

CONSTRUCTION INSIDER

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SAVE THE DATE!

UHY LLP's Construction Outlook 2015 will be held on Wednesday, October 22, 2014.

A playback of last year's seminar can be found in our video library. You can also download an electronic copy of the presentation slides. Just visit our website, go to the industry drop down menu and select Construction, and scroll through

the "thought leadership" section on the right-hand side: <http://uhy-us.com/Industries/Construction>.

To pre-register, please email Jessica Dalessandro at jdalessandro@uhy-us.com.

We hope to see you in October!



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of service*

MDOT To Increase Road Spending And Raise Fuel Taxes



With the extreme winter experienced during early 2014, lawmakers in Lansing could no longer put off the Michigan roads and the funding system used for their construction. In early May, the Michigan House of Representatives voted to permanently shift money from the general fund to transportation spending in an effort to increase the annual spending on road construction. In the past, the state has used one-time budget proposals to patch the problems with the roads without a plan for a permanent fix. The House panel has agreed to spend at least \$450 million annually beginning in the summer of 2015 with gradual increases over time. Under the new proposal, the state will bid out contracts for road and upkeep. Contracts in excess of \$5 million will require warranties that will obligate contractors to maintain the roads after construction.

While the initial implementation calls for \$450 million in 2015, that is not the ceiling of advocates of this bill, as Governor Rick Snyder has stated that

this is only about one-third of what our roads need to be revived. This was starting point for what was designed to reach \$500 million annually by 2018. This was an effort to present a solution to a road problem that has been experimented with many “all or nothing” attempts that have not fixed the problem.

With a steady budget dedicated to the road going forward, the question is, where will the funding come from? A major part of the proposal is to shift money from the general fund to transportation. So, additional revenues will not actually be generated, but funds will be shifted to support the roads. This is perhaps the most scrutinized element of the plan, as it takes money away from the general fund. The state would also revamp the tax on unleaded gasoline and diesel fuel. Currently, the tax on unleaded gasoline and diesel fuel is 19 cents per gallon and 15 cents per gallon, respectively. This proposal would set a flat rate wholesale tax of 6% of sales

on both unleaded and diesel, which will rise with inflation. The restructuring of the tax on diesel fuel alone would increase tax dollars by \$47 million next year. This bill also attempted to increase permit fees for overweight and oversized vehicles which do the most damage to our roads. While this seems to be a strong dedication to a road problem that has been approached with a short-term focus in the past, this is not the end to a problem.

As previously stated, Governor Snyder believes \$1.2 billion annually will be required to bring our roads back up to speed. Others believe another \$2 billion is more realistic. While \$450 million is a sign that everyone agrees there is plenty of work that needs to be done, it is pretty clear that it is not enough. By shifting funds to be spent on the roads from the general fund, it is clear that lawmakers are afraid to increase taxes for residents and businesses. Most people know that while it may make some residents happy by not raising taxes, a greater commitment will be required to fix the problem. With the current state of our roads being particularly obvious following the severe winter we just experienced, this plan is a good start but lawmakers are merely kicking the can down the road until they are willing to commit the funds necessary to fix the problem permanently.

On June 12, 2014, Lawmakers failed to pass the bill that would dedicate long-term support to our roads. While the recently passed budget includes a \$285 million increase for road work, the billion dollar increase and increase in fuel taxes was shot down. The main reason for the failure to launch is the fact that the bill is accompanied by a homestead property tax cut for low and middle income families. While the problem with our roads will not go away without attention, increased spending will be shelved until lawmakers reconvene in September. While everyone agrees something needs to be done, it appears that it will be postponed until after the election year.

The Search For Skilled Labor Continues



The tables seemed to be turning as not long ago Michigan was facing one of the largest unemployment crises in the history of the state. Arising from the aftermath of the recession, a new problem surfaced as local construction and trade companies struggled to find skilled workers to keep up with the growing demand of new business, a struggle that is still present today.

From 2008 to 2010, the unemployment rate in Michigan nearly doubled as many industries had to lay off employees and/or cut expenses to adjust to the pull back in consumer spending. There was no other industry more impacted by this than the real estate industry, which left many skilled Michiganders from construction and trade companies looking elsewhere for work. According to an article in the Detroit Free Press, "an estimated 60,000 carpenters, remodelers and other skilled tradesmen and women in the state's residential construction sector were put out of work when the real estate market collapsed construction stalled". But now just four short years later, the real estate and construction markets have made a comeback and unemployment rates are the lowest that they have been since before 2008, indicating that Michigan business is on the comeback. With the abrupt increase in business, this has many local contractors and business owners searching for skilled

tradesmen and women that once were in abundance but have now left the trade or the state.

One could argue that with Michigan's unemployment rate still over seven and a half percent, and being fifth highest in the country that no business should be struggling to find employees, that it was their skill, experience, and expertise in the field that made these men and women so valuable. A man from South Haven, Michigan argues the same reasoning as the Detroit Free Press and states "there is labor out there, but not for the quality of work we do". With many business owners in the construction field attempting to find experienced well trained employees the demand simply outweighs the population of qualified applicants, it may be time for business owners in the construction field to start exploring other solutions.

Demand is high for skilled tradesmen and women but the labor pool and interest in these jobs is becoming progressively low, causing local companies to seek alternative options. Some believe that immigration reform may be the answer as the American work force continues to concentrate on higher education and stray away from manual labor. But others are taking it in their own hands to build qualified employees by increasing funding for

apprenticeship and internship programs. Due to the lack of experienced employees, companies are recruiting applicants at younger ages and offering positions they might not otherwise have been looking for. Mark Stevens, vice president of Diversified Tooling, discusses their internship program strategy, "we expose them to areas of trade during the summer and make them an offer before they'd be out looking for a job".

With the future in the construction and real estate industry looking up, the need for experienced well-trained employees becomes increasingly more important. But the fact is that this may not be a short term complication, as some studies suggest that this problem is only going to increase in upcoming years. A quote from Constructor magazine highlights the seriousness of this shortage "during the next decade, the United States will need three million workers to fill jobs that do not require a high school degree. But only 1.7 million new workers, skilled or unskilled, will enter the labor force in these years".

While business in the state of Michigan may be improving, new problems are beginning to surface for local businesses. It is becoming increasingly more important and challenging for owners to find key skilled employees they can rely on to complete everyday work in the growing construction field.



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Nation's First Construction-Themed Park Set To Open



With the grand opening held on June 14, Diggerland USA is the first theme park based on construction equipment in the United States. The park is open to all ages and gives patrons a chance to operate construction equipment as well as ride on construction equipment-based rides. It features more than 20 pieces of construction equipment, some that have been altered to become thrill rides.

The new park is located in West Berlin, New Jersey, but is based off of an idea developed in the United Kingdom. There are four different theme parks with the same name located in the UK that feature similar type rides and attractions. Although the parks have the same name and similar rides, they will have different owners. The US version is opened by Ilya Girlya and his family who also own and

operate Sahara Sam's, a nearby water park.

The rides are all made out of real construction equipment that has been altered to accommodate the rides and increase safety. Machines that can be driven have been equipped with safeguards to prevent them from moving too fast and machines that are used for digging cannot be driven. Some of the rides include the Spin Dizzy, the Dig-a-Round and the Sky Shuttle. The Spin Dizzy is a JCB JS220 excavator that spins riders around while lifting and lowering them in a modified bucket. The Dig-a-Round, as you could guess, is a JCB 8065 that has been modified into a merry-go-round. The Sky Shuttle is a ride that lifts riders fifty feet into the air. In addition to thrill rides, the park offers

visitors the opportunity to get behind the wheel of different excavators, drive a backhoe through an obstacle course, and there are even mini Land Rovers that kids can drive on a mini race course. There will also be other attractions including re-designed carnival games, a duck pond and bowling with a small excavator.

The owners have said that with the positive response to the park's grand opening, they plan to begin expanding halfway through the first season that they are open. They are also planning on expanding to different parts of the country to offer this unique experience to patrons all over the United States.

Diggerland USA is now open with full day tickets costing \$35 each.

CONSTRUCTION INDUSTRY INSIGHT

UHY LLP's National Construction Practice is comprised of the country's foremost experts in regards to audit and assurance, tax planning and compliance, and business advisory services for the construction industry. We work with a wide range of key industry segments including general contractors, underground contractors, underwater construction, tunnel, and bridge and heavy highway contractors.

As active members of various national, state and local construction associations, state housing councils and specialty trade groups, our team keeps alert to industry trends and opportunities. Our

professionals are leaders in the industry and take the steps necessary to ensure our client's future success by identifying and addressing new accounting requirements and regulations. You can depend on us to anticipate major industry issues that might impact your company and help you structure workable solutions.

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