

ARRA Offers Great Opportunity & Potential Challenges for Electrical Contractors

The ARRA has been a bright spot in a gloomy construction forecast for electrical contractors. But the opportunities presented by this legislation and the public works projects it is funding are not without challenges. Contractors are registering to bid on these jobs in record numbers, which means competition is fierce. And state and federal agencies have already begun intensifying compliance efforts, which means the likelihood of being audited when working on ARRA jobs is extremely high.

Federal construction contracts in excess of \$2,000 are subject to the Davis-Bacon Act, which requires payment of locally “prevailing wages” including the “anticipated cost of prevailing benefits.” Generally this is expressed as a per-hour wage and per-hour cash equivalent value of benefits, and is often based on a union scale. Prevailing wages are set by the U.S. Department of Labor and are included in the bid specifications of covered contracts.

Many electrical contractors pay the fringe benefit portion of the prevailing wage as additional cash wages, believing it’s the easiest way to comply with the law. Allocating this amount to a bona fide benefit plan or plans; however, results in significant cost savings. Benefits that might be included in a bona fide benefit plan offering are retirement, medical, dental and vision plans, and life insurance.

The reason contractors save money by offering a bona fide benefit plan is that when the fringe portion of the prevailing wage is used to provide benefits for hourly workers, this amount is not subject to payroll costs such as FICA, federal and state unemployment taxes, and workers compensation insurance. Although there are variances in the rates for the last two, conservatively these taxes represent an additional 25 cents on each dollar paid as cash wages.

Sample Calculation

Assume XYZ Construction Company has 15 employees doing prevailing wage work. These employees work approximately 1,000 hours each per year. The fringe amount above the base rate is \$8/hour and the average approximate additional payroll cost when paying fringe dollars as cash wages is 25 percent.

$$\begin{aligned} &15 \text{ employees} \times 1,000 \text{ hours} = 15,000 \text{ Total Hours} \\ &15,000 \text{ hours} \times \$8.00 = \$120,000 \text{ in Additional Payroll} \\ &\$120,000 \times 25.65\% = \mathbf{\$30,780 \text{ XYZ Construction Company Savings}} \end{aligned}$$

Visit www.thecontractorsplan.com to calculate your company’s potential savings.

The number of bids submitted for public works projects has increased dramatically, which means there’s much greater competition for new jobs. The number of contractors registered with the Central Contractor Registry, the primary registrant database for the U.S. Federal Government, has grown significantly in the past two years. Anecdotally, we have heard that the number of contractors bidding on state and local government jobs is two to three times the amount seen a year ago. If your competitors are using a bona fide benefit plan – and you’re not – you’re at a disadvantage.

Traditional benefit plan providers often struggle with prevailing wage plans due to the seasonal nature of construction work. A company that specializes in this industry can easily “turn off” contributions to the plan when the job finishes, and resume them when the next prevailing wage job starts. Some companies, like Fringe Benefit Group, offer a unique “hour banking” program which enables employers to offer benefits for their hourly workers even during slow times or layoffs. In addition, Fringe Benefit Group tracks benefits on an hourly basis, which is a significant timesaver for contractors when it comes to payroll and reporting. With prevailing wage jobs, it is important for contractors to be able to track and report benefits premium by the hour. Most benefits providers can only offer benefits on a monthly premium basis, forcing the contractor to manually adjust the monthly premium to the appropriate number of hours worked.

Working with a company that understands prevailing wage laws also means there are no worries about recordkeeping. Monthly reports are provided and delivered to contractors on a timely basis. The burden of compliance can also be eased by partnering with a company that has expertise in prevailing wage laws and regulations. Fringe Benefit Group provides assistance to companies undergoing audits at no additional cost, and works with clients to bring them back into compliance.

It’s no surprise so many electrical contractors are looking to government work in this economic climate. Working with a business partner that specializes in prevailing wage projects is an easy and inexpensive way to bid more competitively on these new opportunities, and ease concerns about unintentionally falling out of compliance. Using a firm that understands federal and state regulations, is familiar with recordkeeping requirements, and offers a full complement of benefits to allocate the full fringe amount can give electrical contractors the advantage needed to compete in an increasingly crowded bidding environment.

About the author

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