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**If you missed our recent seminar on how to save money managing your firm's group employee insurance program, call our office to schedule a demonstration. PCIA's Single Source Solution is HR and employee friendly! Save money and save time working with the experts at PCIA.**

**It's not too late to implement in time for your January 1st renewals! But hurry, our calendars are filling fast.**

## Got Underfunded Projects?

Today's stagnant economy and the resulting credit crunch have put a double whammy on design firms. Not only are new projects scarce, but project owners may not have the access to capital to which they are accustomed. That may mean projects are not sufficiently funded to ensure a high quality outcome or to withstand surprises that result in added costs and slimmer margins.



In times like today, underfunded projects can be a major cause of professional liability claims and losses for architects and engineers. When clients are strapped for capital, they look for ways to reduce costs. They may ask their designers and contractors to take shortcuts and skimp on details and quality control. In such cases, errors and omissions become more prevalent, leading to an increase in disputes and legal wrangling.

Capital-strapped projects can also result in slow payment for design and construction services. Desperate clients may even file trumped-up negligence claims as a ploy to avoid paying their designers and contractors altogether. Should the funding problem reach crisis stage, project completion comes into jeopardy. Delays, work stoppages and project termination can add to the legal quagmire for everyone involved.

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## Got Underfunded Projects?

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Fortunately, there are preventive steps you can take to avoid or at least minimize the headaches and heartbreaks of an underfunded project.

### **Conduct a Financial Check of Your Client**

Because inadequate funding can play a significant role in professional liability losses, design professionals should take appropriate steps to determine the financial wherewithal of a client, particularly a new client. But architects and engineers are often reluctant to perform financial background checks on their clients for fear of losing the project. They feel such an inquiry will insult, embarrass or otherwise alienate a current or potential client.



Yet the fact of the matter is most clients have already provided their financial and credit information to a number of other parties in order to obtain credit and project approval. In most cases, they are not reluctant to provide the same information to their prospective design firms or contractors. And if a prospective client is reluctant to share its financial records, maybe that's just the type of client you might choose to avoid.

Assume your background check shows that a potential client has a less than perfect credit history. Does that mean you should automatically reject this project? Of course not. The financial check is simply one of many important pieces of information to consider. If the firm or individual has an otherwise clean record as a reasonable, non-litigious client, you can move forward with the project while taking necessary precautions in the form of solid contractual language. But combine that spotty credit record with a trail of litiga-

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### **Spalding DeDecker Associates, Inc. Appoints New Leadership**

Rochester Hills, MI (September 10, 2010) - Spalding DeDecker Associates, Inc. (SDA), a regional civil engineering, landscape architecture, and surveying firm, announces the Board of Directors: Paul Wade, PE, Steve Benedettini, Catherine DeDecker, PS, Thomas Dohr, PE, George Platz, PS, and Thomas Sovel, PE. The Directors appointed the following:

Paul Wade, PE, Chairman  
Steve Benedettini, President / CFO  
George Platz, PS, VP / Secretary  
Catherine DeDecker, PS, VP / Treasurer  
Thomas Sovel, PE, VP  
Thomas Dohr, PE, VP  
Cheryl Gregory, PE, VP  
Joseph Muller, PE, VP  
David Potter, PE, VP

The newly appointed president, Steve Benedettini, will be responsible for administrative operations and overall day-to-day



management of the corporation. Mr. Benedettini has a Master of Science degree in Finance from Walsh College and Bachelor of Science degrees in Finance and Marketing from Oakland University. He is an active member of the Blue Cross / Blue

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## Got Underfunded Projects?

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tion and you might make the best business decision of your life by avoiding this firm.

### Secure an Adequate Scope of Services

Should your investigation reveal the potential for project underfunding, an adequate scope of services becomes critical. Your services should include pre- and post-design activity designed to enhance quality control and lower your risk exposures. Services you should attempt to negotiate in your scope of services include:

- **Pre-qualification of contractors.** Help your client assure that all contractors invited to bid are reputable, experienced, bondable and otherwise qualified to perform the work.
- **Pre-selection conference.** Encourage your client to co-host a conference where pre-qualified contractors are invited to address any questions they may have about the project and to learn the project ground rules from you and the client's representatives.
- **Plan and specification review.** As part of the selection process, have pre-qualified contractors review the constructability of plans and identify potential errors, omissions, ambiguities or inconsistencies.
- **Pre-construction meeting.** Meet with the selected contractor and client representative to review schedules, establish lines of communication and otherwise solidify understandings regarding key project components.
- **Full construction observation services.** The lack of construction observation services may be a deal-breaker for any financially questionable project that must be completed on a tight budget.

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### Your Personal Umbrella Policy Adequate?

As a professional services provider, your coverage needs are more complicated based on your business and personal activities. Not all personal umbrellas are the same — REALLY. Check out the following:

- **Not-for-profit directors and officers coverage:** Coverage if a suit is brought against you as a board member of a not-for-profit organization including your homeowners association.
- **Employment-related lawsuits:** Employ domestic staff such as nannies, housekeepers, private assistants, gardeners and others? They could take you to court citing claims of wrongful termination, sexual harassment and discrimination. This coverage can be added by endorsement by a few.
- **Personal injury:** Enhanced coverage for professionals in the public eye – libel and slander coverage is often excluded by standard insurers.
- **High Limits:** In most cases, insurance companies provide a maximum limit of \$3 - \$5 million. Few carriers regularly offer coverage from \$5 million - \$10 million and with very few exceptions, coverage of \$10M or more can be obtained. Less than five have ability to offer coverage up to \$100 million.
- **Reputation Management Expense:** Some policies may also provide the cost to hire a public relations and/or media management firm to assist you in a liability crisis.

**The old adage, "You don't have to be a millionaire, to be sued like one" is really true. And if you are a millionaire you REALLY need to be insured like one!**

Call Doris Livingston — 800-969-4041, ext. 5270. Doris will identify the coverages you need AND she most likely will save you money on your personal insurance portfolio. She does this everyday for our happy clients!

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**PROFESSIONAL CONCEPTS  
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Getting a cash-strapped client to agree to have you perform these services for a fee may be difficult. Nonetheless, the need to perform them should be addressed. If the client summarily dismisses your proposed services and demonstrates a desire to proceed with the project in the least expensive way possible, you will be given a clear insight into the client's priorities. The question you then must ask yourself is: Do I really want to work for this client under these conditions?

Should you decide to accept an assignment from a financially-challenged client, it is prudent for you and your attorney to draft contract language that provides you an "out" should the project turn sour. This includes language that gives you the right to temporarily suspend services or permanently terminate the agreement if the client reneges on its contractual obligations and financial commitments. Discuss the following clauses with your attorney.

### **Suspension of Services**

Failure by a client to adhere to the terms of your contract, including payment terms, may be considered a cause for termination of the agreement. However, you may not want to use the ultimate hammer of termination as your first action in the event of a breach of contractual terms. Rather, you may want to use a "Suspension of Services" contract clause that gives you the right to temporarily withhold your services in hopes of forcing the client to fix the breach while keeping the contract in force. Granted, if the contractual breach continues for a sufficient time, you may ultimately wish to terminate the agreement. But in the meantime, you at least want to avoid increasing your receivables while you seek payment

for services you have already rendered.

Specifically, seek the right to suspend your services without liability in the event of nonpayment of your fees (or for any other breach of contract terms you consider critical to the progress of your services). Stipulate that if the breach of contract is corrected within a short period of time (e.g., up to 30 days) you will resume services without financial penalty to either party. For a longer suspension (e.g., 30-60 days), stipulate that you will be compensated for the expenses of interrupting and resuming your services. And, for an excessive period of suspension (e.g., 90 days or more), you need to retain the option to terminate the agreement.

The Suspension of Services clause should similarly outline your rights in the event the client suspends your services. For example, stipulate that if your services are suspended by the client, you will be immediately compensated for all services performed to date as well as any reimbursable expenses you have incurred. In addition, should you be compensated for the past amounts due and your services are resumed, the contract should require your client to compensate you for any expenses incurred as a result of the suspension and resumption of your services. The clause should also state that your schedule and fees will be equitably adjusted to reflect the current status of the project.

The Suspension of Services clause should further specify that in the event the project or your services are suspended for a long period (for example, more than 90 days), or if the client has materially breached payment terms or other conditions of the contract,

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you have the right to terminate the agreement without penalty upon giving five days' written notice to the client. The clause should state that the client agrees to make no claim against you for any delay or damage as a result of you suspending or terminating services due to any client breach of your agreement. The contract may also specify that upon receipt of payment in full of all outstanding sums due from the client, or upon correcting the contract breach that caused you to suspend your services, you will resume services with an equitable adjustment made to the remaining project schedule and fees as a result of the suspension.

Be sure to coordinate your Suspension of Services clause with your Billing and Payment, Retainers, Changed Conditions and Termination provisions in your agreement.

### Termination Clause

Unfortunately, a client in serious financial trouble may have no option but to terminate your services or even put a halt to the entire project. Obviously, you cannot contractually require a client not to terminate a project. However, through a "Termination" clause you can hold the client responsible for any costs you incur associated with stopping your work on the project. What's more, a Termination clause can provide you the right to put an end to your agreement with your client for specified causes and offer you protection should you quit for justifiable cause.

A typical Termination clause states that in the event either party terminates the client-designer contract,

the client has a certain number of days (typically 15 – 30) to pay the designer for all services rendered and all reimbursable costs incurred up to the date of termination, in accordance with the payment provisions of the contract.

Most termination clauses state that the client may terminate the agreement for the client's convenience and without cause upon giving the design consultant not less than seven to ten days' written notice. They also typically state that either party may terminate the agreement for cause upon giving the other party the same amount of written notice for a list of specified reasons. These reasons may include:

- Substantial failure by the other party to perform in accordance with the terms of contract through no fault of the terminating party
- Assignment of the contract or transfer of the project to any other entity without prior written consent
- Suspension of the project or consulting services for a given period of time (e.g., 90 consecutive or aggregate days)
- Material changes in the conditions under which the contract was entered into, the scope of design services or the nature of the project, and the failure to reach agreement on the compensation and schedule adjustments necessitated by such changes.

If possible, have the Termination clause state that in the event of any termination that is not the fault

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of the design consultant, the client agrees to also pay the consultant for all expenses reasonably incurred in connection with the orderly termination of this agreement. These termination expenses may include the cost of demobilization, reassignment of personnel and associated overhead costs.

Finally you may want to include strict contract provisions concerning ownership of instruments of service in the event of project termination. This can help prevent clients from taking ownership of your complete or near-complete construction documents while cancelling your agreed-to scope of construction administration services.

Discuss these issues with your attorney. We can help you analyze the insurance and risk management issues involved.

*The preceding article is provided for informational purposes only. Before taking any action that could have legal or other important consequences, speak with a qualified professional who can provide guidance that considers your own unique circumstances.*

## Spalding DeDecker Associates, Inc. Appoints New Leadership

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Shield Customer Advisory Council and is an active member of the American Council of Engineering Companies of Michigan (ACEC/M) Finance Committee. Since joining SDA in 1999, Mr. Benedettini has served as the Financial Manager for SDA, overseeing the accounting and finance functions of the company. His role includes mergers and acquisitions, treasury management, strategic planning, Employee Stock Ownership Plan (ESOP) / 401(k) trustee, and financial analysis and reporting.

“I am honored to be appointed President and Chief Financial Officer by the Board of Directors. I am excited about using my business acumen to bring a fresh perspective to the opportunities and challenges that are presented to SDA. With our employee-owners and leadership team we have in place, I believe SDA has a very bright future,” said Steve Benedettini.

Established in 1954, Spalding DeDecker Associates, Inc. is an employee-owned and ISO certified consulting engineering and surveying firm specializing in infrastructure, land development, and surveying. With regional offices in Detroit, Plymouth, and Rochester Hills, and field offices in Trenton and Monroe, Michigan, SDA offers a diverse set of skills to clients who seek solutions to construct and maintain their infrastructure. The firm offers municipal engineering, construction engineering, forensic engineering, transportation engineering, land development, landscape architecture, pavement management, and land surveying services.

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