

**Southern Tier Homebuilders and Remodelers
Contractor Improvement Task Force
3/22/19**

STHBRA Task Force

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Phoenix Contruction & Restoration
BSR
Peranich and Shelp Construction

Complaints Received by STHBRA

- Down payments made but work not done
- Faulty construction work: not to code, not to industry standards, lack of knowledge and experience.
- Uncompleted work
- Inability by customers to get defects in the work repaired
- Inability by customers to find or contact the contractor
- Faulty work replaced at the customer's expense
- Difficult legal restitution due to inability to locate contractor and lack of contractor assets if they do

Major Contributor to the Contractor Problem

Our task force identified the **“underground economy”** as the major problem. **Why has it grown?:**

1. **Slow economy** and lack of traditional jobs
2. Ease of entry due to **low equipment, tool and overhead costs**
3. Ease of entry due to **no government licensing** or control of “home improvement” type contractors
4. **Low cost to compete** against legitimate businesses due to:
 - a. Ability to **evade income taxes**
 - b. Ability to **evade workers compensation** costs (typically very high in construction trades)
 - c. Can operate with **no general liability or property damage insurance**
 - d. Ability to **evade unemployment taxes**
 - e. Ability to **evade child support**
 - f. Ability to **evade withholding state tax from employees**
 - g. Ability to **evade withholding federal tax from employees**
 - h. Ability to **evade paying and withholding FICA** from employees
 - i. **Ability to double dip** by collecting government benefits like unemployment, welfare, workers compensation
5. Can request and receive **high dollar down payments**
6. **Can operate without contracts** written to protect the customer
7. **Can avoid the permitting process** due to typically short duration projects
8. **Ability to avoid tax or labor audits** since they are so small, inconspicuous and prevalent

How the U/E operates:

1. Usually a **small operation** of only one or a few or individuals
2. **Other workers paid in cash** and not listed as employees
3. **Little or no reporting of income or wages** paid to taxing authorities
4. Usually require a **sizeable down payment** prior to starting the work
5. Encourages **cash payment** for their work
6. Often is not a **registered business**
7. Often does **not have a fixed or known business address**
8. Often the **only contact method is through a cell phone number**
9. **Often uninsured** with **no workers compensation** or **general liability insurance** to protect the customer
10. Often **does not have the skills, training or knowledge** to perform the work sold or to operate a business
11. Sells their services on being the **lowest price**
12. Often **does not have vehicles identifying the entity** doing the work
13. Often **do not apply for proper permits**
14. Typically **do not provide contracts** to define the scope of work or their responsibilities to the consumer
15. Most **do not know about or comply with the New York State Contract Law** (ie. down payments not placed in an escrow account)
16. Most often **do not understand or comply with trade specific OSHA requirements**

UE Impact on Greater Binghamton

1. Sizeable loss of tax revenue
2. Significant victimization of Greater Binghamton homeowners
3. Inability to identify and collect child support wages
4. Often the most unskilled and unreliable individuals who have been terminated by reliable legitimate contractors

STHBRA Proposed Solution – Contractor Registration Program

Assumptions for the Registration Program to be successful:

1. Cannot be a localized effort of small jurisdictions
2. Critical, though, that local jurisdictions “buy in” to the effort
3. Requirements must be enforceable, by law would be the best option
4. Must be at least cost neutral for governing agency
5. Revenue to be generated by dues from registered contractors
6. Would need to include enforcement by local code and building inspectors and by permitting agencies
7. Would require all work over a certain size (by dollar or scope) to require registered contractors

DRAFT REGISTRATION PROGRAM

Modeled after the Rockland County Contractor Licensing Law

STHBRA Broome County Contractor Registration Proposal

Governed by a 9 member board

5 Chosen by Broome County

Legislator (chair)

Architect

Engineer

Code Inspector

At large

4 Chosen by STHBRA

(Note – One of the nine should represent the insurance industry)

Application requirements

1. In person interview
2. Exhibit competence and qualification
3. Liability insurance required, min \$500,000 naming Broome County as additional insured.
4. Must provide Child Support Certification form
5. Valid NY State tax ID number
6. Workers comp. per C-105.2 form

7. Or CE-200 if comp. not required
8. Disability coverage per DB 120.1 form
9. DMV registrations for all vehicles

Maintaining Registration

- County to maintain database
- Registration number prominently displayed on vehicles, on job and place of business
- Registration fee must be current
- Must complete jobs
- Comply with codes and safety regulations
- Customer cannot waive registration requirements
- Must comply with NY State Contract Law

Enforcement

- Criminal fines <\$1,000 or 1 year imprisonment
- Civil fines <\$3,000
- Contractor equipment can be impounded



**Underground Economy
Problem**

Financial Examples – Employee Takehome Pay

	Legitimate	Underground
Wage on the books	\$20.00	\$20.00
Payroll Deductions		
Fica	-0.84	-
Medicare	-0.29	-
Federal Withhold	-1.00	-
State Withholding	-0.80	-
Disability	-0.03	-
Pocket Wage	\$17.04	\$20.00

Summary – a worker can make \$3 more per hour if he enters the underground economy



**Underground Economy
Problem**

Financial Examples:

BUT THAT'S NOT ALL!

The current construction workforce is typically blue collar and especially in the physically tougher trades, they are younger.

Right now, in my company's current workforce, 38% pay child support

If employee is delinquent, Child Support can garnish up to 50% of employees net income.



**Underground Economy
Problem**

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State Withholding	-0.80	-
Disability	-0.03	-
Child Support Wage Garnishment	-9.02	-
Pocket Wage	\$8.02	\$20.00

Employee quits because ~\$12 more in pocket if he works in underground Economy!



**Underground Economy
Problem**

Financial Examples:

BUT THERE'S EVEN MORE!!!

Most construction insurance providers are now requiring **drug testing** before making a job offer.

A large percentage of BSR applicants cannot pass the drug test.

So where do they then go to work??



Underground Economy Problem

Legitimate Employer Costs:

Lets start with the current wage	20.00
Then lets start adding req'd addl' costs	
FICA	1.42
Unemployment Insurance	.70
Workers Compensation	3.85
Liability Insurance	.04
Disability Insurance	.10
	26.11
Holiday Pay*	.62
Vacation Pay*	1.07
Health Insurance Employer Contr.*	<u>3.00</u>
Total	30.80



Underground Economy Problem

Financial Examples:

Employers may be paying an additional 50 cents for every dollar of wages paid on the books!