

Putting Your Punchlist to Work

Good planning and a standard form preserve goodwill and help you get the last check

by Sal Alfano

The impression you leave with your clients at the end of a job is the one they'll remember you by. Since the punchlist is the last step on every project, how well you handle it is critical. Regardless of the quality of your craftsmanship, if you let details slip at the end of a project, your rush to get on with the next job will erode all your hard-won goodwill and tarnish your image.

More Than a Checklist

There will always be some incidental details to take care of at the close of a job — a couple of cabinet pulls to install or interior paint to touch up — before the client agrees that the job is finished and it's time to write the last check. Too many builders relinquish control of the job to the client at this crucial stage simply because they have no clearly defined punchlist procedure.

See if this sounds familiar. You stop by the site to pick up some equipment needed on another job, and the client greets you with a checklist of unfinished items as long as your arm. Because you're 20 minutes late for an appointment across town with your excavator, you make a bunch of promises you haven't a prayer of keeping just so your client won't see what a hurry you're in. Then, as you coast out of the driveway, you hand off the list through the window of your truck to the one employee remaining on the site and tell him to "take care of this." Each day the list grows longer and tempers grow shorter.

To avoid this scenario, you must realize that a punchlist is more than a checklist of unfinished items: It's a key administrative tool that helps you get the last check while making a graceful exit from the job. Drawing up a proper punchlist sends a clear message to your clients that this is where the job ends. More importantly, it gives you some say in what goes on the list and what doesn't, allowing you to control the cost. And it preserves the professional reputation you work so hard to earn.

Laying the Groundwork

The first step in establishing a good punchlist procedure is to tell your clients about it before the job starts. The best way to do this is to include it as a part of your construction schedule and draw their attention to it when you review the payment schedule. Two concepts, *substantial completion* and *retainage*, will help you get your point across.

Substantial completion. Most payment schedules call for final payment when the job reaches substantial completion — the point

ABC Construction Co. Punchlist Project: McCLARNON Amount

Exterior:

Seeding/Landscape		
Gutters/Downspouts		
Lights/Outlets		
Painting/Caulking		
Siding		
Roofing		
Chimney		
Doors & Windows		
Decks & Porches		
Cleanup		

Interior:

Basement:

HVAC		
Domestic Water		
Elect./Phone		
Stairs/Railing		
Cleanup		

First Floor:

Trim		
Windows & Doors		
Painting		
Cabinets/Shelving		
Light fixtures		
Switches & Outlets		
Plumbing fixtures		
Flooring		
Stairs/Railing		
Cleanup		

Second Floor:

Trim		
Windows & Doors		
Painting		
Cabinets/Shelving		
Light fixtures		
Switches & Outlets		
Plumbing fixtures		
Flooring		
Cleanup		

If retainage exceeds the total value of punchlist work, the balance is payable upon signing this form. Items on this punchlist may be billed separately and are payable at the time a statement is presented. The undersigned agree that the project named above is complete when items on this list are complete.

Date: 6/21 Owner: John McClarnon
ABC Constr/ Co.: [Signature] Owner: Judi McClarnon
Architect: [Signature]

Walk-through 9:00 AM!

Retainage

The Owner shall pay 95% of each Application for Payment for labor, materials, and equipment incorporated into the Work and for materials stored on site until a sum of \$3,000 has been retained. After that time, the Owner shall pay 100% of each Application for Payment.

Figure 1. Retainage is an amount of money withheld from each progress payment. Combining a percentage with a dollar limit is easy and caps the retainage at an amount fair to both client and contractor.

at which the building is suitable for its intended use. On jobs where code requires a Certificate of Occupancy, its issuance is a convenient way to mark this milestone. On the vast number of projects with no such requirement, however, the point of substantial completion is more a matter of consensus between owner and builder. But in either case, a job that is substantially complete is hardly ever completely complete. Your goal is to make a distinction between the two, which is where the punchlist procedure comes in.

In actual practice, it isn't very difficult for you and your client to agree that you're 99% complete. The problem is convincing them that you'll dispatch the last one percent sooner rather than later. The start of the punchlist procedure signals to your client that final payment is due because it establishes a plan for taking care of the details still unfinished.

Retainage. The first time I saw a retainage clause in an AIA contract, I was a little annoyed. It seemed to give additional leverage to the client, whose power to withhold the final check already gave them the last word. But I soon learned that retainage can actually benefit the contractor by making it easier to get the final progress payment.

Retainage is an amount of money withheld from each progress payment. It can be defined as a dollar amount spread equally over all payments, a straight percentage of each payment (usually between 5% and 10%), or a combination of the two. I favor contract language that, for example, stipulates retainage of 5% until the total amount retained equals \$3,000 or some other mutually agreed upon figure (see Figure 1).

When your contract includes a retainage clause in the payment schedule, it makes it easier to collect the final payment at the time of substantial completion because the client still has something to hold over your head until the punchlist is complete. Without retainage, they're likely to withhold the final progress payment, which is usually a much larger number. If you explain all of this to your client at a preconstruction meeting — substantial completion, retainage, and the punchlist procedure — you'll establish proper expectations.

The Walk-Through

When the time comes to draw up the punchlist, arrange a meeting at

the site for a specific time. This ensures that everyone will be present and prevents you from being ambushed by the owner before you're ready. I strongly recommend that you walk-through in person, accompanied by your job foreman. No one in your company is as familiar as you are with the ins and outs of the project's contract and specifications, and your presence will inspire confidence in the owners. Having your lead carpenter at the meeting will help you to answer questions, for example, about the history of a change order or the reason a particular detail is still unfinished.

If you're working for two or more people who make decisions together, make sure everybody comes to the punchlist meeting. This ensures that everyone has their say in drawing up the list and prevents misunderstandings later. When this is not possible, as in the case of a building committee, make sure a representative with the authority to make decisions attends. If you're also working with an architect, make sure he or she attends as well. Often the owners pay their architect for administrative services, including punchlist procedures. My experience is that having the architect present can help smooth out rough spots. But don't think of the architect as a referee. Rely on him or her only to provide factual information, explain quality standards, and interpret the plans. Assuming you've maintained a good working relationship with the architect up to this point in the job, there should be no surprises.

Draw up a punchlist ahead of time. It makes the process look official and routine and serves as a checklist. Organize the form into categories — room-by-room, first floor/second floor, interior/exterior — depending on the size of the job and the level of detail you need. Build the punchlist by taking clear, concise notes in each section of the form. If a particular room or area gets a clean bill of health, check it off, cross it out, or write "none" on the form, but don't leave it blank because it might be interpreted later as an omission.

When the list is complete, everyone at the meeting should sign it. Make sure everyone understands that by signing their name, they're agreeing that the list is correct and that it's the one and only list of unfinished items. Otherwise, the process can deteriorate into an endless stream of small additions or modifications to

the list. Also, avoid the "handyman syndrome" by making sure that nothing gets on the punchlist that isn't in your contract. This is especially important in remodeling because homeowners often have a number of little things around the house that they've been meaning to have fixed. If you agree to do this work for them, keep it off the punchlist.

What's It Worth?

Every item on the punchlist should have a value attached to it, and these discrete amounts should be individually billed and paid for as soon as the item is completed. Otherwise, the owner is likely to withhold all of the

on the job every day until it's done. Owners are skittish at this stage, worried that they'll be abandoned. So once you set a schedule, stick to it.

If retainage exceeds the total value of punchlist items, you should collect the balance with the Final Payment at the time of substantial completion and before you begin the punchlist work. Include language in your contract that spells this out (see Figure 2). If you waive this right, you not only delay payment of money you've earned, you send a signal to the owner that the process you've just been through — making the list, signing a value and schedule, and signing off on it — isn't really important.

Final Payment

Final Payment is due upon Substantial Completion and shall include the amount of the last application for payment plus the balance of retainage exceeding the value of punchlist work.

Figure 2. Your contract should define final payment as the amount of the last progress payment plus retainage, less the dollar value of punchlist work. If you fail to collect this money before you begin punchlist work, you defeat the whole purpose of the punchlist procedure.

retainage until the entire punchlist is completed. In practice, of course, a number of items are usually finished together and billed as a group, but you should reserve the right to bill for them separately.

The value of punchlist items is commonly set at more than 100%. One architect I worked with routinely doubled the value of each item. This gives your client further reassurance that the punchlist will be given the attention it deserves, while providing them with enough money in reserve to hire someone else to do the work if you don't. Be prepared to back up your recommendations with figures from your estimate or your subs and suppliers. Since I did all of my estimating stick by stick on a computer, I was almost always able to document the value of punchlist work on the spot by referring to a printout. But handwritten paperwork is sufficient, as long as you can find what you need in a hurry.

In most cases, the work described on the punchlist will include mostly labor charges and only incidental materials. This should make it easy for you to agree on the value of punchlist work before you leave the site. But if you can't agree or your documentation is insufficient, gather whatever information is necessary and fill in the gaps as soon as possible, preferably by the next day. The longer the list remains incomplete and unsigned, the more likely it is that additional items will find their way onto it.

This is also a good reason to establish a time limit for completion of the punchlist. Unless there are special circumstances, anything longer than a week will begin to annoy your client. Begin punchlist work the day after the punchlist meeting and keep someone

Look Ahead to Punchout

Good planning can save you a lot of headaches at punchout time. During the course of the job, make sure to order early any materials or equipment that have long delivery lead times. This is especially true of fixtures supplied by subcontractors. You don't want to have any big ticket items on the punchlist, especially things that were promised weeks ago and still haven't arrived.

Change orders should not affect the punchlist if you provide for an extension of time when you write them. If the owner requests a change order after you have reached substantial completion or are close to it, you should write a separate contract for that portion of the work. Establish a separate payment and time schedule, too.

Finally, avoid blurring the differences between punchlist work and warranty work. Punchlist work should be confined as much as possible to work that was described in the plans and specs but is still incomplete. However, if the job drags on too long, your warranty to correct defects in materials and workmanship may come into play and confuse the issue. This is especially true on jobs that extend over six months or more. No job is perfect when you leave it, and warranty items, like doors that stick or faucets that leak, will show up sooner or later. If you delay completion of the punchlist too long, the owner has a legitimate right to add warranty items to the list. This not only delays your payment, it leaves your client with an unfavorable impression of you. ■

Sal Alfano, a former residential contractor in East Calais, Vt., is a senior editor of The Journal of Light Construction.