

# Church Construction Delivery Methods - Which is the Right Way?

## *A Comparison of Methodologies*

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There are several ways for a church to contract for the design and construction of a new facility. Depending on size and scope of the project, different solutions may be more appropriate than others. After being involved in hundreds of church building projects, it should become apparent which solution we believe to be most appropriate and why. Each of these delivery methods is recognized as being appropriate and each method is currently being utilized by churches nationwide. Below is an explanation of each of these methods. Note that each method is different. This document outlines the benefits and the shortfalls of each method.

### **I. Design-Bid-Build**

Most churches using a traditional delivery method select what is known as design – bid - build.

In the conventional design-bid-build model, the church works with an architect to design the facilities. Once the design is complete to the satisfaction of the architect, the church, and the local regulatory authorities, the design is sent out for bid. Competing bids are received and the church selects a general contractor to build their church based on these bids. Normally, a general contractor has an estimator who is *estimating* for all subcontractors based on their knowledge of the market and the historical pricing of the subcontractors with which they normally work. The bid is a “fixed not to exceed bid” where the risk of construction cost overruns are transferred away from the church and onto the builder (or is it – you must read on).

Because each step is done in sequence, the builder has minimal, if any, input in the design process before the plans are sealed. This lack of builder input is an important distinction. Changes made during the design process are normally far more cost effective and less time consuming. These changes are proactive and result in a positive value added outcome.

Changes made after the plans are sealed are often more time consuming and more costly. The changes are often reactive to determine a way to prevent and/or manage a negative situation.

The key point here is that changes are very likely to occur regardless of the delivery method. We believe you cannot alter that fact. Where in the project’s life changes occur, and under what circumstances you make changes often can be effectively managed.

Construction costs, while being estimated by the design team, are often less accurate than costs identified during the actual bidding process, oftentimes resulting in a building design *that is* more expensive to build than the church can afford.

If the building is more expensive than the church can afford, then we are back to the design phase resulting in significant changes, additional cost, and additional time.

The builder and the architect both work for the church. This provides a relationship that promotes independent oversight and accountability between design and construction.

Once the project begins, the builder’s primary concern is to complete the building at or below the “fixed not to exceed” bid. Any cost savings achieved or contingency not used passes back to the general contractor. This is normally a “closed book” fixed price contract where the church probably does not know all of the cost associated with its building project.

- The general contractor normally controls the money. (The church or bank writes one large check to the general contractor from which the sub contractors are paid by the

- Builder input is late in the process
- Owner gives up informational control based on a line by line item cost
- Owner gives up financial control by placing the entire check of each draw in the hands of the GC
- Owner perceives that most, if not all, of the financial burden has been passed to the GC
- Unused contingency passes back to the GC
- Knowledge of cost savings achieved by the GC is usually unknown by the church
- Architect and GC are hired independently by and represent the owner

## **II. Design-Build**

In a typical design-build model, the church hires a construction company or general contractor who in turn, hires an architect or the architect may already be an employee of the construction company. In design-build, the architect and builder are working together during the design process. This often produces a better result with less cost and time. Design changes should be made earlier in the process, budgeting estimates should be known and controlled earlier in the process, any value engineering that might help save money should be discovered early in the process. Many of the time and planning disadvantages of design-bid-build are taken out of the equation.

The architect is normally working for the builder/construction company and the possibility exists that design changes may be facilitated to benefit the builder and not ~~always~~ the church/owner. It would make sense that if the architect has to choose who to protect – they would protect their employer/construction company. There is at least an implied or potential conflict of interest in this delivery method. Once the project begins, the primary goal of the team is to deliver the product at or below the fixed not to exceed estimate provided.

This method also facilitates a “closed book” fixed price contract where the church does not know all of the costs associated with its building project. The construction company/general contractor normally controls the money as the church or bank writes one check to the GC from which the subcontractors are paid – does this sound familiar?

Other than builder input being earlier in the process, the basics of this delivery method are the same as design-bid-build. In design-build, the architect and the builder are not hired independently by, and do not independently represent, the church/owner.

## **III. Open Book Construction Manager With a Guaranteed Not-to-Exceed Price**

In this method of delivering the building, a construction manager is hired, often after the architect has already completed the plans. When the plans have already been sealed, the same planning disadvantage remains as already expressed in the design-bid-build delivery method.

In an open book construction management model, everything is completely open to the church/owner. All cost estimates and bids are fully transparent with the church/owner actively involved to the degree it desires, in cost estimates, award of contracts or subcontracts, and purchasing. In this model, cost savings typically benefit the church/owner, not the general contractor/builder. All pricing information from subcontractors, suppliers, service organizations, or agencies is open and available to the church/owner and church's/owner's representatives.

The church has a greater amount of knowledge in the construction budget. In addition, financial control is greater because instead of one check being issued to the GC, separate checks are being issued by the church or bank to each individual subcontractor. Subcontractors are not paid unless proper lien releases are delivered each month. This method also reduces the financial risk to the church if the GC has financial issues.

Since the Construction Manager is taking financial risk with the not to exceed price, normally any savings or unspent contingency passes back to the CM (as it does in design-build and design-bid-build).

As much as we do not want to admit it – if there is one party of the relationship accepting all of the financial risk, there will be a conflict of interest between the best interest of the client and maximizing profits (or minimizing loss). There is less of a conflict in the open book delivery method with a “not to exceed” price, but a conflict still exists.

#### **IV. Design – Open Book Construction Manger (OBCM) – Team Approach Without Fixed, Not to Exceed Price**

In this delivery method, the design and construction professionals work directly for the church, using a team approach. This approach provides the church with the advantage of the architect and builder working together from the beginning of the design process, but insuring that each works for, and are responsible to the church. Working through the design process with the architect allows the builder to have valuable input into the design and materials, and to provide the architect with accurate costs estimates during design.

In this delivery method, the church gets the best of the first three methods. We have thrown in an additional feature that should not be overlooked – “without a fixed not to exceed price”. This is not a typo. In this type of relationship, the fee is fixed based on the cost estimates of the project. From that point on, the CM has the greatest amount of incentive to deliver the ~~most~~ most cost savings to the owner/church. There is no conflict of interest.

One of the frequently asked questions is, *“How does the church get competitive bids, if the CM is selected before the design of the building, and how is the church protected without a fixed not to exceed price?”*

In an OBCM delivery model, the church selects the CM based on historical ability to deliver church building projects along with spiritual and emotional “fit.” It is the role of the CM to obtain multiple bids for each major line item in the building budget. In this manner, the church knows the best price on a line item by line item basis, rather than just knowing the best overall price out of three builder’s bids.

In a fixed “not to exceed” price bid process, there will be a “contingency”, or unspent budgetary line item, as there should be in any construction estimate. A company that operates without a contingency factor does not operate very long; however unused or unspent contingency dollars are retained by the church in this delivery method. The point is that only in this delivery method is the opportunity for maximum cost savings passed back to the church/owner.

To summarize the OBCM deliver method, below are highlights:

- Builder input is early in the process
- Church/Owner retains informational control based on a line by line item cost
- Church/Owner retains financial control by placing the check of each draw in the hands of the applicable subcontractor instead of issuing one large check to the GC and hoping that all subcontractors are actually paid

- Church/Owner knows that none of the financial burden has been passed to the CM, thus all unused/unspent contingency dollars passes back to the church
- Knowledge of cost savings achieved by the CM is disclosed to the Church/owner
- Architect and CM are hired independently by and represent the owner

### **Conclusion: The Ideal Model**

When we fund a church project using our own and investor funds and enter into a lease/purchase contract with a partner church, what is the *process* model and delivery method that we require?

1. We conduct a needs and feasibility analysis to provide information that will allow us to objectively understand what the church needs to build, what it can afford to build, and how to pay for it. We suggest a formal capital campaign process that will help raise money for the up front costs of building and reduce the amount of money that needs to be borrowed. Such a campaign also provides an excellent opportunity to teach the principles of sacrificial giving.
2. We hire both the architect and construction manager at the same time. (Among other factors, the criteria for selection of both should include a history of church design or construction, and a willingness to work in a team environment.) Once the team consisting of church building consultant, architect, and construction manager is assembled, the design process, based on the results of the needs and feasibility study, can begin.

With respect to church architects, there is a wonderful opportunity to save even more time and money in the design process by utilizing an existing church building plan as the starting point. There are architects that make church plans from prior building projects available for purchase at meaningful discounts over custom designs. While existing plans are not construction ready, they can drastically shorten the design process.

The construction manager we hire is working for a fixed fee, is open book, and is not being held to a fixed not to exceed price, because we know that this will provide the most building at the lowest cost.

It is our experience that the farther you move away from this model, the greater the potential for cost and time overruns. The farther you move away from this model, the less opportunity you will have to achieve maximum cost savings.

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## Why We Recommend Open Book Construction Management Over General Contracting or Design/Build With Guaranteed Maximum Cost

Description	OBCM	GC or D/B
Utmost Transparency & Accountability	Yes 	
Highest Level Of Control	Yes 	
Greatest Chance For Gift In Kind In Materials	Yes 	
Simplest for Church	No	Sometimes 
Greatest Chance For Gift In Kind Volunteer Labor	Yes 	
Greatest Opportunity For Project To Come In Under Bid	Yes 	
Multiple Bids	Line Item 	Project Total
Guaranteed Maximum Price		Yes 
Most Biblical Model	Yes 	
Lowest Total Real Project Cost	Yes 	
Cost Savings Pass Through To Church	Always 	Possibly
Cost Of Change Orders	Minimum 	Maximum
Risk Of Sub-Contractors Not Getting Paid	Lowest 	Highest
Builder Represents	Church 	Self
Who Manages The Money	Church 	GC
Architect Works For	Church 	GC (except in design build) 
Sub Contractors Work For	Church 	GC
Project Foreman Works On Behalf Of	Church 	GC
Direct Control Over Lien Waivers	Yes 	No
Potential Risk To Project From Builder Going Out Of Business	Lowest 	Highest
Requirement To Bond Builder	No 	Often