

Outsourcing Paperwork With a PEO

Few people are enthusiastic about paperwork. Especially builders, who typically entered the trades in the first place because they prefer working with their hands to sitting behind a desk. For them, the increase in clerical work that comes with more and bigger jobs can seem more like a form of punishment than a sign of success.

But a growing number of small and medium-sized builders have found that they can scale back the time and effort they spend on routine business-management tasks by entering into what's known as a co-employment relationship with a professional employer organization, or PEO. The business model is not specific to builders. PEOs have been around since the 1980s and are used by all sorts of small businesses, from medical offices to retailers and manufacturers.

The ABCs of PEOs. In a nutshell, the arrangement works like this: When a client company signs a contract with a PEO, all of the company's employees — including the company owner — legally become the employees of the larger organization. Although the company remains in control of its own hiring, firing, and day-to-day business operations, the PEO assumes responsibility for payroll, unemployment insurance, and the administration of employee benefits.

The co-employment relationship is sometimes described as "employee leasing," because the PEO serves as the employer of record but effectively "leases" the employees back to the client company. In return for taking over a large share of the client company's routine paperwork, the PEO charges a fee, typically in the range of \$1,000 to \$2,000 per employee per year.

Outsourcing payroll. Havertown, Pa., remodeler Lino Carosella has worked with two different PEOs in the past four years and has been largely satisfied with the results. "It makes payroll a lot easier," he says. "Our employees hand in their time sheets to us on Friday, and on Monday we review them and send them in to the PEO. On Thursday, I get a payroll report and invoice from the PEO, and paychecks get direct-deposited on the next Friday." Carosella finds the payroll reports particularly useful for job-costing. "They let you track things down to the level of 'John Doe, Smith job, caulking, five hours,'" he says.

A PEO also streamlines the paperwork associated with state worker's comp insurance. In Pennsylvania, Carosella observes, businesses are required at the beginning of each year to file a report that's used to calculate the company's expected worker's comp payments. At year's end, the insurer performs an audit and sends a bill for any shortfall — if, for example, an additional employee was hired during the year. "You've still got to make the payment in that case," Carosella explains, "but you don't have to deal with the audit. The PEO handles that."

Someone else's problem. The reduction in paperwork is only part of the story. Because the PEO is the employer of record and files payroll taxes under

■ Builders in Florida are questioning a newly released document from the NAHB that offers guidance on dealing with defective Chinese drywall. "Imported Problematic Drywall: Identification Strategies and Remediation Guidelines" is supposedly the product of more than a year of research on the part of an association task force. Unlike previously issued drywall-remediation guidelines from the federal government — which recommend removing and replacing all wiring in affected homes — NAHB's guide advises replacing only low-voltage wiring and corroded portions of high-voltage wiring. That's raised more than a few eyebrows in Florida, where problems associated with the drywall have been particularly widespread. "It's a whitewash," one Sarasota construction consultant told the *Bradenton Herald*. "It's a problem and they're looking to limit their exposure."

■ A Milford, Conn., painting contractor, Permanent Siding and Windows, has agreed to pay \$30,702 to settle claims by the EPA that it failed to provide lead information pamphlets to at least 17 owners or occupants of homes where it performed renovation work between January 2006 and March 2009. The action is not directly related to the new Renovation, Repair, and Painting rule — which became effective in October of 2010 — but it does suggest the extent to which lead safety continues to be a priority for the agency. An EPA representative told *JLC* that the agency is "receiving a large number of tips about possible violations" of the RRP and is "responding to those tips that provide sufficient information as quickly as our resources permit."

its own taxpayer ID number — rather than the client company's — it assumes legal liability for any errors or omissions in payroll taxes and unemployment insurance, leaving the client company in the clear. Given the complexity of tax and insurance regulations, that eliminates a source of potentially costly errors.

John Price, a commercial and residential remodeler based in Merced, Calif., joined a PEO more than a decade ago — and he wishes he'd made the jump even earlier. "Before we started working with the PEO, we made a \$5,000 mistake on our worker's comp payments," he says. "That came out of our pocket. If the PEO had done the same thing, it would have been their problem, not ours."

Human resources and employee benefits. Although client companies continue to do their own hiring and firing, the larger organization can serve as a sort of off-site human-resources department. "The client company can send its new hires to the PEO to fill out paperwork and get set up for direct deposit of payroll," says Joe Cole, president of the National Association of Professional Employer Organizations (NAPEO). "The PEO can also provide all types of employee handbooks and training materials, and can do background checks and drug testing if the client requests it."

Most PEOs offer a menu of employee benefit packages — including medical and dental insurance and retirement plans — that can be customized to meet the needs of client companies. "We have six employees, but because we offer health insurance and a 401(k), we seem like a much bigger company," says John Price. "It makes it easier to attract good people, because no one else in town provides those things."

Price has found that his company's PEO-provided employee benefit package is somewhat cheaper than it would have been if he'd purchased it directly, partly because PEOs — which may have tens of thousands of employees — can benefit from economies of scale not available to small businesses.

However, businesses shouldn't count on this advantage, Cole cautions, because it's not always part of the deal. According to him, joining a PEO isn't about "cheap benefits" anyway. "The value of a PEO is that it allows you to outsource the noncritical stuff so you can focus on your core business," he says.

What will my customers think? A common concern of builders who are considering this business arrangement is how to explain it to customers. But Carosella says the issue seldom comes up. "The only time it might is when you're showing someone your certificate of insurance," says

Carosella. "If anyone asks why there are two company names, I just say it's because our employees are paid through a payroll service. There's really no reason to get into a complicated discussion about it."

Finding the right fit. According to NAPEO, there are now about 700 PEOs operating in all 50 states. Builders interested in joining one should spend a little time doing some research before making any commitments. It's like choosing a plumbing or electrical sub — ask for references and keep looking until you find the right fit. Carosella's initial experience with a PEO, he says, left something to be desired.

"The first company was okay," he says, "but we had a difficult time getting some of the reports we wanted. It was mostly stupid little things, but it made me feel like they were a big factory." Two years ago he switched to another organization, and there have been no such communication problems since.

Of course, the need for good communication goes both ways: Because a PEO assumes legal liability for some aspects of a client company's business, it needs complete and accurate information about the client's activities. "You have to be committed to running a legally compliant business," Cole says. "The co-employment model isn't a good choice for companies that like to live in the gray areas." — *Jon Vara*

Venerable High School Building Program Faces Closure

A 40-year-old home-building program at a Bristol, R.I., high school that has served as a gateway to the building trades for generations of area builders is at risk of closing, a victim of the housing slump and — some builders have charged — indifference on the part of school administrators.

What is now the Mount Hope High School Building Project had its beginning in 1971, when the local Bristol County Builder's Association joined forces with the school's industrial technology department to create a program aimed at providing students with

real-world building experience. Because funding was not forthcoming from the school itself, the initial project was financed by IOUs from local lumberyards and a developer who provided the building lot.

The proceeds from that initial project were used to fund another project the following year. That pattern continued from one year to the next, with the school and builder's association eventually forming a nonprofit corporation that still exists today.

Enrollment in the building program has declined in the past

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several years, however, and the school has not built a complete home since 2005, with participants instead focusing on smaller remodeling projects. This spring, school administrators quietly moved to drop the home-building class from the curriculum. “Unless there were a substantial change in something, whether it be the job market or student interest, I would think the chances that it would be included is small,” school superintendent Melinda Thies told the website EastBayRI.com.

The move has prompted an outcry from some area builders, who point out that many of the 1,000-plus students who attended the program have gone on to become capable and successful builders within the community.

“My question is, ‘What’s the downside?’” says Bristol general contractor and remodeler David Prenda, whose son and business partner took the home-building class. “It doesn’t use any taxpayer funding. It has money in the bank. It prepares kids for good jobs.”

Rhode Island Home Builders Association director of education and workforce development Joanne DiGregorio agrees, noting that the average builder in the state is 54 years of age.

“Where are the new builders going to come from?” she asks. “This has been a great program for the tactile learners who would otherwise be at risk of dropping out of school. We’re still in a downturn, but that’s a cycle. People need to realize how important the trades are.” — *J.V.*

■ The Oregon Reach Code Committee, which develops the state’s upcoming building code, has adopted an amendment that allows commercial buildings certified under the Passive House standard to automatically meet the applicable state energy code. According to local reports, the committee is likely to take similar action on Passive House-certified residential structures as well. If the new reach code is formally adopted by the Oregon Building Codes Division later this year, as expected, it will mark the first time that the demanding energy-efficiency standard has been referenced in a U.S. building code.

■ Despite dramatic increases in the energy efficiency of home appliances and lighting, U.S. households are using about the same amount of energy they were 30 years ago, according to a recently released survey from the U.S. Energy Information Administration. That’s partly a result of increased population — the country has gained nearly 35 million households since 1978 — but it’s also because Americans are using many more power-consuming devices of all kinds. Take air conditioners. Even though the efficiency of individual units has improved, energy use by air conditioners as a whole has increased because so many U.S. households now have them: 61 percent, compared with just 23 percent in 1978.