



Builders Risk Insurance (Contractor Procured) Proactive Cost Tracking

COVID-19 has created unprecedented challenges. The construction industry is facing significant operational disruptions and financial strain. Organizations should review their insurance coverages and the potential for future reimbursement through FEMA and/or through recent legislation such as the CARES Act and develop a comprehensive strategy to prepare and quantify exposures.

What do contractors need to document when a project is shut down? Many organizations are seeking best practices/recommendations for tracking COVID-19-related costs that result from either a federal backstop or state legislative actions. Builder's Risk claims related to COVID-19, resulting from either a federal backstop or state legislative actions, questions continue as to "what is the best practice/recommendation for tracking costs related to COVID-19?"

- Set up a project cost accounting code for each property or project impacted. Track all related expenses associated with each location in an easily accessible format. Establish a spreadsheet that can be updated with time frames, costs and include an "explanation" section for reference. Ideally, create a drop box/share point for each impacted property or project.
- Review contracts for notice obligations to Owner depending on the cause of shutdown or suspension. If the contract contains a Force Majeure clause, does this provide any benefit to the Contractor other than schedule relief? Notwithstanding the resource for the Contractor, the Owner should be placed on notice in writing declaring a Force Majeure event. All stated relief (or other obligations) should be cited in the written notice.
- Assess project status at time of impact. This assessment will include original the project schedule and ultimately a forecast impact of delays. Where does the insurable interest of the Contractor and Owner start and stop? How does the contract address Risk of Loss, Deductibles, possible Consequential Damages (to the Owner), etc.?

Within the cost identification and quantification process, there are areas that can be directly attributable to the impact of COVID-19. Following is an initial summary of expenses to be tracked:

Type of Costs:

1. Hard Costs (Labor, Material, Equipment, Resulting Damage)
2. Soft Costs (Interest on Loans, Insurance Premiums, Bonds, Rental income, Taxes, etc.)

Client-Parties Role:

1. General Contractor/Construction Manager
2. Subcontractor

Incident Description (if known)

1. Identify location of property/project impacted
2. Identify date and time of loss/when project/property impacted
3. Identify – Determine what the covered property is
4. Identify – Determine what the cause of loss is
5. Identify – If any loss or damage has been sustained

Cause of property/project impact:

1. COVID 19
2. CIVIL AUTHORITY
3. INGRESS/EGRESS
4. All of the above

Categories to Capture for an Eventual Claim

- Dedicated job cost code related to this event
 - Direct costs related to the shut (or slow) down of the project. Include costs for additional security protection, relocation and storage of materials/consumables, false works, etc.
 - Cost of rental for temporary facilities
 - Administrative costs to include office trailers, phone and internet expenses, office equipment rental
 - Project Overhead & Profit, General Conditions (Field Office and/or Home Office)
 - Idle Equipment charges (rental or depreciation and associated maintenance expenses)
- Quotes, estimates, purchase orders and detailed invoices to support material, equipment and outside labor costs incurred related to this event
- Testing, clean-up, decontamination costs and/or debris removal as a direct result of contamination
- Direct labor
 - Contemporaneous timesheets including individual, trade, hours, rate, date and task performed
 - Payroll report evidencing hourly rate and burden
 - Travel expenses and per diems with supporting documentation
- Subcontractor labor costs and related expenses
- Original org chart for the project, and any updates prior to and after this event
- Original project schedule, and any updates to the schedule prior to and after this event
- Original “as planned” general conditions ledger for this project
 - Specific general conditions extended due to project delay might include: field offices and overhead, trailers, office personnel and supplies, utilities, consulting fees, temporary office space, site security, temporary storage, etc.
- Expediting expenses to mitigate additional or future losses
 - Specific expediting expenses might include acceleration of certain trades including overtime, freight to bring in materials, staging, storing or relocating equipment, etc.
- Tracking and documenting specific soft costs associated with project delay
 - Financial documents evidencing increased interest expense on construction loan(s)
 - Costs to refinance construction loan(s)
 - Real estate tax payments
 - Insurance premiums to extend project policy(ies) and/or allocated costs from annual practice policy(ies)
 - Advertising and promotional expenses incurred
 - Additional licenses and permit fees to extend project

When construction projects resume, initial start-up may begin slowly, and contractors may experience new complications and delays. These complications and delays may include a shortage of labor, materials and challenges specific to sequencing of subcontractors. Contractors should identify and quantify the impact these complications and delays will have on the project and be prepared for impacts on schedules and the potential for escalation of project losses.

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