

Making the 2008 Stimulus Act Work for Your Business

On February 13, 2008, President Bush approved the Economic Stimulus Act of 2008 in an effort to boost a slowing economy. Aside from the issuance of economic stimulus checks for individuals, the Act also has important implications for businesses looking to make capital expenditures in the near future.

Let's review the highlights for businesses:

- A business making qualifying capital expenditures in 2008 will be permitted to expense up to 50% of the depreciable basis of that property on their 2008 tax return. The depreciable basis is considered the value of the property after Section 179 depreciation but before regular depreciation. It can be very beneficial for a business to make capital purchases in 2008 rather than waiting until subsequent years.
- Businesses that utilize Section 179 depreciation can expense the entire amount of a capital expenditure in the year of purchase, rather than over the life of the asset. For 2008, the limit on Section 179 depreciation was \$128,000. The Economic Stimulus Act of 2008 increased that limit to \$250,000. This new limit is reduced by the amount of Section 179 property placed into service

during the year that exceeds \$800,000. That threshold was originally \$510,000.

- Limitations on annual depreciation of automobiles placed in service during 2008 were also increased by the Act. Depreciation of up to \$11,060 will be allowed on passenger cars and \$12,260 on trucks or vans.

In light of these changes, a business may want to consider making additional capital expenditures or moving planned expenditures from 2009 to 2008 to take full advantage of the special rules.



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Sustainable Growth

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company, the company will not be able to sustain this 15% growth rate and, in turn, will be financially challenged.

If an organization keeps little of its income (cash) in the company, and if the company is leveraged (in debt), it should not be a surprise that growth, with its demands for working capital, will strain the organization's cash flow and financial capacity.

In the next issue of PROductivity we'll explore the issues of rapid growth and what you can do to make it work best for your organization. Look for this article in our next issue.



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When Bigger Is Not Always Better Creating Success Through Sustainable Growth

— PART ONE IN A SERIES

Organizational growth is challenging. Gaining market share or growing revenue through increased pricing is difficult for many organizations to accomplish. Except for those organizations that have highly defined expertise or a specialized niche market where margins are strong, rapid growth often leads to financial challenges. It is difficult to imagine that a company offering products the market wants and values can go broke, but it happens. This article focuses on the financial implications of growth when the organization's capital structure is not prepared for it.

Growth over the long term is known as sustainable growth and requires increasing amounts of working capital. Growth creates managerial and financial stress for an organization as its volume increases, its capacity is challenged, and its limited resources become strained. To better understand these challenges, it is necessary to understand the implications of rapid growth. A company's sustainable growth rate is defined best by Robert C. Higgins of the University of Washington as "the rate of increase in sales a company can attain without changing its profit margin, asset to sales ratio or dividend payout ratio. It is the rate of growth a company can finance without excessive borrowing or issuing new stock."

To gain market share, organizations often lower their resale prices. This usually results

in lower profit margins. Lower profit margins restrain cash flow and limit the organization's financial capacity. Organizations have definable financial capacity, and calculating the organization's sustainable growth rate is one way of monitoring that capacity. As volume increases, management must monitor and ready the organization for growth or it can "grow broke" over time.

To calculate an organization's sustainable growth rate (sgr), the following equation can be used:

$$SGR = (\text{ASSET TO EQUITY RATIO}) \times \text{RETENTION RATE OR } SGR = ROE \times (1 - \text{DIVIDEND PAYOUT RATIO})$$

This formula includes two important factors. The first is the retention rate, which is reflective of the company's policies toward dividends and payouts. The second, is the asset to equity ratio, which is reflective of the company's policies toward the use of debt and its capital structure. More simply put, a company's sustainable growth rate is the company's growth rate in equity. The formula for this calculation is: $sgr = (\text{ending period equity} - \text{beginning period equity}) / \text{beginning period equity}$.

If a company has a sustainable growth rate of 5% and it grows at 15% without changing its capital structure (debt to equity ratio) or its dividend policy (the amount of retained earnings), thus keeping more profits within the

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Up Close and Personal

KRISTA M. SALERA, CPA

It's highly unlikely that Krista Salera would ever be considered anything but an overachiever. In both professional and personal endeavors, Krista gives 110%, and has become a respected resource to her clients, peers, and staff members alike.

Krista began her career in accounting with a local CPA firm after graduating from Penn State. She quickly rose through the ranks because of her attention to detail and willingness to tackle even the most complex of clients. Through the years, she has developed auditing expertise in a variety of areas including construction, manufacturing, nonprofit, and governmental entities. Prior to joining McCrory & McDowell in 2007, Krista was the partner-in-charge of the audit practice with a regional firm. With the introduction of new risk-based auditing practices, Krista expanded her role and today serves as one of McCrory & McDowell's experts in risk-based standards and implementation.

But her commitment doesn't stop there. Krista is actively involved in many community activities in Cranberry Township where she resides and recently led the Firm's team for the 2008 Komen Race for the Cure. Additionally, she serves as the Treasurer for both the Pittsburgh Toonseum and the X-Cel Cheer Parent Organization.

In her "free" time, Krista not only manages the constantly changing schedules and activities of her two children and husband, a Pennsylvania State Trooper, but she still finds time to enjoy running and play tennis. Just try keeping up with her!

WORDS OF WISDOM



Overcoming the "Rocks in the Road"

Whether you need to facilitate business negotiations, obtain input from various constituents in your organization, or develop a long range strategic plan, we have found inclusive participation to be crucial to the outcome of an initiative. Strategic project planning focuses on the most critical issues of a project and identifies high leverage directions that enable strategic partners to identify, avoid or conquer the project's challenges – its "rocks in the road". It is our extensive experience with strategic project planning that has helped us, in recent years, as we've entered the world of construction partnering meetings.

Whenever a large, high-profile or potentially controversial construction project is planned, the principal parties involved will schedule a partnering meeting prior to the project's start. The purpose of a typical partnering meeting is to help participants get to know each other, develop a shared understanding of the project's particulars, establish project goals and objectives, and brainstorm solutions to potential problems. An emphasis is placed on participants working

together to define a vision for the project, regardless of whether or not they've worked together in the past. Since the projects that require partnering meetings tend to involve a large number of state officials, engineers, contractors and community groups, it is imperative that these meetings be conducted with open, honest communication at the core of their process. The methods we use to facilitate partnering meetings rely on inclusive participation, teamwork and collaboration. It is only through the development of solutions the entire group can own and implement that the participants can effectively overcome a project's "rocks in the road."



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Work Force Development & RETAINING EMPLOYEES *By James J. Adrian, Ph.D.*

Attempt any construction convention or read any construction magazine, and eventually the topic will arise – the shortage of young people entering the construction industry. Study after study has cited the lack of skilled workers, especially construction supervisors, as the number one problem facing the industry.

There are several reasons for this shortage. One of the main reasons is that elementary and secondary school guidance counselors often steer students away from the construction industry in favor of what they view as more lucrative and secure professions. Regrettably, it happens at the college level as well. However, school counselors cannot shoulder all of the blame. Even successful construction professionals encourage their own children to enter other professions.

The construction industry has unparalleled opportunities when benchmarked against all other professions, but if we are going to be able to recruit and retain America's brightest and most creative individuals, we must focus on new approaches. Here are three options to consider.

Promoting the Positives

All too often, media coverage about the construction industry seems to be bad news. Stories that describe projects behind schedule, accidents on a job site, or construction congestion causing traffic delays certainly do not do the industry justice. There are so many positives that could be cited – the millions of jobs created, the fact that the industry builds things that last,

the fine craftsmanship of the trades, the creativity of the supervisor juggling trades, subcontractors, material deliveries, etc. Often, we are our own worst enemy when we allow an adverse environment to make us forget what is going right!

Growing Your Employees

Profitable contractors know the one thing they offer employees that enables them to hire good personnel and keep them is the ability to learn and the ability to grow in their roles. This means providing employees the opportunity to learn via education, trade show attendance, and developing news skills through multi-discipline education. Education is not only a way of improving the skills of your employees; it can be the means of keeping them. The construction firms that will undoubtedly flourish over the next century are the firms that embrace new technology, new innovations, and knowledge.

Mentoring Program for Employees

Not all construction employees have equal abilities. While some are strong intellectually, others have had the benefit of years of experience. Some are gifted with a personality that would enable them to succeed in any industry. Research indicates that individuals who have either been assigned or have developed an alliance with a mentor in a firm tend to stay with the firm. Those individuals who have not been fortunate enough to have a mentor, often become isolated, feel overwhelmed, develop a sense of insecurity, and may quit.

Mentoring is especially important in the construction industry that needs both individuals who possess knowledge from their years of experience at job sites as well as individuals who have come from a formal learning environment such as a university.

Some firms have struggled to develop a team between the superintendent or foreman and the more formally educated student now serving in the role of a project engineer or project manager. One effective way to overcome any resistance between the two is to create a mentoring relationship. In this situation, you'll find the best of both worlds – the school of hard-knocks meets the school of higher education. It becomes a win-win for everyone.

The construction industry plays a valuable role in the economy today and will likely maintain that role in the future. Through our efforts to develop and retain quality employees who are committed to the profession, we will undoubtedly strengthen the potential of the construction industry for many years to come.

James J. Adrian, Ph.D., PE, CPA, is a Professor of Civil Engineering & Construction at Bradley University in Peoria, IL. Dr. Adrian is a nationally recognized expert in construction productivity and featured exclusively in each issue of PROductivity. For more information on Dr. Adrian's research, contact your McCrory & McDowell representative.