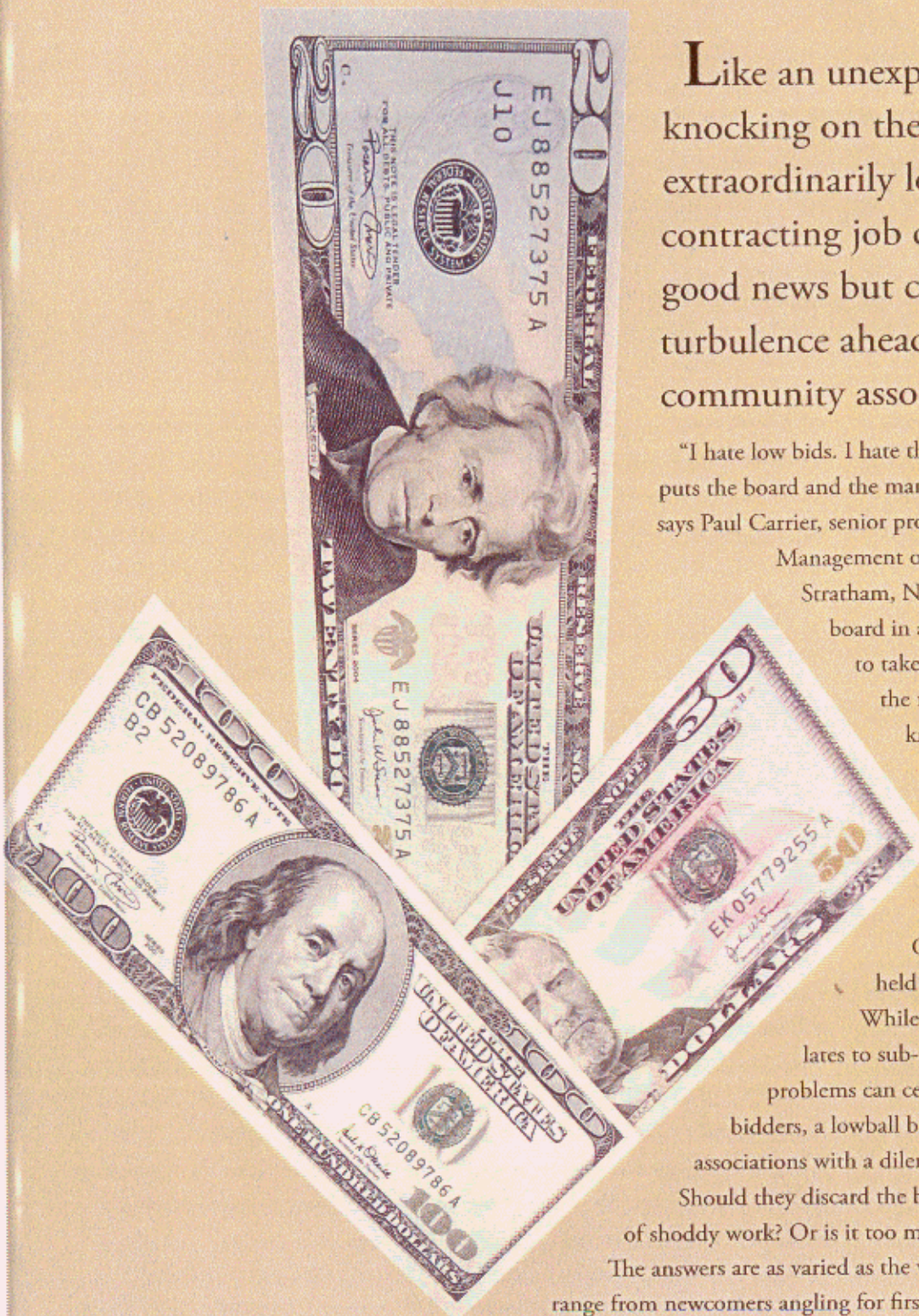




THE LOWEST POSSIBLE PRICE

*Low Bids Can
Be Stressful for
Associations*



Like an unexpected guest knocking on the door, an extraordinarily low bid on a contracting job can signify good news but can also mean turbulence ahead for the community association.

"I hate low bids. I hate them with a passion because it puts the board and the manager in a very bad position," says Paul Carrier, senior property manager at Evergreen Management of Bedford, Gilford, and Stratham, New Hampshire. "It puts the board in a position of being tempted to take the low bid. And it puts the manager in the position of knowing he's going to have to deal with these people [low bidders] and their potential lack of satisfactory performance if the board selects them," says Carrier, repeating a commonly held manager belief.

While not every low bid translates to sub-par work by any means, and problems can certainly arise with higher-level bidders, a lowball bid can present community associations with a dilemma.

Should they discard the bid as too low and indicative of shoddy work? Or is it too much of a bargain to pass by?

The answers are as varied as the variety of low bidders, who range from newcomers angling for first contracts, to a very few shady operators, to solid tradesmen lacking good business sense and estimating skills.



"I've seen contractors so disorganized they never send out a bill," says engineer Ralph Noblin of Noblin & Associates, L.C., Consulting Engineers of Braintree, Massachusetts. "He's swinging a hammer by day and by night he's trying to send bills out.

There's a lot to the construction business from the business standpoint. A lot of contractors who have these skills—roofing or carpentry—don't necessarily translate into a successful business if they're lacking in business skills."

Painting Plus president and owner T.G. Hall says he has run into inexperienced contractors after they have underbid him on a job and later not done so well. "We've lost bids to people who have lowballed, and I talked to them afterward and they said they didn't make money on the job," says Hall, whose firm services southern New England. "What happens is

everybody wants to get the job. An inexperienced company especially will go in and do everything they can to get the job. Then what happens is, [when] it's time to actually do the job and charge the client money, you can't change that, you can't go back and

saying that someone's going to do something intentionally wrong or illegal, but the crew, in their minds, will say, 'We've got to do everything to get this job finished, it's way over budget. Whatever we can do to help this along—maybe not a full second

coat [of paint].' There is that pressure."

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ture paint failure and rotting wood, both consequences of shoddy work. In addition to paying extra costs to rectify poor quality work, Hall says condominiums have also been thrown off their painting schedules, which are based on doing a certain number of buildings each year.

Property Manager Stephen DiNocco, president of Affinity Realty & Property Management, LLC, of Boston, says lowball bids generally say 'It's going to cost more,' so you're obligated to do the job for a certain amount of money."

The end result of a low bid can often be pressure to cut corners, says Hall. "If you're the lowball guy who's just trying to get the job, you're going to be under a lot of pressure. You're going to be saying, 'Wow, I underestimated the job! What am I going to do? Well, I'm going to have to find a way to do it more quickly.' I'm not

say that someone's going to do something intentionally wrong or illegal, but the crew, in their minds, will say, 'We've got to do everything to get this job finished, it's way over budget. Whatever we can do to help this along—maybe not a full second

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result from vague job specifications (in which bids compare apples to oranges), inexperience on the part of the contractor, or intentional underbidding.

This third instance is “somebody who really needs the work and intentionally underbids the job in such a way that they can hit you later with add-ons,” says DiNocco. Common add-ons, says DiNocco, include claims the construction site needs upgrades, passing on of permit fees, or “unforeseen conditions.” “For example,” he says, “they could deliberately underestimate the number of board feet needed for replacement siding.”

When DiNocco gets a low bid, he calls the contractor and asks, “Does this include everything? What are you going to do about this? What about that?” After talking with the contractor, DiNocco says he makes a decision on whether or not the job can be done for the amount of money quoted. “If you were putting landscaping out to bid and someone came back with \$100 a week, and you

know it’s going to take four guys a day [over the course of a week] to do it, then you know he can’t do it for that price and survive. I would say he’s not a qualified bidder, and I wouldn’t give him the job.”

DiNocco, however, doesn’t automatically throw out unusually high or low bids and says there could be a legitimate reason for them. “If I want to save time, I could just discard the low and high bids. But maybe the high bidder knows something the others don’t, and the low bidder has a method that the others don’t. So it’s important that you contact the guys and find out what’s really going on.”

Noblin also doesn’t believe that a low bid should be necessarily thrown out and sometimes questions contractors who complain about their lower-priced competition. When his firm puts out specs for a job that should cost \$300,000, Noblin says he sometimes get bids running from \$290,000 to \$600,000. “Guess what? The guy who bid \$600,000 shouldn’t be [complaining] about the guy who

bid \$280,000. If \$300,000 was a fair price, then maybe \$280,000 is a bit low, but \$600,000 is way high.”

The reason for the discrepancy, says Noblin, is that some contractors are putting in high bids to take advantage of a hot real estate market and shortage of construction capacity. “A lot of contractors would look at a residential project in Framingham and say ‘I can probably make money if I do the job for \$300,000. But I don’t want to just make money. I want to capitalize on the supply and demand in the marketplace now,’” says Noblin. “You’re seeing bids come in that don’t make sense when you do all the math, but—the big but is—that it’s very similar to the [overheated] real estate market.”

Carrier says he deals with low bids by inviting only pre-qualified vendors that have a track record, and with whom he has a comfort margin to bid on jobs.

Pre-qualifying the vendors, says Carrier, makes a board’s job of selecting among different bids much easier.



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LOW BID**

"If you were able to pre-qualify a number of vendors, then the lowest bid would be the appropriate bid, as long as the low bid was not so out of place that it created an issue of concern. If they're all within a small or very tight percentage of deviation, then you should be comfortable with the low bidder," says Carrier. "The old theory—you get four proposals, one's extremely low, the other's extremely high, so you toss those two out, and the two guys in the middle are the ones in contention—doesn't always work out. It shouldn't work if you've properly pre-qualified the vendors first."

When dealing with contractors, low bids or not, Carrier says he protects his associations by avoiding any up-front payments and following the golden rule. "My theory is the golden rule, and the golden rule is, 'As long

as I have the gold, I rule.' So as long as the contractor is not ahead of me [in drawing more money than work completed], basically I'm in control," says Carrier. "You always want them to provide the service before you provide the payment, if you can." In

Noblin advises condominiums to carefully check for insurance certificates before the job starts.

some instances, says Carrier, it is even prudent to hold money back after the job is finished, like a 10 percent holdback for undiscovered damage on snow removal contracts.

In addition to holding money back, Carrier always does a thorough inspection of the work shortly after it's completed.

Noblin advises condominiums to carefully check for insurance certificates before the job starts. "There's a

lot of flat out fraud, [and] there are many certificates of insurance that are bogus," says Noblin. To prevent fraud, Noblin advises communities to "go right to the company that's issuing it [the certificate], whether it be Allstate or whomever."

Noblin also advises condominiums to solicit bids far in advance so they can have time to scrutinize the bid, the contractor, and his

references. "If it's quite a bit lower, I would ask for a breakdown, even if it's just a labor and materials breakdown. That should help you determine if it's really too low or the other guys are too high. I wouldn't discount it out of hand. I've seen jobs differ 100 percent where we make the specifications."

Carrier says some low bids he receives are from contractors trying to get into a property with plans to later increase their fees. Even though it



represents an initial savings, Carrier says it's not desirable in the long run because it creates an unrealistic expectation that the service will always be budgeted low. "You tend to get a vendor who fits your budget rather than one who fits the true needs of the community."

The best arrangement for both the vendor and community is to establish a fee that is fair for both parties, says Carrier. "It's to the advantage of the community to have a relationship with a vendor where the services they get are at the level they desire and still allow the vendor to make a decent profit off of the contract. He [should be] able to provide the services comfortably without a lot of argument, without a lot of enforcement. Once you've established a relationship like that, it's a very safe feeling for everyone." 🏠

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