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Published by: OCA.
E-mail: admin@orcontractors.org
ph. 503-393-3535

The Level

SINCE 2004 - Ushering in the new millenium with news and Information for the Construction Community in Oregon.
We listen to what you want to read.

Vol. 5 No. 1

“Contractors Helping Contractors”

Second Quarter 2009



Oregon Contractors Assoc.

PO Box 9111
Salem, OR 97305
ph. 503-393-3535
fax. 503-390-3498
www.orcontractors.org

Membership: \$320.00 / year

OCA SERVICES:

At Oregon Contractors Association, we offer many services that are designed to help those within the construction community. In addition to this newsletter, we are creating member discounts on various services and products from sponsoring companies. We have a great Workmans' Compensation Program set up with the Oregon Contractors Workmans' Compensation Trust, and other benefits in the works. We also keep you informed of political changes that could affect you.

WE WANT TO HEAR FROM YOU.

This newsletter is so successful because of you, the reader. We created *The Level* to act as an aide to our members and the rest of the construction community. Please feel free to submit stories about your work or your client's projects, or tell us what you would like to read about. We are here to serve you.

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Ten Tips to Surviving an Economic Downturn

Surviving in an economic downturn can be difficult, and these problems are only exacerbated by our “survival of the fittest” model of capitalism. It is true that those that are best adapted for survival have the greatest chance of continued profits. Here are ten tips that will help you to weather the economic storm.

- 1. Keep up with your taxes** – I know, paying your taxes isn't going to bring in new business, but failure to pay can quickly put your existing business out of commission. Even if paying taxes will not necessarily move business forward, it will prevent you from sliding backward. The first priority is to avoid losing as little of your hard earned business as possible. Failure to pay the IRS can bring you some of the worst headaches you can imagine, especially when it comes to taxes withheld from employee's paychecks. You could even be found personally liable for these taxes even if you run a corporation or an LLC.
- 2. Focus on Staff** – Retaining current staff members who are willing to work hard for you will be essential to maintaining and expanding your core business when the recession finally calms. Instead of using lay-offs, ask your current staff how they would feel with more flexible hours and time off in exchange for their pay. Reassure them that they will continue to have a job, and do everything within your power to retain your current business and keep your employees in place.
- 3. Reinforce your value** – Don't be afraid to contact your customers during a downturn with the fear that you are calling to their attention the costs of doing business with you. Reach out to your customers and ask if their needs are being met, and reinforce that your business is stable and that you'll be there for them. Reinforcing your brand and your value is the best way to stay off of their cost-cutting lists.
- 4. Reevaluate your pricing if necessary** – First off, I'd like to say that your goal shouldn't be to become the cheapest service in town. As much as you can avoid

Upcoming Events for the OCA

May 23rd - OCA Training Class for Flagger Certification. See our website at www.orcontractors.org for more details.

May 15th - OCA Member Meeting.

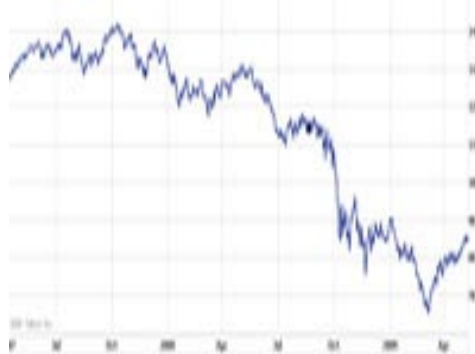
it, try not to compete based on price, but also assess whether your current prices are in line with your current market. Think of packages or bundled services that you can offer that might incentivize your customers to purchase more services through you at a slightly modified price point.

5. Provide Liquidity – Have revolving credit lines open with the bank in case of cash flow emergencies. You can also protect your cash reserves by outlining a careful cash forecast budget and estimating your cash outflows over the upcoming months. Minimize any unnecessary expenses to the extent possible, and delay any expenditure on items that are not absolutely necessary for as long as possible. Finally, collect on receivables with fervor.

6. Be careful of who you pay first – If one of your creditors holds a portion of your assets as collateral, the creditor has special rights in the property that is security for your debt, but non-secured debtors can be paid in any order you please. If there is a possibility of bankruptcy, however, be wary of who you pay first. Bankruptcy courts are very mindful to ensure that you are not make preferential payments to one certain creditor. Your payments over the past year will be closely examined to determine whether you have made payments to one creditor preferentially while neglecting the others.

7. Be honest about debts – When you go out to seek your loans, don't try to hide the true financial condition of your business or the nature of your current debts. Instead, honestly evaluate if you need this

loan and whether it will truly save your business. If you have misrepresented your business and it does go under, your loans can be deemed to have been obtained fraudulently, and you will be personally responsible for their repayment. Such a financial obligation can haunt you for many years to come.



Staying Prepared Can Help You To Weather The Economic Storm

8. Be wary of personal transfers of business property – If you fall behind on any of your payments, the possibility of being contacted by a collections agency rises. In this situation, you may feel tempted to try to conceal your assets by transferring them to a friend or by otherwise concealing this property or income from the court. Creditors are well aware of such tactics and have been trained to identify them. These tactics usually prove to be ineffectual and can result in either civil or

criminal fraud charges.

9. Protect your cash held in bank accounts – It is usually best to have a separate bank for loans and another for maintaining your cash accounts. If your lending institution determines that you are in financial trouble, they retain the right to seize your cash assets without any notification to you. This is referred to as “setoff”. Basically, if the bank reasonably believes that you will not be able to pay your current loans, it can drain your bank accounts of any cash that it has assets to as an offset to your non-payment of the loan.

10. Obtain long-term insurance coverage – If a financial disaster does become a reality, you may find it much more difficult to either renew your current insurance policy or to obtain new coverage. If this insurance is essential to the continued operations of your business as you face the possibility of bankruptcy. The best way to protect against this possibility is to obtain insurance that extends well beyond the upcoming 12 months. If your business does face a restructuring under the bankruptcy code, your insurer will not be able to cancel an existing policy as long as you are current on your payments.

Commercial Real Estate: The Next Shoe to Drop?
Sudden spike in late payments for commercial space has many worried.

Even as banks grapple with rising foreclosures, many lenders have something else to worry about: A rising tide of potential losses from com-

mercial real estate loans that could reach into the billions.

Delinquency rates and defaults on



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Pressure on Commercial Real Estate



“While homeowners are defaulting at almost four times the rate of commercial landlords, the sudden spike in late payments has many industry insiders worried about the collateral threat to the economy and financial system.”

-- Alex Veiga
AP Business Writer

office and retail buildings and hotels have more than doubled in just six months. For apartments and industrial buildings, the rates have increased more than 80 percent, according to Reis Inc.

While homeowners are defaulting at almost four times the rate of commercial landlords, the sudden spike in late payments has many industry insiders worried about the collateral threat to the economy and financial system. Nearly \$73 billion worth of commercial real estate loans are in some level of financial distress, according to Real Capital Analytics.

The risk to the economy is unknown, but likely underestimated in the government’s stress test of 19 major banks. The results released last week projected that should the recession worsen, the losses from commercial real estate loans could hit \$53 billion, or 8.5 percent of their overall loan losses over the next two years.

The exercise notably left out the majority of the regional and local lenders, which hold a big chunk of the nation’s \$3.5 trillion commercial property loans on their books and remain vulnerable.

“Because of the severity of the eco-

nomie downturn, now the pressure ... for commercial real estate, is much higher,” said Hessam Nadji, managing director at Marcus & Millichap Real Estate Investment Services.

The economy has forced many businesses to downsize and others like Linens ‘N Things and Circuit City to go out of business. That’s left behind empty storefronts, office buildings and warehouse space.

Landlords are finding it hard to attract new tenants. Increasingly, they are slashing rents or offering incentives like money for tenant renovation. Tenants, likewise, have also become more aggressive about demanding concessions from landlords.

Starbucks, for example, recently pressed its landlords to renegotiate the rents for leases at company operated stores. The coffee chain declined to say what kind of deals it obtained, but said it is pleased with the outcome.

While interest rates have declined, commercial property owners are having difficulty refinancing their loans because credit markets remain frozen.

And that’s what is worrying people like Kyle McLaughlin.

Overall, some \$270.5 billion commercial property loans are expected to come due this year alone, said McLaughlin, a financial analyst for

Next OCA Flagger Training Class Scheduled for May 23rd - Sign up TODAY

The Oregon Contractors Association will be offering the next Flagger Training on November 11th . Be sure to check the expiration dates of all your employees who have their certification. Member rates for the class will be \$80.00, or sign up online today at www.orcontractors.org to receive a \$5 discount on the class. Registration fees will also cover the cost of the course materials provided and the fee for your certification card.



Reis. And it's likely many borrowers won't be able to refinance.

That's what snagged General Growth Properties, the nation's second-largest shopping mall owner. Unable to pay or restructure its debts, the company sought shelter from creditors last month, making it the largest U.S. real estate bankruptcy in history.

Real estate experts are concerned financially strapped landlords from General Growth to General Motors may have to sell property at bottom-dollar prices. On Monday, General Motors said it may sell the Renaissance Center in downtown Detroit, which not only includes the automaker's headquarters, but also hotels, restaurants and more than a dozen shops.

As many homeowners know, sales of foreclosures and other distressed properties can create a downward spiral for similar properties in the neighborhood. Vacant commercial buildings, like vacant homes, also invite vandals and vagrants.

Marcus & Millichap projects U.S. vacancy rates this year for office space will hit 17.6 percent; 10.9 percent for retail; 12.6 percent for industrial; and 7.7 percent for apartments.

Las Vegas accounted for the biggest slice of troubled commercial properties of any metro area.

"Twenty-four percent of the Las Vegas commercial market is in distress," said Jessica Ruderman, a senior market analyst with Real Capital Analytics.

Apartments account for most of Sin

City's troubled properties. The only market that even comes close to is Detroit, with 20 percent of its commercial properties in distress.

On Friday, Fannie Mae said apartment building loans that were at least 90 days past due almost quadrupled between December and March to a rate of 0.34 percent.

As a result, Fannie Mae's credit-related expenses for apartment loans jumped to \$542 million from \$59 million at the end of last year. The company said its troubled loans are concentrated in Florida, Arizona, Georgia, Texas and New York.

Apartment loans are expected to rise further as unemployment

climbs, leaving landlords struggling to fill vacancies and make their mortgage payments.

"The apartment market really trails the economy; we're just now in the midst feeling the effects of these extreme job losses that started back in October of last year," Nadji said. "And even if the job losses were going to stop tomorrow, the ripple effect will take a few months to show up in the commercial markets."

This article was written by Alex Veiga and published in the Daily Journal of Commerce on May 12th, 2009. Republished with permission of the DJC.

ODOT Industry Leadership Meeting Update

In the recent Oregon Industry Leadership meetings, much attention and thought has been given to recent economic troubles and the following stimulus packages. The Department of Transportation has been fortunate to receive a share of this funding which it believes will help to keep the pace of road construction projects moving forward for the foreseeable future.

The Economic Stimulus Package is now being referred to as the American Recovery and Reinvestment Act (ARRA), and \$344 million has been allocated to Oregon. Of that \$344 million, the Department of Transportation will receive \$224

million, local agencies will receive \$100 million, and the remaining \$10 million will go to other transportation enhancement projects. These funds will be a boon to the sustainment of local road construction and contracting industries.

Of the funds that have been allocated to Oregon, the Oregon Transportation Commission (OTC) has already approved \$122 million for use, meaning that your road construction business should begin to see the benefits of these funds if it hasn't already. The remaining approvals will be considered at the March 18, 2009 OTC meeting.

Industry Update



All of the projects that arise because of these funds are expected to be underway by mid 2009 as the deadline to open bids for ODOT projects is June 17, 2009, and the majority of local agency projects will be bid through ODOT with a deadline of March 10th, 2010. Check the bid schedule frequently as local projects are being added and will continue to be added in the near future.

Questions regarding apprenticeship specifications were also raised. Many in industry feel that there continues to be a fair amount of confusion within the ODOT Civil Rights Department that the new apprenticeship specification is craft neutral. Therefore, the apprenticeship training forms need to be modified to reflect that craft neutrality. While it was agreed that the apprenticeship program was going to be race and gender neutral, the current specification requires a contractor to complete a good faith effort in order to use a white male.



During a recent bid opening, the addendum bumped apprenticeship hours by about 1000 hours. A check has now been added by using an average number of hours per million \$, regardless of work type. Industry

has also requested that ODOT take out flagging and pilot car hours from the total figure.

Contracts now include specifications to require that contractors have a replacement impact attenuator onsite at all times for repairs. Most of the time, there is no need for the attenuator, which causes unnecessary expense on Oregon projects. Contractors are also currently required to build the cost of the spare attenuator into the bid price, although the attenuator may never be used. If the barrel is not kept on site, specifications require that it be delivered onsite within 24 hours through a private vendor. This also adds additional costs.

As a solution, industry members suggested that the 24 hour requirement to replace an attenuator be extended, that ODOT maintain and store replacement attenuators in yards throughout the state, and that the "Repair Temporary Impact Attenuator" bid item be updated to reflect a per barrel basis.

Finally, in light of the current economic struggles, ODOT acknowledge a need to reduce its overhead costs. Reductions in department expenditures will be accomplished in the following ways:

1. Managers will be required to take a certain amount of furlough days in the coming months.

2. Restrictions have been implemented for indirect work and the purchase of new equipment.

3. A hiring freeze will be implemented in which vacant positions will remain until the 2009-2011 legislative budget is approved.

4. The above measures are being taken to reduce overhead costs; no restrictions have been placed on direct project costs of any kind.



Sign up today to become a member of the Oregon Contractors Association and enjoy the various benefits that come with membership. Learn more about our services offered to the contracting community including insurance benefits and networking opportunities.

Phone: (503) 393-3535

Fax: (503) 390-3498

Email: admin@orcontractors.org