

COVID-19 Guidance for the Architecture & Engineering and Construction Industries

March 25, 2020

For the next few weeks and perhaps months, business is going to be anything but usual, so we have compiled a small guide for our A/E/C clients and contacts with key recommendations and considerations to help keep your business safe during these difficult times.

The impact of the coronavirus has affected nearly every industry, and the A/E/C sectors are no exception. Although essential construction is exempt from the workforce order that Governor Cuomo announced on Friday, it is likely that there may be jobs shutting down or slowing down in the near future.

Your business and workforce will be impacted from project delays, quarantines and governmental restrictions. Indirect issues include labor shortages at manufacturing or fabrication facilities, resulting in production delays, transportation embargoes causing project supply issues, and governmental actions which inhibit or redirect manufacturing and production causing supply chain shortages and inability to meet existing demands.

There are similar interruptions occurring at engineering and design firms—and not all companies are efficient with the forced move to a virtual office. For those firms who have been set up on the cloud, this has been a simpler transition. Cloud-based systems will keep many firms afloat during these difficult times.

Be Attentive

Personal health always comes first, but once you have adapted to the new normal, turning your attention to your business is key to getting back on solid ground. Consider matters including employee management, financial analysis, contract and insurance examination, and supply chain review.

Employee Management

A survey from *Construction Dive* reported that 70% of managers' top concern in the wake of coronavirus was employee anxiety. Especially in the construction industry, employees are worried about contracting the virus at work, losing wages and benefits, and how they are going to support themselves and their families in the event of the worst case scenario.

The most important thing is for management is to communicate with a clear and unified voice. Be sure that all employees are getting the same information and do your best to silence the rumor mill. Management in other high risk zones have been enforcing heightened safety precautions with their staff, including frequent hand washing and hygiene checks, minimized contact with colleagues, and constant wearing of gloves. Consider implementing similar precautions in your business as well.

Financial Analysis

Keep a close watch on your current cash outflows and find instances where you can preserve cash in the company, for instance by deferring payments to non-essential vendors. You may want to consider availability on lines of credit and borrowing additional amounts now while you have the ability, as a cushion for anything unforeseen. We advise to begin analyzing costs, as economists warn of the onset of a recession and the construction industry tends to lag 12-18 months behind the general population. Jones Lang LaSalle predicts slow and steady growth in the construction industry in 2020, but believes that public contractors will see more growth than their private counterparts.

In order to qualify for state assistance and various emergency contract provisions, delay and disruption recovery, you need to be sure to **document, document, document**. Make sure that you have clear and irrefutable documentation of the losses you incurred as a result of coronavirus and segregate losses on various projects into separate "buckets." Consider unusual expenses related to the outbreak as well as all types of lost revenue.

Be careful when bidding on projects that do not begin for several months. Best

practice is to estimate your bid thoughtfully, appropriately, and perhaps even conservatively. Some analysts are saying that they cannot forecast economic recovery and performance for the rest of 2020 and beyond due to the uncertainty surrounding the coronavirus outbreak. It's important to consider potential price increases and material shortages when bidding on projects during this time. If input prices rise in the time between your bid and the project start date, you could be facing an unanticipated loss.

Contractual Due Diligence

Many contracts give the owner the right to suspend a project. Those clauses typically provide rights for time extensions and additional compensation if the project is re-started. They often also give a contractor the right to terminate the agreement and to receive defined compensation if the suspension lasts for a stated duration. It would be best to review your contracts with your attorney to ensure that you are legally covered during this pandemic.

Insurance Examination

You should also consider reviewing your insurance coverage for potential reimbursements for lost business and unforeseen costs with your insurance broker and attorney as well. You will need detailed documentation to best support a successful claim. Anchin's Litigation, Forensic and Valuation Services team has the expertise to assist you in quantifying your losses and documenting your insurance or other claims. Please reach out to your Relationship Partner to learn more.

Material Delays

Nearly 30% of all U.S. building product imports come from China, and some A/E/C firms rely on Chinese imports for up to 80% of their materials. The coronavirus has disrupted supply chains globally, but has particularly effected China. In order to mitigate exposure, you should consider seeking out alternative suppliers that haven't been so seriously affected by the outbreak.

Government Relief for Businesses

Federal, State and Local government are rolling out a wide range of relief for

businesses. Work with your accountant to identify which programs match your unique situation, file for benefits on a timely basis and plan properly so you don't leave precious cash flow on the table.

The Families First Coronavirus Act requires certain benefits for qualified employees but also offers relief in the form of payroll tax credits to help with costs. The Federal stimulus will also provide key benefits. Be sure you have a team working on these programs as well as State and Local programs.

Stay focused and keep your business strong for the recovery. Work closely with professionals that have a deep understanding of the A/E/C industries and together with your team develop a plan to guide you through these challenging times. For more information, call Phillip Ross, Architecture & Engineering and Construction Industry Groups Practice Leader, or your Anchin Relationship Partner at 212-840-3456 with any questions or concerns.

Disclaimer: Please note this is based on the information that is currently available and is subject to change.