	Score	Item	Score
1. General Information	1.1. Name of the Candidate	100%	1.2. Date of Birth	100%
2. Academic Background	2.1. High School Diploma	100%	2.2. University Degree	100%
3. Professional Experience	3.1. Work Experience in the Field	100%	3.2. Professional Certifications	100%
4. Personal Information	4.1. Marital Status	100%	4.2. Address	100%
5. References	5.1. References from Previous Employers	100%	5.2. References from Academic Institutions	100%
6. Additional Information	6.1. Languages Spoken	100%	6.2. Hobbies and Interests	100%
7. Summary	7.1. Overall Assessment	100%	7.2. Recommendations	100%

- **Conditional Waiver and Release Upon Progress Payment:** Use only if you have completed a phase of the work but you have not been paid in full for that phase yet.
- **Unconditional Waiver and Release Upon Progress Payment:** Use only if phase is complete and if you have been paid in full for that phase.
- **Conditional Waiver and Release Upon Final Payment:** Use only if you have completed the work in its entirety but you have not been paid in full yet. "Conditional" means you still have a condition to be met - such as getting your payment.
*If you do not have the money in hand or were told that you'd get paid after you supply a Waiver and Release form then use this form.
- **Unconditional Waiver and Release Upon Final Payment:** Use only if you have completed the work in its entirety and you have been paid in full. "Unconditional" means there are no more conditions to be met.



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FLASH CARD - LIENS**13%**

Read. Write. Interact! A powerfully effective way to retain information! Read questions, write down each question in the form of a statement. Quiz yourself or have someone quiz you.

- 1. What is a Mechanic's Lien? A lien on property**
It is a lien placed upon the property that received construction. This lien is filed when you (the contractor) do not receive payment for your work. It is an action to foreclose the property that you worked on, in order to get the payment for your services.
- 2. What is a Stop Notice? A lien on construction funds**
This is similar to a Mechanic's Lien except that with a stop notice the lien is placed upon the funds and not the property. It is used to get payment for your services when the owner fails to pay.
- 3. Can you record both a Mechanic's Lien and a Stop Notice on private work?..... Yes**
You can record both a Mechanic's Lien and a Stop Notice for private works.
- 4. Can you record both a Mechanic's Lien and a Stop Notice on public work? No**
To get payment for unpaid work and unpaid supplies in public works, you must file a Stop Notice.
- 5. What must you file to keep the right to a Mechanic's Lien?..... 20-day Preliminary Notice Form**
In order to keep your right to file a Mechanic's Lien, you (the contractor) must file a "20-day Preliminary Notice" within 20 days of signing the contract. Subcontractors, suppliers and anyone who is going to participate in the job in question must also file a "20-day Preliminary Notice" if they want to keep their right.
- 6. Who must file the "Notice of Completion"? the owner**
The owner must file the "Notice of Completion" when the work on his/her property is completed.
- 7. How many days does the owner have to file a "Notice of Completion"?.....10 days**
The "Notice of Completion" must be filed within 10 days of when the work is completed.
After July 15, 2012 they will have 15 days to file the "Notice of Completion"..... **15 days**
- 8. How many days does the contractor have to file a Mechanic's Lien?..... 90 days**
If the owner does not file a "Notice of Completion" within 10 days, the contractor has 90 days. If the owner does file the "Notice of Completion" within 10 days, the contractor only has 60 days to file a Mechanic's Lien.
- 9. How many days does the subcontractor have to file a Mechanic's Lien?..... 60 days**
If the owner does not file a "Notice of Completion" within 10 days, the sub has 60 days. If the owner does file the "Notice of Completion" within 10 days, the sub only has 30 days to file a Mechanic's Lien. These deadlines apply for subs, material suppliers, etc. anyone (but not the contractor) involved in the project.
- 10. Can you file a Mechanic's Lien if you don't file a "20-day Preliminary Notice" No**
If you fail to file a "20-day Preliminary Notice" you forfeit your right to file a Mechanic's Lien and Stop Notice.
- 11. Small claims courts can only handle cases that are less than what amount? \$7,500**
An individual or a business owned by an individual can file up to two cases of \$7,500 per year. All other businesses or corporations can file up to two cases of \$5,000 per year.
- 12. Can you appeal a decision made in a small claim court? Yes**
Decisions made in small claims courts can be appealed; deadline for appealing is 10 to 30 days.
- 13. Can you appeal a decision made in arbitration? No**
Decisions made through the process of arbitration cannot be appealed. Here all decisions are final.
- 14. Can you file a Civil Suit? Yes**
In addition to filing a Mechanic's Lien and/or Stop Notice, you may file a Civil Suit for breach of contract.
- 15. What is the name of the form that notifies people that there is a pending lawsuit? .. Lis Pendens**
"Lis Pendens" is the name of the form that notifies people that there is a pending lawsuit on their property.
- 16. If you record a lien but then get paid, file a Lien Release Form**
If you file and record a Lien but then get paid, you must file a Lien Release form. This form releases the party you were suing.



JOB MANAGEMENT – CUSTOMERS

CUSTOMERS

Being able to successfully communicate with customers is essential to your contracting business. Here are a few tips to help avoid disputes with customers, as well as to help you develop loyal clientele and a good reputation as a contractor.

BEFORE SIGNING A CONTRACT...

- Thoroughly review all plans and specifications with the customer and answer any and all questions your customer has!
- Do not rush the process just to get the contract signed.
- Take your time explaining and clarifying.
- Explain to your customer how you handle change orders, schedules, work hours, material deliveries and other concerns.

Why? Because if you rush them and don't allow them to ask their questions and if you don't inform them of the way you handle things, a number of issues might arise, for example:

- They will notice they are not being given their place as valued customers which will most likely cause them not to hire you again or worse cause you to lose that very job.
- Not being willing to clarify and explain creates a bad reputation for you as a contractor.
- Not explaining and answering questions often results in disputes over the interpretation of the plans that were not discussed.
- Not telling them how you handle changes,

OTHER TIPS HELPFUL TIPS!

- Invoice regularly – bring the customer's attention to unpaid bills
- Walk the job using punch lists
- Do a final walk-through at the end

BEFORE STARTING ANY WORK...

- Recheck everything before starting any work.
- Check with the owner more than once for any changes – do they still want what was discussed in the plans?
- If changes have arisen, check to see if additional codes apply.
- Recheck the plans and specifications for any errors.
- Re-discuss the responsibilities of the subcontractors with the subcontractors.
- Recheck the plans! Even if the architect OK'd the plans – never start working without rechecking!

Why? Double-checking:

- prevents errors that can be prevented
- saves time and money – once already done, an error can result costly on both your time and money.

ENCOURAGE COMMUNICATION!

- Communicate with your customer whenever possible. Keep them informed on how things are going, where you are on schedule, etc.
- Encourage customers to communicate with you! Make yourself accessible to their inquiries.
- Respond to customers' complaints as soon as you can!
- If you are in a critical phase, note the complaints and address them at the end of the critical phase.

Why? Encouraging communication can significantly diminish disputes.

- Consistent communication throughout the project causes both sides to address problems as they arise, preventing a snowball effect and avalanche in the end.
- Allows both sides to speak up and make suggestions if something is not working.



FLASH CARD - JOB MANAGEMENT: CUSTOMERS**12%**

Read. Write. Interact! A powerfully effective way to retain information! Read questions, write down each question in the form of a statement. Quiz yourself or have someone quiz you.

- 1. What should you do before signing the contract?..... walk the job, ask questions**
Walk the job and ask questions to make sure you understand what the customer wants and expects.
- 2. Should you re-check what you need to do even if you already checked it? Yes**
Check the plans for errors, even if the architect OK'ed them! Never start working without rechecking!
- 3. Should you explain everything to your customer before the contract is signed? Yes**
Explain to your customer what the job is going to require as well as, the way you handle change orders schedules, work hours, material deliveries and other concerns to avoid frustrations and disputes.
- 4. What is the one thing that you should encourage? Communication**
Communication with customers is the key to any successful business, especially a construction business.
- 5. How can you encourage communication?..... Make yourself accessible!**
Encourage communication by making yourself accessible. Be open to questions, don't reply in a hasty manner, don't be rude. This will help you prevent disputes that could arise out of misunderstandings.
- 6. How often should you communicate with your customer?.....whenever possible**
Communicate with your customer whenever possible – keep them informed of how things are going, where you are on the schedule, if they have any concerns or questions regarding the project etc.
- 7. Why is communication important?..... helps prevent disputes**
Communication is important for several reasons: helps prevent disputes over misinterpretations, builds you a good reputation as a contractor (friendly, approachable, accessible are words you want to attach to your reputation), makes the project flow more smoothly for both you and your customer.
- 8. When should you respond to customer complaints? As soon as possible**
Complaints should be addressed as soon as they are placed. If you are in a critical phase, write the complaint down and address it as soon as you are out of the critical phase. Explain the situation to the owner and why you are not addressing the complaint immediately so they don't feel dismissed or ignored.
- 9. Which changes should be placed in writing? All changes**
All changes should be set in writing to avoid disputes. Use a "Contract Change Order" form to amend the contract.
- 10. When should you check in with the customer to ensure plans have not changed?...Periodically**
Check with the owner more than once for any changes, example: do they still want what they originally requested? Are things going according to how they envisioned them? Check with them on a periodic basis!
- 11. If changes are made, what should you do? Check for new applicable codes**
If changes are made, check to see if additional codes apply and then proceed accordingly. Remember to file a "Contract Change Order" to record the changes requested in writing. Always record in writing!
- 12. Should you re-discuss the responsibilities with your subcontractors before the job begins? Yes**
Even if you have already discussed how the responsibilities are going to be split and who is going to do what, you should always re-discuss responsibilities with the subcontractors before the job begins.
- 13. Why is it important to double-check? It saves time and money!**
Double-checking prevents errors that can be prevented and thus saves time, money and stress level.



JOB MANAGEMENT: CONTRACTOR, SUBS & OTHER WORKERS 12%

CONTRACTOR'S ON & OFF SITE RESPONSIBILITIES

The contractor is the overall responsible party for work contracted.

His/Her duties include but are not limited to:

- scheduling
- inspections
- contacting the dig alert notification center
- updating "as-built" drawings
- ensuring subs' are licensed and insured
- ensuring codes are followed
- making sure all payments are made
- accounting for supplies on site
- making sure there is a min. of 1 bathroom for every 20 employees
- making sure there is drinking water on site
- making sure there is a first aid kit on site
- making sure that the employees of the subs are qualified
- dealing with changes
- dealing with disputes
- establishing & maintaining safety code according to Cal/OSHA, DOSH and IIPP

OTHER WORKERS – DEFINITIONS

Apprentice: a beginner receiving training in a trade, but who is not yet proficient enough to perform the work alone.

Journeyman: A worker qualified to perform work without supervision.

Foreman / Supervisor: Responsible for training and evaluating worker at or below journeyman level. They are required to conduct safety meeting every 10 working days.

WORKING WITH SUBS

Prime contractors are responsible for the subcontractors they hire.

- ensure subcontractor is licensed
- obtain proof of sub's insurance and workers compensation
- Review all plans and specifications with them
- Answer all their questions before they begin assigned work
- accurately specify the work and write it as detailed as possible
- pay subs within 10 days of receipt of any progress payment
- it is good practice and ethical to call out a subs bidding mistake

CONTRACTOR – FINAL WALK-THROUGH

A final walk-through with your customer will ensure the owner approves of the work and that everything is OK.

- Note any people present that are witnesses to the owner's approval
- Don't delay the walk through
- Once the work is approved, attempt to get an agreement at that time

PAYMENT MUST NOT EXCEED WORK PERFORMED

Progress payments cannot exceed the value of the work performed at any given time. In other words,... you CAN'T get paid beyond the work you perform.



FLASH CARD - JOB MANAGEMENT: CONTRACTORS, SUBS & OTHER WORKERS**12%**

Read. Write. Interact! A powerfully effective way to retain information! Read questions, write down each question in the form of a statement. Quiz yourself or have someone quiz you.

- 1. Who is the overall responsible party for work contracted? Prime Contractor**
The Prime Contractor is the one responsible for the work contracted. His responsibilities include on and off-site duties. See appropriate section in this chapter for details.
- 2. Who has to ensure that the subcontractors are licensed and insured?.. Prime Contractor**
It is the prime contractor's responsibility to make sure that all subs are licensed and insured.
- 3. How many bathrooms must be provided for every 20 employees? 1 (min.)**
Bathrooms must be provided on the job site. The requirement is a minimum of 1 per 20 employees.
- 4. Are workers required to bring their own water to work? No**
The work site is required to provide clean and accessible drinking water to employees.
- 5. Does there need to be an emergency kit on site? Yes**
There must be a minimum of one emergency kit on job site at all times. Employees must be informed of the location of the emergency kit as well as how to properly use its components.
- 6. Should the contractor review the plan and specifications with his subs? Yes**
Thoroughly review plans and specifications with subs and answer all the questions the subs might have.
- 7. Should a contractor write everything down in detail for the sub? Yes**
Besides explaining what the sub is to do, the contractor should accurately specify the work and write it as detailed as possible. Writing down instructions will help prevent misunderstandings.
- 8. Can a contractor receive payment for work that has not been completed? No**
Progress payments cannot exceed the value of the work performed at any given time. In other words... you can't get paid for work that you haven't yet done. This rule protects both the consumer and the contractor.
- 9. When must you pay the subs? within 10 days of received progress payment**
The prime contractor must pay his/her subs within 10 days of receiving a progress payment from the owner.
- 10. Should you call out a sub if he/she makes a bidding mistake? Yes**
If the sub makes a bidding mistake, it is ethical and good practice to bring it to his/her attention to it.
- 11. What is the term given to a "worker in training"? Apprentice**
An apprentice is a worker who is not yet able and/or allowed to perform work unsupervised; a "worker in training."
- 12. What is the term given to a worker who is able to perform trade work unsupervised? Journeyman**
A journeyman is a worker who has been trained and is thus able and allowed to perform work unsupervised.
- 13. Who is responsible for training employees?..... Foreman/Supervisor**
The person responsible for training employees is the Foreman or Supervisor.
- 14. What is a foreman required to do every 10 days? conduct a safety meeting**
The supervisor and/or foreman is required to conduct safety meetings (a.k.a "tail-gate" meetings) every 10 days.
- 15. What must you do if you substantially change the existing structure? Update "as-built" drawings**
You must update "as-built" drawings if your work of improvement substantially changes the structure.
- 16. When walking the job with the customer what should you carry? Punch list, clip board.**
Note comments and important information as you walk the job. If there are people standing around when the customer is giving the approval, write them down as witnesses, this helps support your completion of the job.
- 17. Should you delay the final walk through with the customer? No**
Have the walk through with your customer as soon as you finish the job to get the "okay."



BUSINESSES & RISK MANAGEMENT

Insurance is a means of reducing the company's exposure to risk, unexpected damage and casual damage.

TIP: To minimize insurance expenses, shop around to compare the costs and coverage of various insurance providers.

OTHER TYPES OF INSURANCE

Property Insurance: Covers your property tools and office against fire, storm, theft, etc. Note: It does not cover your employees' tools

Vehicle Insurance: Covers your vehicles, trucks, equipment or trailers while you or your employees are driving them.

Builder's Risk Insurance: Covers you and your property at the site against fire, storm, theft, vandalism, etc. during entire period of work.

"Key Person" Insurance: covers the loss of a "key-person," a person that performs a crucial role in the business by compensating the owner.

Business Interruption Insurance: also known as Business Insurance, it covers interruptions such as lawsuits, absents of owner, severe weather, etc.

Health Insurance: Covers healthcare and other related health issues.

Life Insurance: covers the death of a person by compensating the survivors, such as a family member.

Umbrella Policy: this policy goes above and beyond standard insurances and is therefore more expensive.

Note: If you are just starting your business, the umbrella policy is the least convenient insurance for you. This insurance is usually for larger, more established companies that can afford the extra coverage.

WORKER'S COMPENSATION INSURANCE

Is a NO-FAULT insurance purchased by the employer and supervised by the state. It is designed to limit the liability of the employer by reducing costly lawsuits and by providing prompt rehabilitation for job related injuries.

CSLB requirements for Worker's Comp.

- If the contractor does not have any employees, workers' compensation is not required. He or She must file an exemption form available online at www.cslb.ca.gov.
- A Worker's Compensation policy is NOT required for inactive or expired licenses.
- If you have one (1) employee, even for part-time, a policy must be obtained and filed.
- File a certificate of Worker's Compensation after obtaining a policy.

LIABILITY INSURANCE

Liability Insurance: Covers problems with the client or their property such as bodily injury and property damage. Liability insurance can be a little tricky to understand, for example: It covers the damage done by poor workmanship, it does not cover the work itself.

Consider the following example: If a shelf is set wrong and it falls and chips the tile floor, the damage to the tile would be covered but not the damage to the shelf.

So liability insurance does not pay for your poor workmanship, it only pays for the damages that poor workmanship causes.

There are two different types of Liabilities available:

- **Claims Made:** covers claims made only while the policy was enforced.
- **Occurrences:** covers claims made during or after having insurance, regardless of policy period.



BONDS

Bonding is generally mandatory for large jobs financed by institutional lenders, such as savings and loans, insurance companies, or commercial banks.

- *However, many owners and lenders, as well as other contractors, impose bonding requirements.
- Bonds can be obtained from bonding companies for a percentage of the contract price, usually in the 1% to 2% range.
- This requirement is a cost of doing business that should be recognized when the bid is submitted.
- Bonds may be classified as: performance bonds, payment bonds, contract bonds and contractor license bonds.

PERFORMANCE BONDS

Performance Bonds guarantee the completion of the work as it is specified in the project's building plans and specifications.

Performance bonds are in case:

- the job is abandoned or
- the work proves to be unacceptable

In either of the scenarios the bonding company insures the work by hiring another contractor to complete the work or by settling for damages – either way the completion of the work is insured.

PAYMENT BONDS

Payment bonds assure the owner that no liens for labor and materials will be filed against the property.

CONTRACT BONDS

Contract bonds: guarantee both job completion and payment of all labor and materials.

In general, unless the bonding company has taken on responsibility for completing the project, the bonding company will not have to pay more than the face amount of the bond.

The new contractor should be aware that bonding requirements may exclude the new business from bidding on desired jobs.

Bonding companies will not take risks without verifying the technical and resource capabilities of the bonded contractor.

- * It is essential to practice sound business management techniques if you hope to be able to qualify for bonding in the future.

CONTRACTOR LICENSE BONDS

Contractor license bonds require each licensed contractor to carry a contractor bond.

Unlike payment, performance and contract bonds, which are usually written to cover specific projects, a contractor license bond is written to cover any project the contractor agrees to perform. The penal sum of the contractor license bond is \$12,500.



SUMMARY OF INSURANCE

Property Insurance: Covers your property tools and office against fire, storm, theft, etc.

Vehicle Insurance: Covers your vehicles, trucks, equipments or trailers while you or your employees drive.

Liability Insurance: Covers customer's property damage or bodily injury

Builder's Risk Insurance: Covers you and your property

Business Insurance: Covers interruptions to your business

"Key Person" Insurance: Covers the loss of a "key-person" that performs a crucial role in your business.

Business Interruption Insurance: also known as Business Insurance, it covers interruptions such as lawsuits, absents of owner, severe weather, etc.

Health Insurance: Covers healthcare and other related health issues.

Life Insurance: covers the death of a person by compensating the survivors, such as a family member.

Workers Compensation Insurance: No-fault insurance for prompt rehabilitation for job related injuries.

SUMMARY OF BONDS

Payment Bond - ensures payments to 3rd parties

Performance Bond - ensures job completion

Contract Bond - ensures both 3rd party payments and job completion

INSURANCE VS. BONDS

Insurance and Bonds are both forms of indemnity (payment for losses), however they have several key differences.

- Insurance typically protects you, while bonds protects everyone but you
- Bonds have to be reimbursed after a claim is paid
- Bonds are usually harder to get, but cost less than insurance
- Insurance covers a period of time and is an overhead expense, while bonds are usually per project and are considered a direct cost.

INSURANCE vs. BONDS

	Insurance	Bonds
Covers	You	Everyone except you
Reimbursement	None	Yes
Premium	Monthly, Quarterly, Yearly, etc	% of the job (usually 1% to 2%)
Term	Yearly	Per project
Type of Cost	Overhead	Direct Cost



FLASHCARD – INSURANCE & BONDS

13%

Read. Write. Interact! A powerfully effective way to retain information! Read questions, write down each question in the form of a statement. Quiz yourself or have someone quiz you.

1. **Which insurance covers your property?** **Property Insurance**
Property insurance covers your property tools and office against fire, storm, theft, etc.
2. **Which insurance covers your customer's property?** **Liability Insurance**
Liability insurance covers customer's property damage or bodily injury.
3. **Which insurance covers theft and vandalism at the site?** **Builder's Risk Insurance**
Builder's risk insurance is insurance that covers you (the contractor) and your property.
4. **Which insurance covers the loss of a "key-person"?** **"Key Person" Insurance**
"Key Person" insurance covers the loss of a "key-person" a person that performs a crucial role in the business. The insurance compensates the owner if he/she loses his/her "key person."
5. **Which insurance covers the death of a person?** **Life Insurance**
Life Insurance covers the death of a person by compensating the survivors, such as a family member.
6. **Which insurance covers your company truck and vehicles?** **Vehicle insurance**
Vehicle Insurance covers your vehicles, trucks, equipments or trailers while you or your employees drive
7. **Insurance that covers your company from interruptions?** **Business Interruption**
Business Interruption Insurance, also known as Business Insurance, covers interruptions such as lawsuits, absents of owner, severe weather, etc... anything that interrupts (puts a project on hold) a project.
8. **What type of policy goes above and beyond any other policy?** **Umbrella Policy**
This insurance is usually for larger, more established companies that can afford the extra coverage.
9. **Which policy are new businesses advised NOT to get?** **Umbrella policy**
If you are just starting your business it is the least convenient insurance for you because it is too expensive.
10. **Is worker's compensation insurance required if you only have 1 employee?** **Yes**
Worker's compensation must be obtained and filed even if you have only 1 part-time employee.
11. **If you have no employees, do you need Worker's Compensation?** **No**
Worker's comp is not required for contractors that do not have employees. If this is the case, you (the contractor) must file an exemption form. Remember, you can't have employees without providing them with worker's comp.
12. **If your license is inactive, do you need a worker's compensation policy?** **No**
Having an inactive license is another exception to having Worker's Comp. Insurance. However, remember that you cannot provide contracting services if your contractors license is inactive.
13. **What should be considered when selecting insurance?** **Cost and coverage**
When selecting insurance the two things you should look at is cost and coverage. Be realistic, what can you afford to spend on insurance? What must absolutely be covered? Shop for insurance accordingly.
14. **Bond that assures the owner that no liens for labor will be filed against property** **Payment Bonds**
Payment bonds assure the owner that liens for labor and materials cannot be filed against his/her home.
15. **Which bond covers the completion of contract?** **Performance Bond**
Performance bonds are in case the job is abandoned or the work proves to be unacceptable.
16. **Which bond covers both payments and completion of contract?** **Contract Bond**
A contract bond is a bond that incorporates performance bond with payment bonds.



INTRODUCTION TO CASH MANAGEMENT

Cash management is one of the most important concepts to understand in order to carry out an effective business. However, it is lengthy and involved (so much so that it can be a book of its own!)... So in this section we will cover all the basics you need to know about Cash Management.

Cash management is about having financial control over your construction business. Its goals are to:

- maximize the level of cash within the business
- maximize the return earned from the investment of cash and
- minimize the amount of time in which cash sits idly not producing income

PUTTING CASH TO WORK!

Successful cash management for the contractor requires that cash be viewed just like any other income-producing asset. Cash should not sit idle! If it is sitting there, it can't increase.

Cash should be acquired as best as possible.

4 PRIMARY REASONS FOR PROPER LEVEL OF CASH MAINTENANCE

The proper level of cash must be maintained for 4 primary reasons:

1. Transactions
2. Compensating Balance Requirements
3. Precautionary Reasons
4. Investment/Speculations

The contractor's cash management system should be geared to minimize the use of cash for transactions, compensating balance requirements and precautionary reasons because these 3 are non-income producing.

Cash should be available for investment that way cash is maximized, producing the highest return.

5 BASIC CASH MANAGEMENT PRINCIPLES

These principles apply to small and large businesses:

1. Cash budgeting (which is related to planning the business' cash needs)
2. Acceleration of cash receipts from customers
3. Deceleration of cash disbursements to creditors
4. Raising cash when needed
5. Short term investment to preserve the value of working capital and maximize earnings

CASH INFLOW & CASH OUTFLOW

Any number of special circumstances may cause big fluctuations in the supply and demand of business' cash. However, there are a few predictable and certain inflow and outflow sources:

Cash Inflows

- Accounts receivable collection
- Investment by owners
- Sale of Fixed Assets
- Debt

Cash Outflows

- Accounts Payable Payments
- Payroll
- Indirect Job Costs
- Operating Expenses
- Debt Repayment
- Fixed Asset Acquisition
- Dividends to Owners

