



HBA News

A publication of the
Home Builders Association of West Michigan
April 2009

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Classes Offered

Looking to take a class and
expand your knowledge?
Check out our website for
dates, times and costs of
classes being offered in our
area.

Meeting Notice

April 2, 2009

The Brown Bear in Pentwater

Board meets at 5:30pm

Social begins at 6:30pm

General Membership meeting at 7pm

List of Upcoming Events

2009 Parade of Homes

Open to Builders & Remodelers

August 14, 15 & 16

Meeting Dates & Locations

April 2nd – The Brown Bear - Pentwater

May 7th – The Brown Bear - Pentwater

June 4th – location TBA

July 2 – location TBA

August 6 – location TBA

September 3 – location TBA

October 8 – location TBA

November 5 – location TBA

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Executive Officer
Allison Henley

Education Available in April 2009

April 10, 2009	Business Management for Building Professionals <i>(qualifies for 6 hours Business Management, Estimating & Job Costing and 1 hour Electives for the 60 hour prelicensure required courses for licensing in the State of Michigan)</i>	HBA of Greater Kalamazoo
April 22, 2009	Business Management for Building Professionals <i>(qualifies for 6 hours Business Management, Estimating & Job Costing and 1 hour Electives for the 60 hour prelicensure required courses for licensing)</i>	HBA of Greater Grand Rapids
April 23, 2009	Estimating for Builders and Remodelers <i>(qualifies for 6 hours Business Management, Estimating & Job Costing and 1 hour Electives for the 60 hour prelicensure required courses for licensing in the State of Michigan)</i>	Building Industry Association of Southeastern Michigan (BIA)
April 23-24, 2009	Green Building for Building Professionals <i>(qualifies for 13 hours Design and Building Science and 1 hour Electives for the 60 hour prelicensure required courses for licensing in the State of Michigan)</i>	HBA of Greater Kalamazoo
April 30, 2009	Window Replacement	HBA of Saginaw

Tax Benefits Increased on Energy-Efficient Home Improvements

Home owners looking to save money on heating and cooling costs with energy-efficient improvements to their home can also benefit from a newly expanded federal tax credit.

In the recent stimulus legislation signed by President Obama, previous energy-efficiency credits were not only renewed, but were significantly improved. Before, home owners were able to recoup 10 percent of the cost of each approved energy upgrade with the lifetime cap of \$500. The new credit has tripled those amounts to 30 percent and \$1,500, respectively.

According to Energy Star, a joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy, a typical household spends about \$2,000 a year on energy bills. By incorporating Energy Star appliances and other energy-efficient components to your home, they estimate a home owner can save about a third on his or her energy bill. The expanded tax credit money available to home owners on top of these savings is icing on the cake!

"This is an excellent time for home owners to take advantage of these tax benefits to make positive changes in their home that will not only benefit them immediately, but over the long term as well," said Eric Borsting, a California home builder and chair of the National Association of Home Builders (NAHB) green building subcommittee.

What is included?

Tax credits are available at 30 percent of the cost, up to \$1,500, in 2009 and 2010 (for existing homes only) for:

- Windows and doors
- Insulation
- Roofs (metal and asphalt)
- HVAC (heating, ventilating and air-conditioning)

- Water heaters (non-solar)
- Biomass stoves

Tax credits are available at 30 percent of the cost, with no upper limit through 2016 (for existing homes & new construction) for:

- Geothermal heat pumps
- Solar panels
- Solar water heaters
- Small wind energy systems
- Fuel cells

Details on qualifying improvements are available on the Energy Star Web site at www.energystar.gov/taxcredits.

How to Claim the Credits

Home owners can claim the 25C and 25D credits on IRS Form 5695 when they prepare their income tax returns. Be sure to retain records that include:

- Name and address of the manufacturer
- Identification of the component
- Make, model or other appropriate identifiers
- Statement that the component meets the 25C standards
- Climate zones for which the criteria are satisfied
- Additional information for storm windows, if applicable
- Manufacturer's certification – a signed statement from the manufacturer certifying that the product or component qualifies for the tax credit

To find a builder or remodeler in your area to help make your home more energy-efficient, visit the website for the HBA of West Michigan at www.hba-west-michigan.com.

How to Profit From Effective Cash Flow Management

By Steve Maltzman

Cash flow forecasting is one of the key components of a home builder's financial success. If builders don't properly manage their cash flow — if they constantly find themselves taking cash from their current job to cover the sins of a previous job — they will never have a positive bottom line. To break out of this predicament, builders should absolutely make long-term and short-term cash flow planning an integral part of their budgeting process. They should also look at their cash sources and requirements on a monthly basis.

In addition, I also recommend that builders examine their weekly cash inflows and outflows when developing their cash flow planning, and that they incorporate a six- to eight-week rolling schedule.

To Begin, Accurately Detail Your Planned Monthly Expenses

Many builders can lose sight of the details needed for accurate cash flow forecasting when they sit down to develop their annual and monthly operating budgets because they simply identify their annual expenditures and then divide them by 12. This method of forecast planning won't provide a true picture of monthly operations. A more accurate way to plan your monthly operations budget would be to try to identify the month or months you anticipate incurring specific expenses, for example, advertising. You don't spend the same amount on advertising each and every month of the year, so when planning for advertising, try to identify when you plan on running your ads and put those planned expenditures in the appropriate months' projections. If you are planning to have a Yellow Pages ad, for instance, budget for the cost of the ad in the month that the actual expenditure is expected to be made. Once you have identified your anticipated monthly operating expenses, you then need to adjust your total expenses for other cash flow items. Deduct items such as depreciation, since this is a non-cash expense, and add such non-expense related cash items as note payments — the interest portion should be considered as an expense while the principal payments affect cash flow — cash payments of other liabilities, cash purchases for equipment and cash payments for federal and state income taxes. After completing this process, you will have accurately identified the amount of cash you will need each month to operate your company.

Next, Examine Cash Flow from Your Jobs

The next step in developing your annual cash forecast is to look at the cash flow from your jobs. Depending upon the number of units you build, this budget can be prepared by unit or by subdivision. You will need these four elements to accurately develop your job cash flow:

- Draw schedule — whether from your bank or from your customer
- Construction schedule
- Payment terms for your subcontractors and suppliers
- Job estimate

With all of these in hand, you should easily be able to predict cash inflows and outflows for your jobs. Once you combine the cash flow calculations from your jobs with your cash outflows, you now will be able to identify the months in which you anticipate excess cash and cash shortfalls. With this projection, you will be able to accurately make strategic decisions for the year, such as, whether you should develop a line of credit to smooth out your cash flow; whether you should start a spec home to provide cash flow from your construction loan; and whether you should renegotiate payment terms on a note coming due.

Regularly Update Your Monthly Cash Flow Projections

Just as you do with your other financial reports, your monthly cash flow projection should be reviewed and updated regularly. In addition to your monthly forecast, if you have tight cash needs, you also should prepare a more detailed weekly cash flow projection that includes information on which subcontractors and suppliers are to be paid on a job-by-job basis, as well as your weekly cash inflows, including draws and collections of receivables. Also, be sure to update this forecast each week. It will help you identify any weekly cash problems and give you the ammunition you need to discuss new payment plans with your vendors, if necessary.

Cash Management Tips

Developing a cash flow forecast will assist you in planning for your cash inflows and outflows. Following are some tips on managing your cash flow and how to profit from it:

- One of the advantages of the custom building business compared to spec building is that you can use the customer's money to pay off your trades and suppliers rather than using internal funds or construction loans. You should try to always be ahead of the customer and maximize the use of your client's funds by taking a deposit and front-loading your draw.
- If you are front loading your draws, it is imperative that you manage your books on a percentage-of-completion basis. This will enable you to understand and account for overbillings on your jobs. By using percentage-of-completion accounting, you will always know when you are ahead on a job.
- Try to set up benchmarks for payments that correlate to the start of a phase rather than its completion.
- Take advantage of vendor discounts. A 2% discount for paying in 10 days is comparable to saving as much as 72% during the year. Since the vendor would have to be paid in another 20 days anyway, where else could you be earning that great a return?
- Likewise, ask your subcontractors to take a discount if you pay them earlier than the scheduled payment date.
- Set up specific days for paying your bills (e.g. the 10th and 25th of the month) and keep "hand checks," those checks issued outside your specific payment days, to a minimum. You may also want to consider mailing checks on a Thursday in order to take advantage of the "float" over the weekend.
- Set up a sweep account with your bank so that you can earn interest on your excess cash. With a sweep account, your bank will automatically move any amount in your checking account that is above the specified balance needed to avoid bank fees into an interest bearing account. Many banks also will allow you to sweep excess funds into a money market or higher interest bearing account, rather than a normal savings account. I also have found that, with many banks, a builder who has an average daily balance greater than \$35,000 can earn interest income that is enough to offset any bank fees related to having a sweep account.
- Time your larger draws so that you can get money into the bank before the close of business on Friday to take advantage of earning interest over the weekend.
- Time your loan draws to only take them when you are ready to disburse the cash. If you are borrowing money to build a house, you can minimize your construction loan interest by taking down the funds only when you need them.
- Explore the possibility of obtaining a line of credit even though you may not need it at the moment. It is easier to establish a credit line when you really don't need the funds. A credit line will also provide you with flexibility in taking advantage of discounts.
- When setting up credit lines or construction loans, don't be afraid to ask for better rates. In most markets, if you have a good set of financial statements, points and rates are negotiable. Over the years, I have seen more and more builders add worthwhile amounts of interest income, discounts earned and reduced interest expenses to their bottom line through proper cash flow forecasting and management.

Steve Maltzman is a CPA and president of [SMA Consulting](#), with offices in Redlands, Calif. and Orlando. SMA Consulting provides financial and business management services for builders and remodelers. For more information, e-mail [Maltzman](#) in the Redlands office, call him at 909-335-9100 or visit the SMA Consulting Web site at www.smaconsulting.net. NAHB's Biztools (www.nahb.org/biztools) has more than 300 business management resources, organized in a user-friendly way, to help builders improve their efficiency and profitability.

2009 Home & Garden Show

Many people were involved in this year's show and helped make it a success. We wish to thank the following for donating their time and energy to this year's event: Wayne Tanner, Scott Stovall, Ken Terryn, John & Michele Bueker, Dan & Jody Gorenflo, Joe Hayes, Mary Willemse, Chris Gamble. We also wish to thank the vendors for participating in this annual event, which we hope to improve year after year!

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Return Service Requested

The next General Membership Meeting is April 2nd at The Brown Bear in Pentwater. We hope to see you all there! There is no need to RSVP, just show up! Members are FREE, guests are \$15 each.