



CERINI & ASSOCIATES, LLP | CERTIFIED PUBLIC ACCOUNTANTS  
PRESENTS

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**BRINGING A UNIQUE UNDERSTANDING OF KEY ISSUES FACING CONTRACTORS**





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## CHALLENGES PAVING THE PATH TO 2024

**W**ith about a quarter of 2024 behind us, there are mixed economic indicators facing the construction industry. Inflation is coming under control, interest rates have remained high, supply chains have eased a bit, and unemployment is on the rise, even in the construction field.

Entering 2023, the construction industry celebrated a commendable 7% increase in nominal (*not impacted for inflation*) value added and a 6% rise in nominal gross output compared to the previous year. The third quarter of 2023 saw nominal construction spending maintaining a consistent upward trajectory. However, amidst these positive indicators, a closer look reveals challenges that demand attention. While the nominal figures point to growth, trends in real GDP data from 2022 suggest that much of the industry's topline expansion is driven by price inflation rather than volume. The construction sector grapples with ongoing inflation, coupled with volatility in material prices and escalating labor costs. The persistent shortage of skilled labor adds another layer of complexity, impacting overall sector productivity. High interest rates and tighter lending standards further contribute to the challenges faced by construction companies.

### CHALLENGES PAVING THE PATH TO 2024

#### PERSISTENT CHALLENGES:

- 1. INFLATIONARY PRESSURES:** *Continued inflation poses a threat to the industry, affecting both material costs and overall project expenses.*
- 2. LABOR SHORTAGES:** *The shortage of skilled labor persists, requiring strategic workforce management and recruitment efforts.*
- 3. MATERIAL PRICE VOLATILITY:** *Fluctuations in material prices add uncertainty to project cost estimations and profit margins.*
- 4. HIGH INTEREST RATES AND TIGHTER LENDING STANDARDS:** *Economic factors such as high interest rates and stringent lending standards pose challenges to construction activity.*

### GLIMPSES OF HOPE: OPPORTUNITIES IN 2024

#### LEGISLATIVE BOOST AND CONSTRUCTION CONFIDENCE:

Looking ahead to 2024, there's a potential boost awaiting the construction industry. Funds from key legislations—the **Infrastructure Investment and Jobs Act (IIJA)**, the **Inflation Reduction Act (IRA)**, and the **Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act**—passed in 2021 and 2022 are expected to flow into the industry. This infusion of funds could particularly benefit manufacturing, transportation infrastructure, and clean energy infrastructure.

#### CONSTRUCTION CONFIDENCE:

Despite the challenges, construction confidence remains high. **The Associated Builders and Contractors (ABC)** identifies expectations for an increase in profit margins and staffing levels in the first half of 2024. This optimism suggests that industry stakeholders anticipate overcoming challenges and capitalizing on emerging opportunities.

### STRATEGIES FOR SUCCESS IN 2024

#### 1. STRATEGIC COST MANAGEMENT:

Given inflation and material price volatility, strategic cost management becomes pivotal. Implementing efficient project cost tracking mechanisms can aid in maintaining profit margins.

#### 2. WORKFORCE DEVELOPMENT:

Addressing the skilled labor shortage requires proactive workforce development strategies, including training programs and collaboration with educational institutions.

#### 3. TECHNOLOGY INTEGRATION:

Embrace construction technology to enhance productivity and project efficiency. Digital tools and construction reporting software can streamline processes and mitigate challenges.

#### 4. LEGISLATION-DRIVEN OPPORTUNITIES:

Stay informed about legislative developments and position your company to leverage opportunities arising from infrastructure-focused legislation.

As we navigate the complexities of 2024, collaboration and adaptability will be key. Together with your accounting partner, we are committed to providing insights and support to help you overcome challenges, seize opportunities, and build a resilient future for the construction industry.





# 9 STRATEGIES TO RETAIN TOP TALENT IN THE CONSTRUCTION INDUSTRY



**A**pproximately 7.8 million people are employed by the construction industry, as of January 2023 — that’s about 2.9% of the U.S. workforce. Despite being a significant contributor to employment, the construction industry faces a unique challenge with an average annual turnover rate of 65%, as of 2021. Retaining talent in this sector goes beyond competitive paychecks. It involves prioritizing safety, effective communication, and providing ample opportunities for professional growth. Here are nine essential strategies to ensure your construction business retains its valuable workforce:

## 1. PRIORITIZE SAFETY AND WELL-BEING

In the physically demanding and often hazardous conditions of construction work, employee safety should be a top priority. Implement comprehensive safety training programs, establish clear safety protocols, and promote a safety-conscious culture. Regular safety meetings and toolbox talks can empower employees to actively participate in ensuring a secure work environment. By demonstrating a commitment to the well-being of your workforce, you contribute to their job satisfaction and overall retention.

## 2. FOSTER EFFECTIVE COMMUNICATION

Open communication channels are crucial for building a collaborative and inclusive work environment. Create platforms where employees feel comfortable sharing ideas, concerns, and feedback. Regular team meetings, toolbox talks, and project debriefs can enhance transparency and ensure everyone is on the same page. Utilizing messaging apps can facilitate real-time communication, increasing transparency and building a sense of community among your construction workers.

## 3. PROVIDE GROWTH AND DEVELOPMENT OPPORTUNITIES

Investing in the professional growth of your construction workers is a key retention strategy. Engage in conversations with employees to understand their career aspirations, whether in project management, site supervision, estimating, or specialized trades. Align training programs with real business priorities and offer mentorship programs to support their career development. By demonstrating a commitment to advancing their skills, you create a workplace where employees see a clear path for their progression, reducing the likelihood of seeking opportunities elsewhere.

## 4. CREATE A POSITIVE WORK ENVIRONMENT

Cultivate a collaborative and inclusive work environment that values diversity. Encourage cross-functional collaboration, embrace diversity and inclusion, and organize team-building activities to strengthen relationships. Recognize and celebrate achievements in the workplace, whether through formal recognition programs or simple gestures like company-wide newsletters. A positive work environment fosters job satisfaction and a sense of belonging, contributing to overall employee retention.

## 5. IMPLEMENT A PERFORMANCE-DRIVEN CULTURE

Establish a performance management system that recognizes and rewards top performers. Actively manage low performers to maintain a high-performance team culture. Engage employees through surveys or focus groups to understand their preferences regarding recognition and rewards. By creating a culture of peer recognition and consistently acknowledging employee contributions, you motivate and retain skilled construction workers.

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## 6. ON-BOARD EMPLOYEES INTO A POSITIVE WORKPLACE

When you consider the fact that approximately 30 percent of the total construction workforce will be 55 years or older within the next year, it becomes clear that any future retention efforts will have to include new hires, too. You can only retain your older workers for so long before they're forced to hang up their hard hats for good. This makes attracting and retaining new hires a mandatory practice.

The key is to commit yourself to employing a positive on-boarding experience that prepares workers for a long, successful career in construction. This process should also help your company prepare to take on new employees. When both sides of the on-boarding process are working together, it can lead to happier workers who don't throw in the towel after their first challenge on the project site. Some effective on-boarding practices include:

- ▶ *Prepping your workplace culture for new employees*
- ▶ *Investing in interpersonal skills training for existing workers*
- ▶ *Providing "reading literature" between the time you offer a candidate a job and they accept it*
- ▶ *Making a phenomenal first impression*
- ▶ *Debriefing workers after their first day to learn about their experience*

By following these tips, you can help your new workers feel important from the beginning. Nobody wants to feel like they've been "left out to dry" on their first day, and reinforcing the idea that you, as an employer, care for your workers helps you secure your position in the "cool boss" category.

## 7. UTILIZE A 90-DAY REVIEW PERIOD TO GAUGE WORKERS

When it comes to the implementation of a 90-day review period, the benefits are twofold. First and foremost, this system allows you to gauge a worker's strengths and weaknesses. This allows you to assess the best role for them on your team and ensure that they are an effective worker while simultaneously giving you time to determine whether or not they will be detrimental to the success of your projects. Second, a 90-day review period gives you time to build out your workforce in compliance with federal laws. For example, contractors with more than fifty full-time employees must follow certain regulations related to time tracking, recordkeeping, and more.

If you're going to utilize a 90-day review period, be sure to commit yourself to building out a real program that can help new workers succeed. All too often, we hear stories about 90-day review periods that didn't benefit the employee at all. They may have been introduced to coworkers and leaders on their first day and tasked with completing a general orientation that covers company policies only to be ushered out to the project site shortly after with little guidance. Failure to provide the necessary training not only leads to ineffective workers, it can lead to incapacitated workers, too. As you know, when your workers get hurt, the **Occupational Safety and Health Administration (OSHA)** will come knocking.

## 8. INVEST IN TRAINING TO BOOST THE VALUE OF YOUR WORKFORCE

Skilled workers aren't going to suddenly materialize out of thin air to save your projects from contractual disputes. Skilled workers must be developed, which takes time, money, and dedication. If you are willing to sacrifice a small portion of your bottom line to offer more training, it could pay significant dividends in the future.

Training helps mitigate risks for contractors by increasing worker safety, reducing risk, and protecting assets. At a bare minimum, your workforce should be trained to:

- ▶ *Recognize risk factors*
- ▶ *Avoid hazards*
- ▶ *Operate machinery*
- ▶ *Utilize the proper **personal protective equipment (PPE)***
- ▶ *Call for help*
- ▶ *Spot potential defects*
- ▶ *Report malfeasance*
- ▶ *Prevent cyber threats*

Not only will you be protecting yourself against potential disputes, OSHA violations, litigation, and more, but you'll also be bolstering the value of your workforce. You can feel good about giving raises and promotions when you know that your team is second to none. We recommend providing various types of training, including on-the-job training, personal coaching, class training, video training, webinar training, and self-paced workbook training.

## 9. UTILIZE COACHING AND MENTORING TO RETAIN WORKERS

Many contractors assume that if they've employed effective onboarding procedures, implemented a 90-day review period, and invested in training, they've done enough to ensure that new workers are successful for years to come. However, developing and retaining skilled workers isn't that simple, and these are only the first steps in a process that could last years or longer. Even when your workers have earned your respect and confidence, offering coaching and mentoring opportunities is crucial to sustain their productivity for the long run.

Coaching occurs when you or another worker in a supervisory role observes an individual's performance and offers suggestions, corrections, and words of encouragement to help them overcome challenges. Coaching is most effective when the coach can offer step-by-step instructions that help a worker nail down a specific process. On the other hand, mentoring involves one individual who possesses extensive experience and wisdom assisting another to realize their potential.

Typically, a mentor is paired with a mentee whom they continue to work with on an ongoing basis to fully develop their skills. In addition to teaching skills, the mentor will also help the mentee understand their place within the workforce and their future possibilities.

By incorporating these strategies, you can create a thriving work environment that attracts, retains, and develops top talent in the construction industry.



# WORKERS' COMPENSATION PREMIUM REDUCTION



In working with clients on workers compensation audits, we have seen instances where the Experience Modification factor utilized to calculate rates was outside the 3-year period being applied or losses being applied at incorrect settlement values. We have even seen losses applied to experience modification factors that didn't belong to the insured. The Experience Modification factor should be reviewed annually as part of the renewal process to determine if it is correct. If a review identifies errors in an Experience Modification factor there may be the ability to go back to prior years premiums generating further savings.

Another aspect that has a dramatic effect on cost is the Worker's Compensation classification or description being applied to a particular risk. While one might think that there is little "room for interpretation" we have found many instances that a risk can be reclassified to a less hazardous code. In addition, some employees within an organization may be re-classified in less hazardous (*less expensive*) codes, reducing Worker's Compensation premiums further.

The most important risk aspect that a construction entity has control over, to reduce the cost of Worker's Compensation insurance, is the "human element." By implementing and maintaining a Safety Program, companies can monitor and analyze their losses. The reduction of losses will have the greatest effect on Worker's Compensation premiums. At SterlingRisk our in-house loss control professionals work with our clients to design and implement safety programs created to reduce and eliminate claims.

**W**ith rising costs due to inflation, escalating salaries, and increased cost of debt, everyone is searching for ways to reduce costs. One area that companies can look at is reducing Workers' Compensation insurance premiums. One component of Worker's Compensation premiums that are not subject to change are the loss cost components that are developed by the Worker's Compensation Board. Each insurance carrier has a Loss Cost Multiplier that is determined by the carrier's own loss experience. Loss costs coupled with the carrier's loss cost multipliers make up the final rates used by each carrier. Given this, there are several areas where there may be significant opportunities for savings.

The initial area to review is the Experience Modification factor. This is a 3-year calculation of a company's claims experience. This factor determines whether a debit (*additional premium charge*) or a credit (*premium reduction*) will be applied, therefore affecting a company's final premium. This factor is extremely important within the construction industry as many public projects or General Contractors will not allow contractors on a job with an Experience Modification Factor above 1.00. If your loss experience is poor, you may find it difficult to qualify for certain projects. Hence it is vital for contracting companies to focus upon their experience modification factor.

In addition, claims reviews should be done regularly. By analyzing the prior losses, adjustments to the loss control program can be made to address the needs discovered by the claims analysis. The goal is to reduce and eliminate losses creating a safer work environment for the employees which will benefit the organization as well.

Some key components of every loss control program for the construction industry must include procedures to combat the "Top 4" construction hazards. The goals are to:

- ▶ *Prevent Falls*
- ▶ *Prevent Stuck-bys*
- ▶ *Prevent Caught-in- or-between Hazards.*
- ▶ *Prevent Electrocutions*

These are exposures that are at all construction sites and should be addressed as a part of your risk management and loss control programs. Effective safety and loss control programs are available, that when supported by top management, can reduce the frequency and severity of the "Top 4" accident types.

While there isn't much that can be done to "drive down rates," there are components of a Worker's Compensation policy that can be addressed to reduce premiums. These include ensuring the EMR is accurate, analyzing losses for trends, conducting periodic claims reviews, and adopting a robust safety and loss prevention program. While cutting costs are surely important, improving safety and reducing claims frequency/severity are crucial to your organization's success.

SterlingRisk is ready to consult with you to identify areas of your risk management process that can be improved. While cutting costs are surely important, improving safety and reducing claims frequency/severity are crucial to your organization's success.



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