



Blueprint

Building Profits for Construction & Real Estate Companies

Auditing TPAs may help lower your company's health care costs

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It's not uncommon for self-insured contractors and developers to absorb from 2% to 5% of their overall health care costs, either because of overpayment or otherwise incorrect payments made to health care providers by the employer's third-party administrator (TPA).



Just when they're struggling to contain rising health care costs, self-insured employers overpay millions, whether their TPA pays providers under a full-risk agreement or more traditional discounted fee-for-service agreement.

Therefore, if you are a self-insured contractor or developer, how do you know if your TPA only reimburses providers for covered benefits and at the agreed-upon rates for specified services?

A detailed claims audit is one way to successfully identify and collect overpayments. It should include discovery and documentation of evidence that supports the overpayment of claims and contractual noncompliance.

Self-insured contractors and developers that attempt to audit

contracts often find themselves dependent on their TPAs data, methodologies and calculations.

However, a claims audit is designed to go much further to include the actual contractual relationships between the employers, TPAs and health care providers. Otherwise, the full scope of overpayment errors may not be realized.

To account for the overpayments and arrange for a refund, a detailed claims audit that focuses on the accuracy and timeliness of claims payments made to providers should be performed.

Areas an audit should review:

- ✓ Claims paid at the wrong contractual rates
- ✓ Duplicate claims payments
- ✓ Claims paid for noncovered benefits
- ✓ Claims paid with disregard for timely filing limitations

- ✓ Errors made in the coordination of benefits

Though performing an effective and efficient TPA audit is not always as easy as it may sound, self-insured companies should still consider taking steps to collect all revenues they are due, which were the result of their TPAs overpayment of claims.

Advisors from BKD Health Care Group, a division of BKD, perform TPA claims audits. Contact your BKD advisor for an introduction. □

EPAct incentives & how to qualify

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In August, President Bush signed the *Energy Policy Act of 2005* (EPAct), which includes more than \$14 billion in tax incentives designed to improve energy production, transportation and efficiency.

These incentives are of particular interest to commercial real estate contractors and developers.

Stimulus for energy-efficient construction

EPAct creates a new deduction for expenses incurred in the construction of energy-efficient commercial buildings.

It provides major incentives for building owners to upgrade their systems and—for those building new structures—to design them in an energy-efficient manner.

Contractors will likely be asked by customers to organize project-related data in a way that helps customers identify costs they can deduct.

The deduction ranges from 60 cents to \$1.80 per building square foot and is available only if the property meets all of these conditions:

- ✓ Property is otherwise depreciated or amortized

- ✓ Property is installed on or in a building in the U.S. within the scope of Standard 90.1-2001 of the American Society of Heating, Refrigerating and Air Conditioning Engineers and the Illuminating Engineering Society of North America

continued on page 3

Inside

- ✓ Year-end recap: where we've been, where we are, where we're headed
- ✓ How to get your HR house in order

Year-end recap: where we've been,

by **Larry Van Horn, Wichita,**
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If you were as fortunate as many other contractors, your profits improved during 2005 compared to the two preceding years.

Even though fuel costs rose dramatically throughout much of the year, they were largely offset with improved labor productivity, a general stabili-

zation in material prices and improved project management techniques.

However, just when the construction industry seemed poised to welcome a promising 2006, Katrina, Rita and Wilma blew the wind from its sails.

How reconstruction could affect you

Fuel costs recently returned to early 2005 levels; however, relief in this area could be short lived, and new challenges are on the horizon, the biggest of which will be the impact of reconstruction along the Gulf Coast.

To date, these efforts have been slow as more fundamental needs—clean up, safety and public health and welfare—are addressed. The timing of reconstruction also will be delayed as we wrestle with the problem of who's footing the bill.

For example, insurance companies are certain to fight many claims, resulting in protracted litigation in a number of cases.

A political showdown also is taking shape as federal and state governments debate how to allocate the burden of reconstruction costs; yet, the only question that remains is not *if* reconstruction

along the Gulf Coast will affect your business, but *when*.

Where you'll feel impact most

For contractors, prices for materials will likely feel the pinch first. While Katrina's effect will be massive, the trend of escalating prices in materials has been a concern for some time, with little relief in sight.

As reconstruction efforts begin to take off, it will place tremendous pressures on the supply of structural steel, rebar, Portland cement, lumber and gypsum.

According to recent history, equilibrium in these materials categories is difficult to maintain, and the spike in their consumption will crush the delicate balance between supply and demand that currently exists. Not only will prices increase as a result, but actual, temporary shortages are likely to occur.

The pinch also will be felt in the labor force because many contractors have benefited from a growing migrant workforce to help meet their needs. As reconstruction heats up along the Gulf, demand for semi-skilled field laborers will put pressure on wage rates, resulting in increased employee turnover.

Energy costs will remain high as reconstruction increases its short-term consumption, and even though property and casualty insurance premiums had begun to level off in 2005, expect insurance providers to pass their losses on to customers.

Finally, if you earn revenues on projects funded either directly or indirectly by federal dollars, you can expect some degree of softening in spending in these areas.

With the federal government

already facing huge budget deficits associated with the ongoing war and rebuilding efforts in Iraq, the cost of reconstruction along the Gulf Coast will necessarily mean capital spending will be curbed on other projects.

If you begin to experience any of these negative effects, evaluate the impact on job profitability immediately and revise your estimated cost to complete the project accordingly.

Also, evaluate whether labor shortages or material delays could negatively affect your ability to meet contract deadlines, triggering penalties that also could negatively affect your ability to meet contract deadlines.

Factors that could soften blow

As the saying goes, every cloud has a silver lining, and there is no exception here. While it's too difficult to predict the exact impact yet, there are mitigating factors that could spell good news for contractors outside the Gulf Coast area.

For example, the temporary relocation of hurricane evacuees to towns across the Midwest, Great Plains, Texas and Colorado will certainly become permanent for many people as they take jobs in their new locations.

Though the impact will only be slight to moderate in many areas, there will still be increased demands for housing, health care, education and transportation infrastructure that will result in new construction spending.

If you perform work in Louisiana, Mississippi or Alabama, you'll likely benefit directly from reconstruction efforts; however, be prepared that the rule of the day will be anything but business as usual.

Not only will you face the challenges predicted above, but the huge influx of money may set the stage for public corruption.

Manage negative effects

What can you do to mitigate these potentially negative effects?

- ✓ Maintain the same discipline in your business processes that you've implemented in the last few years; don't let a good 2005 allow you to soften in these areas.
- ✓ Continue to require price escalation clauses in contracts; consider adding provisions to extend the contract schedule for actual material shortages resulting in construction delays.
- ✓ Encourage your project managers and purchasing group to build additional time allowances into the schedule for the period between order and delivery dates.
- ✓ Get fixed price quotes, or, at the very least, be sure you clearly understand the material suppliers' terms.



- ✓ When you begin to see a tightening in the supply of materials, consider negotiating incentives with suppliers, such as "net 10" payment for on-time delivery.
- ✓ Evaluate wage rate adjustments if you begin to experience higher-than-usual turnover.
- ✓ Polish your field superintendents' and project managers' people skills. Human resources studies show diffi-

where we are, where we're headed

culty working with a direct supervisor is the primary reason employees leave and look for other employment opportunities.

- ✓ If you have a large migrant workforce, determine if your benefits program is designed to meet their specific needs. For example, they may not care about participating in your company's 401(k) plan, but a transportation allowance or finding an easier way for them to wire a portion of their earn-

ings back to family members could be a real benefit from their perspective.

- ✓ Reconsider your capital spending plans for 2006, particularly because the tax advantages of bonus depreciation have expired. You might be better off delaying that equipment purchase a few months to be sure you're really ready to spend those funds now.
- ✓ If you have an insurance policy expiring on or before

March 31, 2006, start renewal discussions with your agent immediately. An early start may not assure you of a savings, but it improves your odds for savings and, at the very least, gives you more time to prepare to absorb increased costs.

- ✓ Consider entering a captive insurance arrangement, which might help you mitigate some of the exposure to across-the-board price escalation, which is prevalent in traditional insur-

ance markets for certain insurance types.

Continue to employ good job-site management techniques. Incremental improvements in this area can result in a significant improvement to your bottom line.

Finally, let's raise a toast to 2006 in hopes that dire predictions don't come true. And if they don't, the cautionary steps above can still help your business improve and increase its competitive advantage in the year ahead. □

EPAct incentives. . .

continued from page 1

- ✓ Property is installed as part of the interior lighting systems; the heating, cooling, ventilation and hot water systems; or the building envelope
- ✓ When compared to a reference building that meets Standard 90.1-2001's minimum requirements, the property's installation is certified as part of a plan to reduce by 50% or more the total annual energy/power costs related to interior lighting systems and heating, cooling, ventilation and hot water systems.

To the extent a building does not meet the overall building requirement of a 50% energy savings, a partial deduction is allowable for each separate building system that comprises energy-efficient property.

Also, it must be certified by a qualified professional as meeting or exceeding the applicable system-specific savings targets established by the Internal Revenue Service (IRS). The maximum allowable deduction is 60 cents per square foot for such a separate system.

The deduction generally may be claimed by the building owner unless the property is installed on

or in property owned by a federal, state or local government.

In such cases, under regulations yet to be issued, the party primarily responsible for designing the property (in lieu of the owner) will be treated as "the taxpayer."

The statutory provision requires the basis of the commercial property be reduced by the amount of the new deduction, which applies to property placed in service after 2005 and before January 1, 2008.

New credits

EPAct includes several tax credits for consumers that buy energy-efficient assets and for manufacturers and builders that provide them:

Vehicles - Credits are available for the purchase of hybrid, fuel cell, advanced lean burn and other alternative power vehicles. The credit amount varies depending generally on the vehicle's weight class and the rated fuel economy. The credit applies to vehicles placed in service after 2005, with

termination dates varying with the type of alternative power vehicle.

Home energy - A 30% tax credit is available for the purchase of qualifying residential solar water-heating, photovoltaic equipment and fuel-cell property. The maximum credit is \$2,000 (for solar equipment) and \$500 for each kilowatt of capacity (for fuel cells). The credit applies to property placed in service after 2005 and before 2008.

Power plants - A 30% business tax credit is allowable for the purchase of fuel-cell power plants and a 10% credit for the purchase of stationary micro-turbine power plants. The credit, effective for periods after December 31, 2005, and before January 1, 2008, is for property placed in service

in tax years ending after December 31, 2005.

Home improvements - A 10% personal tax credit is available for energy-efficient improvements to existing homes. The lifetime maximum credit per taxpayer is \$500 and applies for property placed in service after December 31, 2005,

and before January 1, 2008.

New homes - Business tax credits are available for contractors that construct new, energy-efficient homes. The credit is either \$1,000 or \$2,000 per home, depending on the type of home and the energy reduction standard it meets. It applies to homes whose construction is substantially completed after December 31, 2005, and those purchased after December 31, 2005, and before January 1, 2008.

Also available is a manufacturers' tax credit for energy-efficient dishwashers, clothes washers and refrigerators made in 2006 and 2007.

Contractors and developers that plan to make improvements to an existing building or those planning new construction should consider energy-efficient assets to qualify for the new tax incentives.

Contractors can bring value-add services to customers by helping them use energy-efficient assets in their construction projects.

Contact your BKD tax advisor for more information about how EPAct can benefit you. □



How to get your HR house in order

by Sarah Farrell-Evans,
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One of the most significant challenges facing construction and real estate development companies today is finding and retaining skilled staff.

A prime source of high turnover for many companies is their failure to establish or articulate policies and procedures in a fair and consistent manner.

It's also important that policies and procedures comply with often complex federal and state laws and accurately reflect a company's business strategy.

A human resources (HR) assessment can help your company evaluate how well its policies comply with complicated personnel laws and regulations, and it also can help identify areas that could pose a retention risk.

Generally, HR assessments include, but are not limited to, these critical areas:

Employee handbook - Is your handbook comprehensive? Does it include required statements?

Hiring procedures - Do they comply with federal and state affirmative action guidelines?



Orientation training - Is training consistent with your employee handbook, and does it include required employee notices?

HR department operating procedures - Does documentation comply with the Equal Employment Opportunity Commission's (EEOC) guidelines and the immigration documentation provisions under Homeland Security?

"Role" or job descriptions - Do your job descriptions include the position's background information? Do they list the competencies and other qualifications necessary for performing a particular job? Do they also comply with provisions of the *Americans with Disability Act*?

Wage & salary administration - Do they comply with the

exempt/nonexempt status provisions of the *Federal Labor Standards Act*, state wage-and-hour laws and the *Family Medical Leave Act*?

Performance evaluation systems - Do they comply with laws enforced by the EEOC and follow its guidelines for managing women and minorities?

HR records - Are your record-keeping and file documentation in compliance?

In addition, an HR assessment is designed to evaluate the compensation tools your company uses, including:

- ✓ Wage and salary administration issues
- ✓ Adjustments to salary structure
- ✓ Frequency and amount of salary increases
- ✓ Incentive and reward programs
- ✓ Retention bonuses and contracts
- ✓ Sign-on bonuses

A BKD HR assessment can help your company develop a spe-

cific action plan to address issues that could lead to high employee turnover or potential regulatory liability. Contact your BKD advisor for more information. □

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