

Sage Construction and Real Estate Solutions

Understanding the American Recovery and Reinvestment Act:

Technology Best Practices for Public Sector Contractors

Introduction

The construction industry has been hit hard over the last year. It started with the decrease in U.S. residential housing prices but then quickly spiraled downward as gas prices increased and credit dried up. Unemployment increases and gloomy economic headlines make the outlook for a quick rebound in the construction industry seem out of reach.¹

Some experts see glimmers of hope for the 2009 economic picture. Anirban Basu, chief economist for Associated Builders and Contractors, Inc., wrote “As the nation’s recession deepens, labor costs represent the largest concern—and expense—for many contractors. While recent construction materials price declines represent a positive factor in the industry’s outlook, declining labor costs would be relatively more helpful. Indeed, data suggest construction labor costs are on the way down.”²

Basu sees additional positives including “the infrastructure component of the stimulus package [and] ongoing military-related construction in many parts of the United States,” he wrote recently in the Construction Economic Update.³ The goal of this guide is to help you understand the opportunities available as part of the economic stimulus being deployed by the federal government, and highlight technology that can help you compete more effectively for public sector contracts.

Stay up to date on stimulus projects

The Recovery Act is unprecedented in size and scope. There are more than 20 Federal agencies that are responsible and accountable for the nearly \$800 billion. In order to ensure your company is poised and ready to get its share of shovel-ready projects, bookmark and visit the following web sites regularly to stay up to date on the latest announcements and reports:

Official Recovery Act site

www.recovery.gov

General information about ARRA

www.propublica.org

State-specific stimulus estimates & fact sheets

www.agc.org/stimulus

The Basics of the Recovery Act

The American Recovery and Reinvestment Act of 2009 (Recovery Act or ARRA) was signed by President Obama on February 17, 2009 to stimulate the economy out of recession in the short-term. There are high hopes that the ARRA will also provide long-term growth and benefits. The Recovery Act legislation consists of \$787 billion in tax cuts and new spending. Among the 230 programs and project areas, \$140 billion is earmarked for construction spending and includes rebuilding energy and physical infrastructures and transportation improvements for long-term growth.

In addition to the billions in shovel-ready projects, the Recovery Act includes a wide array of tax incentives and new financing opportunities specifically designed to help small businesses. With all of the talk and analysis of the ARRA, you’re probably wondering:

- How is it going to work?
- How and when is it going to start impacting my business?
- How can I secure some shovel-ready projects for my company?

Opportunities for Public Sector Contractors and Subcontractors

If you are an experienced government contractor, you are already familiar with the bidding process from ‘hard bids’ to bonding and compliance requirements. But what you may not be prepared for is stiffer competition. With the current state of the economy, you may be up against 30 to 40 contractors for each ARRA project—which means you will have to bid on more jobs to get the work your company needs to thrive.

In order to be successful, you’ll also need to make sure that your bid numbers are low – but not too low. You need to preserve some profit or risk running yourself out of business.

¹ Wells Fargo Construction Industry Forecast 2009

² Basu, Anirban, “Labor Costs Follow Construction Materials Price Declines,” Construction Executive, March 2009

³ Associated Builders and Contractors, Inc., “Private Nonresidential Construction Spending Drops Further in January,” Construction Economic Update, March 2, 2009.

In your quest for ARRA projects, you'll also need to account for new regulations and tax provisions associated with the bill. It is critical to maintain proper records and documentation to keep in compliance with government regulations including Davis-Bacon and Related Acts. And you'll want to take full advantage of the tax provisions affecting small businesses and the construction industry.

With all of these rules and regulations, experienced government contractors will most likely achieve the most success. However, you can still claim a piece of the pie by taking on subcontract work. Anne Robinson, vice president and senior counsel for American Express OPEN notes that you should take advantage of any special certifications or your background as a veteran- or woman-owned business. Robinson states, "Getting your foot in the door is sometimes the hardest part in landing government contracts...The experience you gain as a sub will serve you well as you compete for prime contracts in the future."⁴

Best Practices: How to Win Your Share of the Stimulus Projects

There are plenty of new contract opportunities available through the Recovery Act. But you need to be prepared to meet the challenges of more competitive bids, new tax provisions, and documentation and compliance requirements. It doesn't matter where you end up seeking projects, your company needs to be organized to satisfy government regulations and able to perform work at a low cost. The following best practices will help you plan ahead so your company can achieve success in government contract work:

Best Practice #1:

Use construction-specific accounting software

It's no secret that construction-specific accounting software improves productivity and gives you tighter control of jobs. But when you are trying to meet changing regulations and need to have more control over costs, labor and equipment, it's more important than ever to have organized data at your fingertips.

Construction-specific accounting software helps you improve the documentation needed to meet government regulations and provides control and insight into your business so you can preserve your profits:

- Easily track time and materials, control costs and generate timely billing
- Simplify document management and enables you to call up historical data
- Gain insight into job cost history to see where you have been profitable
- Take control of project management process and get things done faster
- Ensure compliance with government regulations
- Analyze your job costs, review trends and produce financial reports

Stimulus tax provisions affecting construction

- 1-year delay (to 2012) in 3% withholding on government contracts
- Increased expensing
- Net operating loss: 5 year carry back of NOL for small business (<\$15 mil. in gross receipts)
- Qualified school construction bonds
- "Build America" bonds
- Bonds for "recovery zones," tribal areas, renewable energy, energy conservation
- Modified renewable energy, conservation credits

(Source: Ken Simonson, Chief Economist, Associated General Contractors of America)

⁴ "Claim Your Share of Rising Federal Construction Spending," Anne Robinson, www.constructionbusinessowner.com

Best Practice #2:**Utilize Integrated construction-specific estimating software for competitive bidding**

Time is of the essence when it comes to the bidding process. You'll need to bid on more jobs to get work. How can you compete for more jobs? When you use construction-specific Estimating software, you can produce more estimates faster, significantly increase accuracy and reduce errors.

Estimating software helps you bid right so you not only win the job, but you won't incur heavy losses:

- Find and analyze historical estimates that had a higher win ratio and determine the best opportunities for your business
- Automate take-offs
- Easily make changes and last minute adjustments
- Compare budget versus actual costs
- Ensure compliance with government regulations
- Examine profitability to see if your company can actually do the job for the price you are quoting

And when you integrate estimating with project management and accounting, you'll also be able to plug historical numbers into your estimates and perform take-offs directly as change orders are being done. The ability to protect your profit margins is what will separate your company from the competition and ensure long-term success.

Best Practice #3:**Ensure compliance with Prevailing Wage, Payroll, and HR regulations**

Certified payrolls require that you pay your employees the prevailing wage in a particular area. Wages can vary greatly based on the phase of work and day of the week. Was there hazardous work involved? A construction-specific accounting and payroll system simplifies recordkeeping and calculates wages, making your payroll easier to manage and error-free.

When performing public works, make sure your payroll software can:

- Track and compute multiple wage rates of union labor and prevailing wage
- Produce certified payroll reports
- Provide regular government and tax updates to ensure government compliance

You should also ensure that you update payroll and HR programs to comply with new ARRA regulations including the work pay income tax credit, premium subsidies for COBRA and new HIPAA requirements. An understanding of your COBRA requirements and state-specific health insurance continuation laws is essential for ensuring legal compliance. With the ARRA already in effect, employers need to take action now in order to prepare for administering the COBRA subsidy and ensuring COBRA notice deadlines are met.

Ensure compliance with Davis-Bacon and Related Acts

Government contractors must maintain payrolls and basic records and submit certified weekly payrolls. Records to be maintained include:

- Name, address & social security number of each employee
- Each employee's work classification(s)
- Hourly rate(s) of pay (including rates of contributions or costs anticipated for bona fide fringe benefits or cash equivalents thereof)
- Daily and weekly numbers of hours worked
- Deductions made
- Actual wages paid

Source: Department of Labor, www.dol.gov/compliance/laws/comp-dbra.htm

Summary

Organization, speed and accuracy are the keys to securing government contracts and ensuring profitability. Make sure your company is poised and ready to claim its share of the stimulus by employing the best practices we have discussed in this paper.

Win more jobs with construction-specific estimating tools that can automate the take-off process and provide the analysis to help you ensure that your bid is exactly where you need it to be. Utilize an integrated estimating, project management and accounting system to save time and gain tighter control of profits. Finally, maintain accurate records to stay in compliance with government requirements for public works projects.

Remember to check government web sites and other key sources to find out the latest information including project details and bid deadlines. With the right resources and planning, your company will stay competitive in the rush to win shovel-ready stimulus projects and can come out of this recession stronger than ever.

Drive Your Business Forward with Sage!

For over 30 years, contractors have depended on Sage Timberline Office and Sage Master Builder for construction-specific software that improves productivity and profitability. Sage provides award-winning software and support to more than 21,000 construction and real estate customers in the U.S. and Canada.

Take your company to the next level when you manage and connect all aspects of your business with integrated software solutions for accounting, estimating, project management, procurement, and more.

To learn more about how Sage solutions can support your business objectives and help you implement the strategies in this guide, visit www.sagecre.com or call **800-628-6583**.



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