

# TODAY'S contractor

WINTER 2002/2003

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## INSURANCE CRISIS BRINGS HIGHER PREMIUMS, LOWER COVERAGE LIMITS

If you think builders are the only ones getting hammered in the liability insurance crisis, you're wrong. Premiums, retentions (or deductibles), and exclusions are up, and limits are down, regardless of the field, says Rob Hoyt, professor and head of the Risk Management and Insurance Program at the University of Georgia's Terry College of Business.

California builder Mick Pattinson can relate. "It's a huge issue for builders," he says. At his own company, Barratt American, in Carlsbad, coverage limits are much lower than in years past and his self-insured retention has tripled. Even with that, he says, "we consider ourselves lucky."

"If we were to look at what we're paying and what every trade contractor is paying, it's very significant," says Pattinson, whose coverage costs at least \$4,000 per house.

Trade contractors are feeling the most pain, he says, followed by small homebuilders, then large and national builders. He knows a framing contractor with a \$8,900 premium in New Mexico; in California, the same coverage costs \$300,000.

### How Did We Get Into This Mess?

It's tempting for insurers to blame the September 11 terrorist attack, with its catastrophic financial losses, for the recent spike in prices. In truth, that had little to do with the hardening of the insurance market, says Hoyt. "The root cause goes back more than a decade, when aggressive insurers underpriced policies to win business. Even so, the carriers made money because the investment market was so strong. That sank with the dot-com nose dive." Then, for the construction industry, came the mold claims, first in a trickle and then in a flood.

Builders used to be able to get first-dollar coverage and retentions of \$10,000 to \$25,000 to cover liability for up to \$500 million in annual revenue. Now, retentions of \$250,000 to \$500,000 are common, and a range of \$100,000 to \$3 million could be common within a year.

### How Are Builders Managing?

Insurance experts say the key to getting and keeping insurance today is to make your company as attractive as possible to the underwriters. Document everything, and submit as complete an

ideas for profitable growth

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## Washington Watch

### Congress Enters Mold Battle

In an attempt to end the battle between insurance companies and consumers about who is responsible for household mold remediation, legislation has been introduced in Congress that will tackle the myriad issues involved in the dispute.

The U.S. Toxic Mold Safety and Protection Act, introduced by Rep. John Conyers Jr. (D-MI), calls for government-sponsored studies to determine the health effects of “toxic” mold exposure, the most hotly contested issue in the debate. Additionally, the bill calls for standards for the prevention, detection, and remediation of indoor mold growth and provides for local jurisdictions to modify building codes to minimize mold hazards in new construction.

The legislation incorporates an annual mold-inspection protocol for rental properties, and a mold-inspection clause for properties purchased with federally insured loans. It also calls for the development of mold insurance pools that would cover the costs associated with mold cleanup for those who purchase the coverage.

### Grace Period Restored In Transportation Conformity Rule

The Environmental Protection Agency (EPA) recently amended its transportation rules to give newly designated non-attainment areas a one-year grace period before the agency’s conformity provisions apply (67 FR 50808, August 6, 2002).

Transportation conformity is required by the Clean Air Act to ensure that federally funded highway and transit projects conform with a state’s air quality implementation plan.

## THE WIRELESS IMPACT ON CONTRACTORS

“My truck is my office.” You’ve joked about it for years, but now the joke is ending. Ever since you purchased your first wireless, 12-pound telephone 20 years ago, you’ve known the time would come when you could literally turn your truck into “information central.”

That time is now. The only question remaining is whether or not you really want to jump in with both feet. To help you decide, this article outlines some considerations ranging from software and hardware to your own business style.

### Available Hardware

The key hardware is the hand-held computer or personal desk assistant (PDA). With a wireless modem and Web browser software, this electronic marvel can receive all information available through the Web. Properly configured and networked, it can also receive faxes, as well as files from the “back office.” PDAs that are also mobile telephones (“smart phones”) are now on the market. One of the most comprehensive Web sites on the subject is [www.pdstreet.com](http://www.pdstreet.com). It contains detailed information and specifications on products from all major manufacturers, plus reviews and evaluations.



### Available Software

Networking a wireless office in your truck or anywhere else with the computers in the back office doesn’t present special software needs. Networking software packages integrate a wireless workstation into a network as well as any hardwired one. A Web search using the keywords “construction software” will confirm that project management and accounting software for the construction industry is available from numerous developers and vendors.

While other developers may be working in the same direction, the American

Contractor by Maxwell Web site ([www.amercon.com](http://www.amercon.com)) describes specifically how this company is adapting its products to wireless mobile technology.

### Information Security

Sensitive business information transmitted to or from your wireless truck office can be encrypted to protect it from being accessed by competitors or other unauthorized persons. The decision to use encryption software depends on your own comfort level with wireless information transfer – which leads to the last point.

### Your Business Style

Perhaps the best way to decide on whether to go wireless is to look at how you’ve responded to new technology in the past. Do you routinely try the latest technology? Are you a “due diligence” person? Or do you have certain hang-ups about changing things from the way they’ve always been done?

- If you’ve always tried the “latest and greatest” and feel comfortable continuing on this path, then go wireless. The PDA and smart phone technologies are just now available, and you will have an opportunity to upgrade frequently, as improvements will be significant in future generations.
- If you prefer “due diligence” and careful evaluation of the choices before you make a decision, now is the time to engage this issue seriously. By the time you are ready to make a selection, more mature technology will be available. And you’ll be ready to make an informed decision.
- In most cases, wireless also means paperless. If that makes you uncomfortable, going wireless may be counterproductive and possibly pointless. Or if you feel it’s necessary to have time in the office in order to manage the staff and the company, and a wireless office would take you away too much, it may be time to follow your instincts and not the technology.

We can help you explore the new technologies available and give you an idea of how it could make your office – whether truck or back office – more productive. ●

## ROUNDTABLE: CONSTRUCTIVE EDUCATION

With construction technologies getting more and more sophisticated, and the liability issues getting more critical, the need for well-rounded construction education seems to be essential today. So, our roundtable participants were asked to consider – what type and level of education should a contractor's employees have? The discussion arrived at these major findings:

### #1. Attributes And Attitudes

While a formal education is important, it's not absolutely necessary for it to be from a college of building construction. College graduates are desirable for the construction business because getting a college degree demonstrates their tenacity, curiosity, perseverance, and determination.

One roundtable member noted that occasional "one-trick" employees are also valuable. They may not be interested in learning anything new, but they are very good at the one thing they know how to do.

Other attributes and attitudes, such as integrity, people skills, and patience, don't necessarily require a formal education in construction, but may require some type of training or job experience.

### #2. Field Experience

Perhaps more than in most fields, construction is learned on the job. Every firm or company has a "system" to be learned and practiced. In addition, much experience is gained serving in lower rank positions and learning from a mentor. It

was noted, however, that there must be an incentive to learn. Promotions and longevity with the company must be attainable.

### #3. Good Training Programs

To supplement what is learned on the job – and as a source of education for those not going to college – training programs and seminars are invaluable. Examples of types of training programs include:

- People skills.
- Conflict resolution.
- Written and oral communication.
- Risk management.
- Software programs in estimating, project management, cost control, etc.
- Plan and specification reading.
- Specific construction skills.

ABC and AGC were noted as offering good programs on these topics, and member unions of the AFL-CIO Building and Construction Trades Department were also given praise for their training programs.

### #4. National Certification

Because construction companies operate increasingly across state and national borders, it's no longer acceptable for local and state jurisdictions to offer licensing examinations which do not follow a national format or norm. A licensed or certified contractor in one jurisdiction should be able to be licensed or certified in other jurisdictions without having to be re-examined. ●

## Washington Watch

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Under the final rule, an area that is designated as "not in attainment" of an EPA air quality standard for the first time has one year to put in place a conforming transportation plan and a transportation improvement program. If this deadline is not met, federal funding and all projects are suspended.

### Terrorism Insurance – Top Agenda Item

President Bush ratcheted up the attention level on terrorism insurance when he met with the House and Senate conferees to encourage an agreement between the two versions of the bill. The President demonstrated a need for this legislation by mentioning the "more than \$15.5 billion work of construction projects that are not moving ahead because insurance is not available to cover the projects or they cannot insure the buildings."

### EPA Analyzes Water And Wastewater Treatment Needs

EPA Administrator Christine Todd Whitman told water system operators and engineers on September 30th that the nation's drinking water and wastewater treatment systems require a massive overhaul to meet the nation's water needs over the next 20 years.

The water infrastructure crisis is outlined in an EPA report, "The Clean Water and Drinking Water Gap Analysis," which compares the nation's current wastewater and drinking water infrastructure against system requirements projected for 2019. The report reveals that more than \$500 billion will be needed above current spending trends to revamp aging systems.

The EPA plans to convene an infrastructure forum in Spring 2003 to focus on innovative financing techniques to address funding. The Water Infrastructure Network estimates the shortfall at about \$460 billion over 20 years. ●

### The High School of Construction

In primitive times, construction training programs were a part of family life: parents taught their children how to build with local materials and traditional methods. Later, apprentices studied under master masons and carpenters. In the 1900s came labor union-run apprentice training programs.

The Construction Careers Center – a St. Louis Charter High School – promises to be a role model for 21st century construction education. Sponsored by the local AGC Chapter, the school provides an academic high school foundation along with an overview of the construction industry and vocational educational preparation. It offers several career paths, including:

1. Hands-on training and direct employment after high school graduation.
2. Entry into a construction apprenticeship training program.
3. Community college or 4-year degree studies in construction.

For more information, see the January 2002 issue of *Constructor Magazine*.

# Insurance Crisis Brings Higher Premiums, Lower Coverage Limits

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application as possible. With the current crunch, underwriters are swamped, and the easiest applications get handled first.

Also, consider some of the following actions:

- Carry a very high deductible (especially for attached housing projects).
- Lower limit coverage.
- Establish a risk retention group to cover the warranty on a project's 10-year guarantee.
- Document claims prevention efforts.
- Use third-party inspectors on all jobs, including open space.
- Put design guidelines through peer review.
- Give homebuyers clearly worded maintenance manuals that outline their responsibilities.
- Consider hiring a risk manager or contract for this service.



- Work with local colleges or universities to establish a building "boot camp" for construction supervisors.
- Report best practices to supervisors.
- Videotape construction to document your practices.
- Redo designs to increase ventilation in the attics and to allow houses to breathe.
- Stop offering tiled bathtubs and showers because of mold.
- Check to see if subs are covered on all sites.
- Ask about exclusions, such as mold or exterior insulation and finish systems (EIFS) and terrorism.

And remember, nothing works better than building it right and keeping your buyers happy. ●

## HOW IS CONSTRUCTION STACKING UP? INDUSTRY TRENDS

**A**t a seasonally adjusted annual rate of \$509.4 billion, the value of new construction starts in August rebounded 7% from a lackluster July, according to the McGraw-Hill Construction Dodge. Double-digit gains were reported for nonresidential building and nonbuilding construction, while housing showed more modest improvement. During the first 8 months of 2002, total construction was up 1% compared to the same period of 2001.

"The construction industry in 2002 has essentially stabilized close to its 2001 level, following ten straight years of expansion," stated Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction. "The weak economy over the past year led to sharp declines for commercial and manufacturing building, but the slack has been picked up by further growth for single family housing, public works, and institutional building. These latter three sectors continue to move at a healthy clip, at least for the present." ●

### Year-To-Date Construction Contract Value<sup>(1)</sup> – Unadjusted Totals, In Millions

	8 Mos. 2002	8 Mos. 2001	% Change
Nonresidential Building	\$ 104,940	\$ 115,931	-9
Residential Building	\$ 166,578	\$ 152,485	9
Nonbuilding Construction	\$ 73,783	\$ 73,117	1
Total Construction	\$ 345,301	\$ 341,534	1

<sup>(1)</sup> McGraw-Hill Construction Dodge, September 26, 2002.