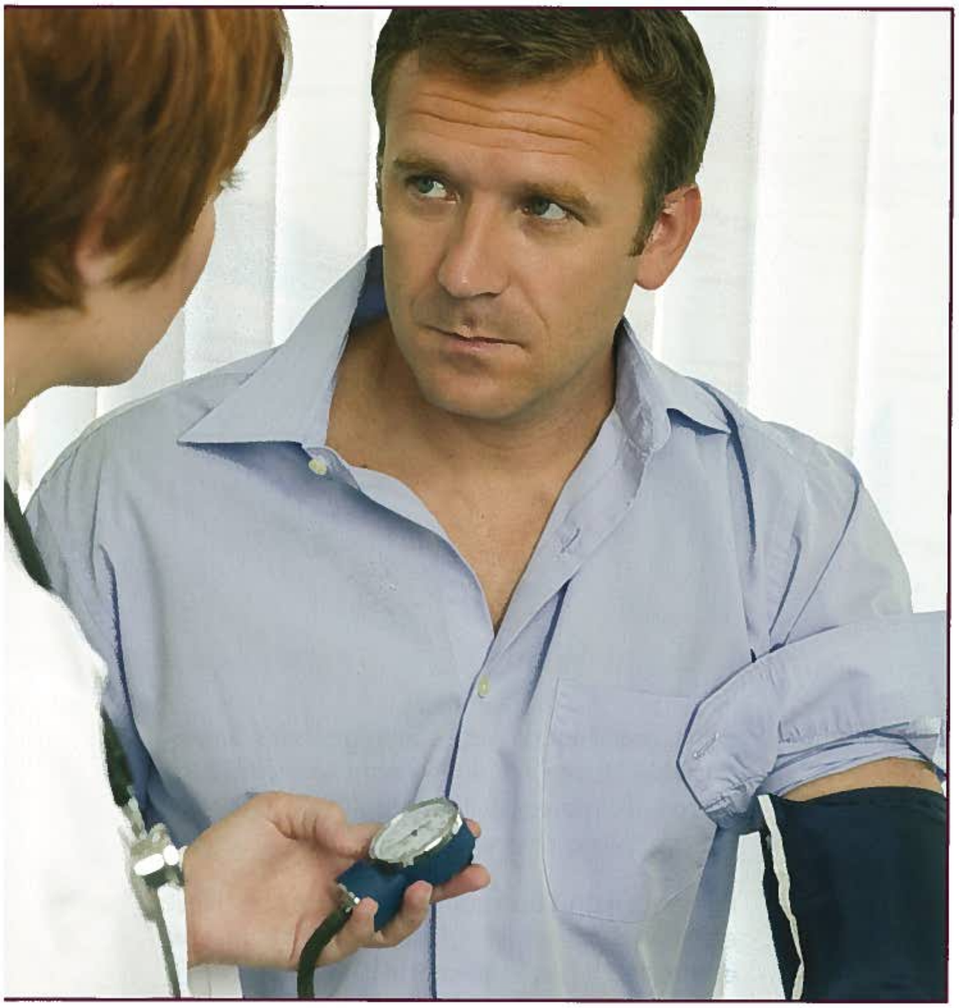
Construction
Industry Advisor

SUMMER 2010



Health care reform

Understanding what it means for your construction company

How would you handle a crisis?

Don't wait until one happens to find out

Think twice before walking away from stalled projects

CONTRACTOR'S TOOLBOX

Go paperless. Save money. Save time.

HB

HEINOLD - BANWART, LTD.

Certified Public Accountants

2400 North Main Street • East Peoria, IL 61611

Phone: (309) 694-4251 • Fax: (309) 694-4202

www.hbcpas.com

Health care reform

Understanding what it means for your construction company

Last March, President Obama signed the Patient Protection and Affordable Care Act, also known as the "health care reform act." Many of the act's changes affect insurance companies and individuals, but it also creates significant new responsibilities for businesses.

Unfortunately, with its complex provisions and multiple effective dates, the legislation has created a lot of confusion among employers — including construction company owners. Here are some answers to common questions about the new law.

What's required now?

The short answer is "nothing." Most of the act's employer requirements don't take effect until 2014. But that doesn't mean you should wait until then to take action. For one thing, tax credits for small businesses that purchase group coverage are available *now*. (See "Tax credit available for 'small businesses'" on page 3.) And there are reporting and notice requirements that you must comply with as early as 2011.

Also, incentives will be available this year for employers that provide health coverage to any retirees over age 55 who aren't eligible for Medicare. And, beginning next year, grants will be available for businesses with fewer than 100 employees that establish workplace wellness programs.

Must we provide health insurance to employees?

The new law doesn't require employers to provide coverage but, starting in 2014, most "large employers" will be monetarily penalized if they don't, or if they provide coverage that's "unaffordable." Large employers are those with 50 or more full-time-equivalent employees (FTEs) in the preceding calendar year.

If your construction company falls in the "large employer" category, it doesn't offer health coverage, and it has at least one FTE who receives premium tax credits, you'll be hit with a penalty of $2,000 per FTE (excluding the first 30). So, for example, if you have 55 full-time employees, the penalty would be $2,000 × 25 (55 - 30), or $50,000 per year.

If your company does provide coverage, but the insurance is deemed unaffordable, the penalty would be the *lesser* of either:

1. $3,000 per employee for whom coverage is unaffordable, or
2. $2,000 per FTE.

Coverage is considered unaffordable if at least one FTE qualifies for premium tax credits for obtaining coverage through one of the state-based health care exchanges that the act establishes.

Credits will be available to employees whose household income is between 100% and 400% of the federal poverty level (FPL) and whose required contributions for health coverage exceed a specified percentage of their income. Note, however, that credits aren't available to employees who are eligible for Medicaid or Medicare and, starting in 2014, the act expands Medicaid coverage to most people with incomes below 133% of the FPL.

Most of the act's employer requirements don't take effect until 2014. But that doesn't mean you should wait until then to take action.

Also beginning in 2014, if your company pays part of the cost of health coverage you'll have to provide "free choice vouchers" to certain low-income employees who obtain alternative coverage through an exchange.

How many FTEs do we have?

Be sure to count your employees carefully. It can make the difference between significant penalties and a valuable exemption. Getting an accurate tally can be a challenge — especially for construction businesses that hire a lot of part-time or seasonal workers.

To determine the number of FTEs, consider both full- *and* part-time employees. Full-time employees are those who work 30 hours or more per week *not counting* full-time seasonal employees who work fewer than 120 days per year.

For part-time employees, you must divide their total monthly hours by 120 to calculate the number of FTEs they represent. Suppose, for example, that your company has 40 full-time employees and 18 part-time employees who work 20 hours per week, or about 80 hours per month. Total monthly hours for part-time employees would be 1,440 (18 × 80), which is divided by 120 to arrive at 12 FTEs for a total of 52 FTEs (after you add in the 40 full-time employees).

Your business won't be considered a large employer if the number of FTEs topped 50 for 120 days or less during the preceding calendar year.

What should we do next?

It's a good idea to evaluate the potential impact of the new law on your company and to start planning now — especially if some of the act's provisions will increase your costs. Consult your insurance carrier and your CPA to see whether you qualify for tax credits or other incentives and to be sure you're complying with reporting and notice requirements as they take effect.

Moreover, if you currently provide coverage, check for changes required in plan years beginning after Sept. 23, 2010, including dependent coverage for children up to age 26, elimination of pre-existing condition exclusions for children and elimination of lifetime dollar limits. ■

Tax credit available for "small businesses"

Starting in 2010, if your construction company is a "small business" — as described in the Patient Protection and Affordable Care Act (see main article) — you can claim a tax credit for buying group health coverage. You're entitled to the full credit if you have 10 or fewer employees with average annual wages less than $25,000. You can claim a partial credit (on a sliding scale) if you have up to 25 employees with average annual wages less than $40,000.

For 2010 to 2013, the full credit is 35% of your cost, as long as you contribute at least 50% of the total premium or 50% of a benchmark premium. Beginning in 2014, small businesses that buy coverage through an exchange and contribute at least 50% of the total premium can claim a credit of up to 50% for two years.

How would you handle a crisis?

Don't wait until one happens to find out

Earthquakes, acts of terrorism, oil spills, economic recessions … the list of possible catastrophic events goes on and on. True, major disasters in the United States are relatively rare; but even a crane malfunction or a fire at a jobsite can become a crisis to your construction company. That's why you should consider potential disaster scenarios as part of your business planning and create a formal crisis management plan.

Ask the right questions

To get started developing your plan, first identify every crisis that could challenge your business and then create a suitable response to each. Start with past mishaps. How did you deal with them? And, more important, how could you have managed them better? Also, gather your managers and contact your various advisors (such as your financial, legal and insurance professionals) to brainstorm about potential dangers to your company and measures that may prevent and mitigate these threats.

Many crises are *internal*, affecting only your company and its employees. Examples include most (non–life-threatening) jobsite injuries and worker disputes. But *external* crises can affect your company as well as outside parties (such as subcontractors and the general public). It's the latter type of catastrophes that can mushroom into a media nightmare.

For instance, say a blowtorch sparks a fire, killing a worker, or your company is cited for hiring illegal aliens. Being unprepared for such events could spell doom for not only the affected project, but also your construction company.

For each crisis type, devise responses — such as immediately closing the accident site, assessing the situation, documenting the damage and injuries, and initiating a formal investigation — and spell these out in your policy. Also establish clear communication channels to inform workers of their roles when disasters occur. The plan should include annual crisis training, possibly even including crisis simulations.

Make it a team effort

Once you've identified the different types of emergencies that could affect your construction business, assign a team of managers and key employees to administer action plans. Each designated crisis management employee must know how to *appropriately* handle difficult situations, showing sensitivity to injured or upset workers as well as worried family members.

So you'll need to provide specific training and guidance to your crisis management team.

Also prepare crisis management employees for media involvement. Make sure you designate employees with good communication skills and cool heads. In addition, make sure they continually update your entire company throughout a crisis. Otherwise, the rumor mill may spin out of control.

Being unprepared for a crisis could spell doom for not only the affected project, but also your construction company.

Be there for your employees

Witnessing a construction accident (or other crisis) may psychologically traumatize employees. Regardless of who or what caused the incident, they may feel guilt or responsibility for what transpired. These emotions and their accompanying behaviors can have a ripple effect on your company, so your policy must also cover how you can ease your workers' minds.

Although you can't eliminate the emotional toll crises inflict, you can at least manage some of the side effects by providing workers with various response options. Some may need the rest of the day off to gather their wits while others may need short- or even long-term counseling.

Also, debrief involved employees the day of (or for more serious incidents, the day after) the crisis. As a caring employer, strive to get employees back to their normal lives — and work — within a reasonable time.

Be prepared

Although the chief reason for having a crisis management plan is to be prepared for any possible catastrophe, there are side benefits. For example, your surety may lower your premiums because you have such policies in place, and it may help prevent or lessen the severity of workers' compensation claims. So work with your CPA, attorney and insurance advisor to develop a plan to help protect your business against future crises *and* perhaps gain some additional advantages. ■

Think twice before walking away from stalled projects

Stalled and abandoned projects are an unfortunate reality in the construction business today. Financing may dry up, or owners faced with dwindling prospective tenants may conclude that they're better off walking away.

If you find yourself facing either situation, be sure to assess your risks before you pack up and leave. Depending on your potential liability exposure, it may make sense to do some extra work to secure or stabilize the job site, or to protect your work against the elements — even if you won't be compensated for it.

Have a plan

Rather than reacting *after* a project stalls, develop a plan *now* that outlines the steps you'll take. Ideally, at the contract stage you'll negotiate an agreement that spells out each party's responsibilities and liabilities in the event work ceases, including a provision that allows you to perform compensated work needed to secure the project if it stalls.

Whether or not your contract covers stalled projects, your plan should detail procedures for evaluating your risk, negotiating your exit with the owner and taking steps to protect yourself.

Evaluate your exposure

The extent of your liability for a partially completed project depends on three factors:

1. The nature of the project,
2. The terms of your contract, and
3. Applicable state law.

Potential problems include corrosion or other damage to work that's exposed to the elements and instability of partially completed structures, either of which can lead to dangerous conditions while the project is stalled and additional costs if the project is resumed (by you or another contractor).

There are a variety of measures you can take to avoid these problems. If the roof isn't finished, for example, you might provide some sort of temporary protection. If partially completed work is unstable, you can install temporary structural support or even dismantle the work.

Jobsite security is another concern. Not only can a vacant jobsite be an invitation to theft or vandalism, but it can also create hazards for children or others who might be tempted to enter the property. To avoid potential liability, ensure that the site is properly fenced in and that gates are locked securely. It's also a good idea to post warning signs, disable any equipment left on the site and inspect the property periodically.

Your plan should detail procedures for evaluating your risk, negotiating your exit with the owner and taking steps to protect yourself.

In addition, take steps to eliminate fire hazards and ensure that there's an adequate water supply available in the event of a fire.

Weigh the costs and benefits

Once you've evaluated your potential liability — including an assessment of the extent to which jobsite hazards are covered by insurance — ask the owner to authorize additional, compensated work needed to stabilize and secure the job site. Emphasize that this work will minimize the owner's liability as well. Alternatively, try to renegotiate the contract to shift liability back to the owner.

If the owner refuses or can't afford to finance the work, carefully weigh the costs of proceeding with the work on your own against your potential liability of doing nothing. Even if the owner won't cooperate, you may be able to recover these costs when the project resumes or through litigation or other means. ■

Go paperless. Save money. Save time.

Paperless construction management offers a variety of significant benefits — and using less paper is just the beginning. Sure, eliminating paper can reduce your costs and help save trees, but paperless systems can also help you increase productivity, reduce errors, and improve cash flow and profitability.

Paperless has its benefits

Maintaining documents in a digital format has many benefits. For instance, by going paperless your construction company can:

- Reduce storage and shipping costs,
- Keep confidential information more secure, and
- Minimize the loss of data in the event of a fire, flood or other disaster (assuming regular off-site backups are performed).

Moreover, with good indexing and search capabilities, a paperless system can make your staff more efficient because they can locate and retrieve critical documents much faster.

More important, though, paperless technology can enhance your construction company's profitability and cash flow. Effective construction management begins with a reliable system for tracking costs and other critical project information in real time (or at least something close to it). With paper-based systems, the flow of information can be sluggish and critical data can fall through the cracks.

Consider time sheets, for example. With a paper-based system, jobsite workers typically fill out time sheets by hand. The completed time sheets are then delivered to the home office and manually entered into the company's accounting system. This delay — together with the risk of data entry errors — makes it difficult to track labor costs accurately and on a timely basis.

With a paperless system, time sheets are transmitted electronically from the jobsite directly to your accounting system, allowing you to monitor labor costs in near-real-time.

Errors are minimized

Invoice routing offers another example of why you should go paperless. With a paper-based system, invoices from vendors are manually routed to the appropriate project manager for approval, so it's not unusual for invoices to be misplaced or lost before they're entered into the accounting system. If the amounts are significant, a job you thought was profitable can quickly turn into a loser once the error is discovered.

A paperless system prevents these errors because invoices are entered into the accounting system on receipt, routed electronically and automatically tracked in the approval process.

Try it. You'll like it.

These are just a few of the benefits of paperless technology. Of course, there is an upfront expense of buying and implementing any system — and an ongoing cost of maintaining it. But you'll likely recoup your investment in the long-term cost savings. And, once you get the hang of paperless technology, you'll like it. ■

Heinold-Banwart, Ltd. is a full service accounting firm with a team of professionals who specialize in providing quality and timely services to the construction industry.

Based in East Peoria, Illinois, our Firm is the largest locally owned accounting firm in the region with over 50 people on staff to serve your diverse needs. Our local presence allows us to be responsive and accessible.

You know the construction industry. It's your business. Your CPA should be skilled in your industry too.

We are a proud member of The Construction Industry CPAs/Consultants Association (CICPAC). CICPAC is a national association of CPA firms recognized for providing quality financial and consulting services to the construction industry.

In addition, we hold the exclusive designation of Certified Construction Industry Financial Professional (CCIFP) and membership in the Construction Financial Management Association (CFMA).

These designations provide contractors the individual attention of an accomplished firm, combined with the unparalleled knowledge and resources of a nationwide network and nationally recognized construction industry specialists.

CICPAC
CONSTRUCTION INDUSTRY
CPAs/CONSULTANTS ASSOCIATION

Heinold-Banwart, Ltd. provides a wide range of financial services to our clients

Audit and Assurance Services

Tax Planning & Preparation

Business Consulting and Accounting Services

Business Valuation, Litigation, and Forensics

Pension Administration

We welcome the opportunity to discuss your needs! Visit our web site at www.hbcpas.com or contact Scott Carr at 309.694.4251 or scarr@hbcpas.com

Heinold-Banwart, Ltd.
Certified Public Accountants
2400 North Main Street • East Peoria, IL 61611
Phone: (309) 694-4251 • Fax: (309) 694-4202
www.hbcpas.com

Return Service Requested