

TODAY'S contractor

FALL 2003

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PARTNERING – LESSONS & BEST PRACTICES

Simply put, “partnering” lets you work with other companies to compete and win more contracts, increase profits, and expand your business. It’s just people working together – a system of handling normal, everyday jobsite construction problems in a mutually agreeable manner.

What’s In It For Me?

W.H. Auden once stated, “Almost all of our relationships begin and most of them continue as forms of mutual exploitation, a mental or physical barter, to be terminated when one or both parties run out of goods.”

Well said. The reasons for strategic alliances become apparent when you understand the benefits. Generally speaking, the reasons for developing an alliance in business could be for research, production, marketing, distribution, or management;

but it’s only limited by your imagination. Successful alliances build confidence and hone your skills, regardless of whether you enter strategic alliances as an individual or organization.

The ultimate benefit is mutually productive problem solving. Together, you can solve the problems of your customers, suppliers, and employees.

Developing Successful Relationships

Ed Rigsbee, author of *Partner Shift – How to Profit from the Partnering Trend and The Art of Partnering*, has identified ten tips for successful partnering.

1. Behave toward your alliance partner the way you want them to behave toward you.
2. It’s more important to be a good alliance partner and get things done, than to obsess on being right.
3. Make relationship bank deposits before you try to make a withdrawal.
4. Tell partners you appreciate their contributions.
5. Know what your partner needs.
6. Be clear about what you want and what you are willing to give.
7. Be committed, always show your confidence and passion toward your alliance.
8. Do more for your partner than you promised – exceed their expectations.
9. Resolve conflict immediately.
10. You can’t build a partnering relationship with an organization or individual that doesn’t want to be a good partner.

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ideas for profitable growth



Washington Watch

2003 Tax Act Holds Promise And Threat

In June 2003, President Bush signed into law a \$1.35-trillion tax bill, claiming the bill would stimulate the economy by returning \$210 billion to individuals, businesses, and states in the next 16 months.

Ken Simonson, chief economist for the AGC states, "The tax bill will stimulate demand for construction and help owners and employees. In addition, the higher cash flow for all taxpayers should provide some immediate economic stimulus." Some industry professionals disagree – we'll get to that later. First, consider the good news.

The Good News

Depreciation. All businesses buying new equipment between May 5, 2003 and January 1, 2005 can expense (immediately deduct) 50% of the cost, an increase from the 30% "bonus depreciation" enacted last year. The first-year limit for business automobiles is raised from \$4,600 to \$7,650.

Small-business expensing. Businesses that buy less than \$400,000 of equipment in 2003 can expense \$100,000 before using the bonus depreciation.

Dividends and capital gains. Corporate stockholders receive a cut on both dividends and capital gains to 15%.

ROUNDTABLE: THE JOY OF BENEVOLENCE

What can contractors and builders do for the betterment of their communities? That's what our participants addressed in the latest roundtable.

Projects. The most obvious benevolent act is to build something for the community. Whether done solo or in concert with others, here are some ideas:

- Build a park gazebo.
- Erect recreational facilities in a park or school.
- Perform home repair and code compliance projects for low-income families.
- Participate in Habitat for Humanity.
- Build wheelchair access ramps.
- Build a community center, science museum, or similar public structure through the local AGC, ABC, or Homebuilders' chapter, or as part of an ad hoc group of builders and contractors.

One roundtable member noted that banding several contractors together informally might be less frustrating than trying to work through local "bureaucracies."

Corporate Altruism. Most builders and contractors are incorporated as C or S corporations, which offer incentives for donating to worthy causes. Roundtable members suggested setting up a committee within the business to consider how to handle corporate donations, establish a budget for giving, and to review corporate donations each year. The roundtable noted that company executives should seriously consider serving as fundraisers for the United Way or other causes.

Visibility. While the main intent should be altruistic, charitable acts can also bring positive attention to your company. For instance...

- Adopting a stretch of road for periodic litter pick-up through a state or community program. Your company's name will be placed on a sign by the road.

- Sponsoring a local beautification effort, such as installing landscaping or park benches. A sign stating the company's sponsorship would be placed near the location.
- Sponsoring a local non-professional sports team. The company's name could be on the uniforms or be part of the team name.
- Joining the effort to preserve a historic landmark structure, statue, or park. Such efforts would be noted in the local press.

Behind The Scenes. Many other behind-the-scenes opportunities include:

- Providing input (cost estimates, construction schedule, etc.) to a grant being prepared by a local non-profit agency, church, or other group.
- Helping pass a referendum to increase local taxes for needed school improvements.
- Serving on boards and committees for building construction regulations, rewriting of local ordinances, etc.
- Serving on building committees for hospitals, schools, churches, theatres, or museums.

Finally, here are some concluding remarks made by roundtable participants:

"Builders and contractors are generally not viewed as trustworthy or as philanthropic. The real truth is that many builders and contractors already contribute significantly to making their communities better."

"Good citizenship actions and gestures in all of the ways we have discussed here are something a builder or contractor should engage in without any ulterior motives of a pay-off."

"Give early and often."

Again, while your true motive should be altruistic, many of these good deeds can have a significant impact on how much tax you will owe. Talk to us about your plans for good citizenship, and we'll help you get the best tax breaks. ●

CUT TO SUIT, BEAT TO FIT, AND PAINT TO MATCH: THE PROMISES OF RENOVATION

With the exception of new housing starts, most construction sectors are currently sluggish. One sector that has shown remarkable growth is building renovation.

Every year since the early 1980s, this market has expanded its share of the total volume of construction in the United States and in most areas overseas. Sweden and Switzerland were the first two countries where renovation work overtook new construction as the largest segment of the construction industry. The bottom line? If you're not considering this market, you are missing some major business opportunities.

The renovation market is made up of several segments:

Rehabilitation – refers generally to remodeling an existing structure to make it usable again for the same purpose.

Example: updating the interior and exterior of a hotel or office building.

Adaptive Reuse – in this case, an existing structure is adapted to a new use.

Examples: an old factory is converted to loft condominiums or an old shopping center is converted to office space.

Historic Preservation – buildings with historic significance or value are often restored according to guidelines prepared by the U.S. Department of the Interior and State Agencies. Rehabilitation and adaptive reuse are both possible for historic preservation projects.

Greater Complexity = More Profit

As a rule, renovation projects are more complex – and offer more surprises – than new construction. Older buildings frequently require removal of asbestos or lead-based paint before any major demolition and new work can begin. Drawings that show the original construction may not be fully accurate; and some earlier interior renovation projects may not have been documented. So, you may uncover several layers of ceilings; unexpected walls or room configurations; concealed partitions, windows, and doors; and abandoned electrical conduits, plumbing lines, and mechanical systems.

As a result, renovation projects tend to cost more on a per-square-foot basis than new construction work. And due to possible surprises, the potential for legitimate change orders is considerable. But, it's because of the higher cost and change order potential that profitability on these projects can be high.

Greater Complexity = Greater Risk

Inexperienced contractors bidding on renovation work may underestimate the effort required and submit unrealistically low bids. Therefore, it's important to...

- Hire one or two persons with experience in renovation work.
- Take courses focused on renovation and historic preservation through professional contractors associations and historic preservation organizations.

Other Alternatives

If renovation work is already a part of your project load, it may be time to consider other money-making alternatives during slower economic times. Start by examining the talents and abilities of your staff, and then build upon those strengths by starting new ventures or lines of business. The following may help spur some ideas:

1. Performing facilities maintenance/management for federal, state, or local agencies.
2. Teaching building construction-related courses as an adjunct or visiting faculty.
3. Becoming a franchisee for a new building product or building system.
4. Serving as temporary consultant to a building official by performing plan reviews and building inspections.

If you feel that local planning and building regulations need to be reformed, you may want to consider running for public office (city council, county commission, school board).

We can help you determine the financial feasibility of whatever course you choose to pursue. Call us! ●

Washington Watch

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Individual tax relief. The top four tax brackets saw at least a 2% rate cut, retroactive to January 1, 2003. Other individual tax reductions have been accelerated, and the exemption from the alternative minimum tax is broadened temporarily.

State and local spending. State governments will receive \$6 billion and local governments \$4 billion that they can use for a wide variety of purposes. In addition, states will receive \$10 billion for Medicaid.

Caution Ahead

The construction industry, one of the strongest bastions of small, family owned businesses, is expected to reap many gains from the new tax law, but it also must share the risk from possible resulting budget deficits.

The editors of *The Engineering News-Record* argue that the economic assumptions must be looked at carefully. "Last year's \$40-billion tax rebate appears to have fallen into an economic black hole, providing little measurable stimulus. Providing taxpayers with a \$300 or \$600 rebate may have boosted some consumer spending, but many consumer products are imported, so whose economy did the rebate stimulate?"

"On the other hand," the editors say, "spending \$40 billion on U.S. infrastructure produces visible results, and with a more immediate impact on job creation, improves productivity, and adds to the overall quality of life throughout America." A June 2, 2003, editorial argues the tax cuts could "squeeze domestic infrastructure spending," causing contractors to delay equipment purchases. (Keep an eye on the Transportation Equity Act for the 21st Century appropriations.)

We can help you sort through the issues surrounding the new tax law and help you plan the best ways to keep your personal and business taxes as low as possible. ●

Partnering – Lessons & Best Practices

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Some Pitfalls

In adversarial relationships, you must always watch your back. In relationships based on trust, or what is perceived as trust, it's easy to be lulled into a false sense of security.

So, it's important to deal with conflict immediately. Conflict may come from one of five core areas: values, goals, facts, pro-

cedures, and misinformation. But if you're willing to resolve the conflict openly, you can build a stronger relationship through improved communication.

Trust Is Key

Trust is defined as confidence, reliance or firm belief in the integrity, veracity, justice, friendship, or other sound principle of another person or thing. It's the glue that binds an organization together. To develop trust, make sure you...

1. Tell the truth.
2. Deliver on your promises and expectations of others.
3. Walk your talk.

4. Be a positive role model.
5. Welcome responsibility.
6. Present an ethical image.
7. Avoid gossiping.
8. Be open; inform others ahead if you cannot meet deadlines.
9. Help others look good.
10. Treat everybody with respect and dignity.
11. Recognize and reinforce performance.
12. Communicate clearly, say what you mean and mean what you say.
13. Break down barriers by giving everybody a voice.
14. Be respectful of time.
15. Follow up regularly and offer helpful recommendations.



Recently, the Associated General Contractors (AGC) and the United States Army Corps of Engineers launched a Web site devoted to best practices in partnering in an effort to share general lessons learned and new wrinkles in the fabric of partnering. It's worth checking out at www.agc.org/Partnering_Project. ●

CONSTRUCTION TREND DATA

New construction starts increased 9% in June reported by McGraw-Hill Construction Dodge. Nonresidential building posted a healthy gain, while nonbuilding construction (public works and electric utilities) surged upward after a weak May. Residential building in June showed improvement that is more modest, edging up from its elevated May pace. During the first 6 months of 2003, total construction on an unadjusted basis was reported at \$252.8 billion, down 2% from the same period a year ago.

"The sharp growth in June reflected some 'catching-up' by nonresidential building and public works, as well as the boost coming from the start of three very large power plants," stated Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction Dodge. "Because some of the strength for construction in June came from projects that had been previously deferred, it's expected that the heightened contracting will settle back in coming months."

The 2% drop for total construction during the January-June period of 2003 was due to regional performance over last

year – the West, up 4%; the South Central, up 3%; the South Atlantic, up 1%; the Midwest, down 4%; and the Northeast, down 21%. "The sharp decline for the Northeast is the result of substantially weaker commercial building in that region, combined with a steep correction for nonbuilding construction compared to an exceptionally strong first half of 2002," explained Murray.

For more information, go to www.construction.com.

Dodge: Year-To-Date Construction Contract Value

Unadjusted Totals, In Millions

	6 Mos. 2003	6 Mos. 2002	% Change
Nonresidential Building	\$ 73,628	\$ 79,786	-8
Residential Building	\$ 132,672	\$ 123,425	+7
Nonbuilding Construction	\$ 46,452	\$ 55,808	-17
Total Construction	\$ 252,752	\$ 259,019	-2

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