Wow, This Has Been Fun!

It's too bad that we, as adults, don't express ourselves as children do, but I really don't care. I have really enjoyed these past two years as President of IMSCA. I wish all of you could experience the joy of serving in this way. It has confirmed a belief that I have had for a long time in the book of Acts 20:35. That's the part that tells us “It's more blessed to give than receive”. Thanks for letting me give of my time to hopefully help better our industry. We don't always win the war but we do win some battles and that's good.

A prime example is the work we have done on retention. We won the battle with the House and State Senate but lost the war with the Governor. I like to think that we now have to advance to the rear and fight again. I hope I can be part of that rematch because I believe we can win.

Other victories we have won are examples of why we need to work together. Just look at how we won the Retainage Bill because so many of you participated and worked to promote our interest. It wasn't a quick or easy victory but because we stuck together, we accomplished a great deal. That's part of the fun I speak about. Thanks for all you have done, the battle is not over and we will win the war.

Although we have not won somethings, we have learned from our efforts. As I said, we learn a lot more from failure than we learn from success. We have learned where to pinpoint our next efforts. We have learned the importance of participation, and we have learned that one setback is not the final blow. Every time we work together, we learn that if we succeed, hang on, hang in there and hang together we can accomplish more.

A historian once said, “Those who don't learn from history are doomed to repeat it. Thanks for all your support and allowing me to give back to our industry. It’s been great!

P.S.: Note to Giuseppe…..Go get ‘em, I’m with you all the way.

Officers 2019-2020:
From left to right: Jim Rohlfing (Saul Ewing Arnstein & Lehr, IMSCA General Counsel); Karsten Pawlik (VP of Operations Alipine Demolition, ASA Chicago, IMSCA Secretary); Chad Fricke (President F.J. Murphy & Son, Inc., MCA Central IL, IMSCA Vice President); S.J. Peters (Executive Director PCA Midwest/Plumbing Council, IMSCA Treasurer); Jessica Newbold (IMSCA Executive Director); David Nelson (MCA Chicago, IMSCA Immediate Past President); and Giuseppe Muzzupappa (Assistant Director NECA-Northeastern Illinois Chapter, IMSCA President). Photo Credit: PCA Midwest/The Plumbing Council
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Legislative Representation for over 2,000 Construction Employers
Would Broader Use of P3s Benefit Subcontractors?

Public Private Partnerships or, as they are commonly known, P3s or PPPs, are a method of involving private parties in some or all of the financing, design, construction and operation of traditionally public building or infrastructure projects. Recently, P3s have become a more popular means of constructing or financing public projects. They have received more attention because some states, such as Illinois, are short on public funds and long on the need to repair crumbling infrastructure and deliver necessary public buildings. A P3 might entail a private entity participating in financing, designing, building and operating a facility normally operated and controlled by a local or state government or, alternatively, it might include only some of those steps with a private developer utilizing a public body’s bonding authority or agreeing to accept payment from the operation of a revenue producing asset. An example of a well-known P3 project is the Chicago Skyway, which, in 2005, became the first privatization of an existing toll road in the United States when a private concession company took over its operations under a 99-year operating lease. Because P3s are created by contract, they vary greatly from one state and one project to another.

For that reason, to protect the public, many states have enacted broad enabling legislation that describes the potential uses of P3s as well as the restrictions on their use. Illinois currently has project specific P3 laws, but no comprehensive P3 law to provide direction for government bodies that might wish to use the P3 construction delivery method. In recent legislative sessions, Illinois has entertained but not passed into law enabling legislation and, parties with a stake in the process should anticipate those efforts will continue.

Any comprehensive P3 law should account for the rights and responsibilities of all participants in the construction process, while accommodating the intended beneficiaries of the project and, of course, promoting the interests of the public-at-large. With all those competing interests to weigh, how should such a law consider the concerns of subcontractors? While

“If P3s are properly established with enabling laws ..., the projects are more likely to be successful.”

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Would Broader Use of P3s Benefit Subcontractors? (continued from page 2)

the existing Illinois Public-Private Partnerships for Transportation Act, states a “public-private agreement may” provide for a performance and payment bond, it is not mandatory. Two other project specific enabling laws in Illinois do incorporate the Public Construction Bond Act, but the most recently proposed Illinois bill to enact broader enabling P3 laws does not require a surety bond.

Subcontractors should be watchful that any proposal for a law enabling the broad use of P3s not undercut the rights of subcontractors under existing laws and contracts to: 1) secure payment for work and materials furnished for a project; 2) protect subcontractors and others under public procurement restrictions; 3) mandate prompt payment of invoices; and 4) recognize flow-down responsibilities from higher tier participants in the construction chain.

Construction is almost never paid for in advance and instead, labor and materials are furnished on credit and contractors, subcontractors and suppliers are vulnerable to non-payment. Mechanics liens protect the right to payment on private projects, but mechanics liens are not allowed on public projects. For public projects, almost all states require payment to subcontractors be secured by a payment bond with a surety. Because P3s are a hybrid between public and private, neither liens nor bonds are assured as a means to secure payment. A project built on public land with private money and private control would only protect subcontractor payment if the P3 contract documents required it or if the P3 enabling law mandated a payment bond be furnished on all P3 projects to ensure subcontractors and suppliers be paid for labor and materials furnished. Though a mechanics lien is available against a private party’s leasehold interest in public property, such liens may have limited value and be difficult to enforce. A P3 project is potentially lienable if the property was transferred from the government to the private operator. For clarity, a P3 enabling law should mandate the use of a payment bond on all projects to ensure those who furnish labor and materials get paid. Also, requiring a payment bond will encourage more reasonable bids by subcontractors and suppliers who are more optimistic they will be paid.

Public projects are often bid competitively and subject to complex procurement laws and regulations intended to prevent corruption as well as to promote larger public policy goals. Protection for small and minority businesses and mandating a fair wage are common requirements on many public projects. Some public procurement laws require the use of multiple prime contractors, and others restrict switching subcontractors after bids are submitted to encourage subcontractor participation in the bidding process, and to protect the subcontractors who do participate. Absent a requirement in the law, P3 projects need not comply with well-established public procurement laws, putting the public and the construction participants in peril of seeing private companies evade public policies and procurement safeguards that protect public funds from private plunder.

Most states have laws for public as well as private projects that obligate owners to make prompt payment for work completed and to otherwise enhance payment rights on construction projects, but the protections on public projects are more common and more meaningful. Illinois has a State Prompt Payment Act, a Local Government Prompt Payment Act, and for private projects, a Contractor Prompt Payment Act. The State and Local acts afford better protection to contractors and subcontractors than does the Contractor Prompt Payment Act, but none automatically apply on a P3 project without a clear P3 enabling law to specify which laws apply for the hybrid projects. Thus, to level the playing field for contractors and subcontractors on P3 projects, enabling law should specify which payment protection laws apply.

Finally, a contractor and a developer might understand the rights and responsibilities of the owner and contractor on a unique P3 project, but a subcontractor likely will not. The allocation of risks between owner, developer, designer and other participants in a P3 project vary greatly from one project to another. For a subcontractor, the sometimes onerous provisions in a subcontract would be even more unpredictable in a P3 project. For example, a pay-if-paid provision in a subcontract would take on a much different meaning if the contractor had agreed to await payment until the asset had been in use for several years. Further, standard flow-down provisions imposing duties on an unknowing subcontractor comparable to the unique undertakings by a contractor on a P3 project would be wholly unpredictable. By describing the permissible uses and expectations for P3 projects, the legislature would not only protect subcontractors but, in addition, encourage responsible subcontractors to bid on P3 projects.

P3s offer a promising solution to fund state and local government’s capital programs when those governments would otherwise not have the funds available to repair crumbling infrastructure and build new schools and other structures. If P3s are properly established with enabling laws that consider the rights of all potential parties in the process, the projects are more likely to be successful. By establishing a fair and open process for the use of P3s, the ultimate goal of advancing the public interest will more likely be served.
THOMAS F. MCGUIRE is a partner with Saul Ewing Arnstein & Lehr LLP. His practice is concentrated in the areas of estate planning, probate and trust administration, and taxation. Thomas has substantial experience representing a broad range of individuals, financial institutions and tax-exempt organizations in connection with their estate planning and administration needs. Thomas regularly handles complex issues involving individual and fiduciary income tax, estate, gift and generation-skipping transfer taxes. A substantial portion of his practice is devoted to business and succession planning for family-owned and other closely-held businesses.

According to statistics, only about 30% of family businesses survive to the second generation, and only about 10 to 15% survive to the third generation. Although there are a number of reasons which may lead to this result, one factor which has definitely contributed to this “failure to survive” is the absence of an adequate business succession plan. Whether you are a developer, contractor or other business owner in the construction industry—and whether you are the sole owner or one of multiple owners of your business—the implementation of a succession plan is an integral element to successful continuation of your business going forward.

Business succession planning is relevant at a number of stages during your life cycle as a business owner. When discussing succession planning, most people tend to immediately think of the scenario where the business owner passes away. While planning for the death of a business owner is certainly critical, it is also important to consider what should happen when the owner retires, or should the owner become legally incapacitated. Therefore, a complete succession plan will take into consideration both lifetime and death planning.

For a business with multiple owners, business succession planning often involves the creation of a buy-sell agreement, or shareholders’ agreement, between the business owners. Through an appropriately drafted buy-sell agreement, the owners can agree among themselves as to how an owner’s interest in the business will be redeemed in the event of retirement, death or incapacity. The owners can agree upon the price and terms of any such buy-out, and often the repurchase of shares from the departing owner is accomplished through the purchase of life insurance. For tax reasons, often a “cross-purchase agreement” is used, whereby each of the business owners obtains life insurance on the others in order to fund the buy-out. In a well-drafted buy-sell agreement, the owners will generally also restrict the transfer of shares to a third party, such as to a spouse of an owner in the event of a divorce.

In structuring a buy-sell agreement, some critical questions for consideration are:

(a) How will the buy-out price be determined? Will there be an independent appraisal at the time of the triggering event or otherwise? Who will pay for the expense of the appraisal?

(b) Will there be the ability to pay the owner or his or her estate for the business interest over time (for example, in the event of retirement or disability), or will lump sum payment be required (for example, in the event of death where the buy-out is funded with life insurance)? If extended payment is allowed, what terms are reasonable (i.e. length of payment, possible interest on deferred payment, etc.)?

(c) Under what circumstances will the repurchase be mandatory vs. an option

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Importance of Constructing a Business Succession Plan (continued from page 4)

to repurchase? Should different triggering events be treated differently?
(d) Who are “permitted transferees” of the owner’s interest?

For single owner businesses, the planning can be more complicated, particularly if there is no next generation family member who can carry on the business once the current owner leaves. Under this scenario, it may be important to plan for one or more key employees to take over the business in the future. In order to accomplish this, the current owner may include provisions in his or her will or trust agreement making a specific bequest of the business interest to the key employee or employees, or perhaps an option to purchase the interest from the owner’s estate at a reduced price. Another option is for the current owner to gift or sell a small equity interest in the business to the key employees now, and then couple that planning with the use of a buy-sell agreement. This latter option gives greater flexibility in planning for retirement or disability of the current owner.

For a business where the owner wants one or more family members to succeed him or her after death, the owner will often include a specific bequest of the business interest to the family member or members in his or her will or revocable trust. If one or more family members are already involved in the business (as employees, officers, directors or existing co-owners), often the deceased owner will be bequeath the closely-held business interest specifically to the “involved” family members. Under those circumstances, the owner should consider the impact of any such bequest on his or her overall dispositive intentions. For example, will children who are not involved in the business receive corresponding “value” from the estate from other assets? If so, do the assets of the estate even allow for this equalization? Or will the specific bequest of the business interest be “off the top” and not otherwise diminish the involved child’s otherwise pro rata share of the estate? It is important to carefully think through the various scenarios to make sure that your dispositive wishes are accomplished, and to avoid family disharmony.

Business succession planning can be a complex and emotional subject, so it is important to thoughtfully discuss these issues with your attorney, accountant and other trusted advisors. Where multiple owners are involved and a buy-sell agreement is being considered, independent legal representation for each of the owners is recommended. If family members are to be involved in the succession plan, a “family meeting” to discuss various options may be appropriate in order to reduce any stress or family conflict going forward. ➤
Cybersecurity in the Construction Industry: Protecting Against a Growing Threat

THE SCOPE OF THE THREAT Five or ten years ago, the most widely recognized cybersecurity threats involved the risk of compromises of personally identifiable information (PII) such as Social Security numbers, payment card information, and the like. The high-profile data breaches frequently involved retailers, health care providers, or other consumer-facing companies and industries. Many of the warnings about cybersecurity threats focused on these kinds of risks, and state data breach laws in the U.S. focused on the obligation to notify individuals if their PII had been breached.

In recent years, however, the cybersecurity threat landscape has become increasingly complex, and businesses of all kinds – including the construction industry – face ever-growing risks to their reputation, their finances, their continuity of operations, and even to the safety of their job sites and equipment. The Department of Homeland Security has deemed a number of construction-related sectors at risk for cyber-attacks, including highway infrastructure, mass transit and passenger rail, and pipeline systems. In addition to the cyber threats that arise in transportation construction, there are a number of threats that arise across all kinds of construction activities and sites.

WHY CYBER THREATS TO CONSTRUCTION ARE ON THE RISE The construction industry, like so many other sectors of the economy, is increasingly dependent on the internet and on internet-enabled technologies. Shared resources like integrated project delivery and building information modeling increase the risk that an authorized user will unintentionally introduce malware into shared systems. The widespread use of vendors and subcontractors who have connectivity to shared information technology (IT) networks increases the risk that a cyber incident involving one company will become a vulnerability for many companies. In addition, the steady growth in connected and remote-controllable devices – broadly known as the “Internet of Things” – has vastly increased the potential attack surface for cyber threats. Perhaps the most famous example of the ways in which these threats can intersect with and magnify each other is the Target department store data breach, in which millions of Target customers’ credit card information was exposed, and Target suffered millions of dollars in breach response costs, litigation fees, lost revenue, and incalculable reputational harm. The breach originated with an HVAC vendor who was responsible

“Cyber threats can expose all of a company’s digital assets: business plans...”

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Protecting Against a Growing Threat (continued from page 6)

for managing “smart” thermostats at Target facilities. Once inside the network, the hackers were able to traverse the connected IT architecture and penetrate Target’s payment card information databases.

WHAT IS AT RISK? Cyber threats can expose all of a company’s digital assets: business plans and acquisition strategies; proprietary construction plans and designs; customer, contractor, and supplier lists and pricing; personally identifiable information of employees and contractors; protected health information of personnel; and facilities security information. Cyber risk can also cause business interruption and reputational harm: for example, a ransomware attack might not lead to a loss of information, but by shutting down a company’s computer networks, and potentially destroying information, it can cause an enormous amount of lost productivity and business delay. And the ability for cyber attackers to hijack physical devices – from security cameras to vehicle telematics to industrial control systems – means that there is an ever-increasing risk of property damage and personal injury due to cybersecurity incidents.

HOW TO MITIGATE CYBER RISK. There are a number of low- and moderate-cost ways to mitigate cybersecurity risk. These include:

- **POLICIES AND TRAINING.**
  The very best IT can’t prevent human error. So it’s essential to implement clear policies on cybersecurity basics like use of strong passwords, multi-factor authentication, use of encryption for sensitive data, and restrictions on the use of removable media. It’s also essential to train employees on best practices, including how to recognize potential phishing emails and sensitive information to which they have been granted access. Having a tailored and up-to-date incident response plan, and clear privacy policies and data handling practices that comply with all applicable data privacy laws, are also critical components of an effective cybersecurity and privacy program.

- **VENDOR MANAGEMENT.**
  Contracts with subcontractors, suppliers, and others are an essential component of mitigating cyber risk. Legal review of representations and warranties about the cyber practices of a business partner, along with appropriately tailored indemnification and hold harmless provisions, can be a foundation stone for mitigating the party cyber risk associated with doing business with third parties.

- **INSURANCE.**
  Cyber insurance is widely available, and can be an effective component of an overall insurance program. It’s important to read policy language carefully: some policies require specific technical cyber hygiene measures (such as annual penetration testing), and others offer discounted policy rates for undertaking a cyber vulnerability assessment. Most cyber policies cover the costs of forensic investigation and breach notification associated with a cyber incident, but many do not cover other costs that could be associated with a cyber incident. For instance, a business email compromise, in which a spoofed email dupes a company into wiring money or employee information to a fraudulent account, is often covered under a crimes policy. However, property damage, personal injury, and environmental damage, all of which are possible consequences of a cyber-attack on IoT devices, may be more likely excluded from cyber coverage and, instead, covered under general liability or other policies. Because of the many ways in which cyber threats can play out, and the intricacies of the intersection of various insurance coverages, it is essential to assess cyber coverage in the context of a comprehensive insurance program.

- **TREAT CYBER RISK AS A BUSINESS RISK.**
  Cybersecurity risk is too important – and the potential negative consequences of a cyber incident are too grave – to dismiss cybersecurity as something that should be the sole responsibility of an IT vendor or in-house IT department. Senior management of the company – or the Board if there is one – should treat cybersecurity like it would other kinds of business risk that could have significant negative financial, operational, and reputational impact. A comprehensive, organization-wide approach – that includes participation from the legal office, chief financial officer, head of operations, human resources, and marketing, communications, or public relations – along with IT – can provide the framework for a holistic cybersecurity program and plan.

Although these steps can’t eliminate cyber risk altogether, they can greatly reduce the likelihood of an incident, and reduce its cost and impact if one occurs.
The “blue wave” headwinds may not have been as strong nationally as many expected, but the Illinois election results lived up to the hype. Democrats swept all statewide offices and Illinois House and Senate Democrats picked up additional seats. The 2018 election results will bring close to 50 new faces to the Illinois General Assembly, as well as new constitutional officers.

The race for Illinois Governor was one of the ugliest races we’ve seen in a while, and will also be remembered as one of the most expensive. The two main candidates – Governor Rauner and J.B. Pritzker raised over $255 million combined. Governor-elect Pritzker pumped nearly $171.5 million of his own fortune into his campaign fund while Governor Rauner provided $70 million of his own wealth into his race. Pritzker defeated Governor Rauner by receiving 54% of the vote in the November General Election.

After losing 5 House seats in the 2016 election cycle, House Speaker Michael Madigan regained his veto-proof supermajority this year by losing one seat and adding 7 – putting the total number of House Democrats at 74. The Senate Democrats held on to their super majority by adding an additional 3 seats putting the total number of Senate Democrats at 40. The Illinois General Assembly has the highest number of Democrats in office since 1964. House Speaker Madigan’s chamber has the most Democratic members since he took power of the House in 1982.

Many of the seats overturned by the House and Senate Democrats were located in suburban areas where President Trump has become increasingly unpopular. Governor Rauner also underperformed in these areas where Republicans needed him to be strong.

NOW THAT IT’S OVER – WHAT’S NEXT?

The question now turns to how will Pritzker govern and what campaign promises will he pursue. Like Governor Rauner, Pritzker hasn’t held an elective office before.
The Election is Over – What’s Next? (continued from page 8)

While many voters in recent elections have viewed that as a good thing, Illinoisans have witnessed a freshman Governor making missteps due to a lack of governmental experience. Pritzker campaigned on a platform of increasing mental health care and increased education funding at all levels. The Governor-Elect has continually pushed for a graduated income tax, which is a major shift in Illinois income tax structure. Such a change would require putting the issue on the 2020 ballot for voters to consider. So far Pritzker has been mum on the details of his graduated tax plan and hasn’t identified the tax brackets he’d like to see.

Additionally, the incoming Governor has promised to pursue raising the minimum wage to $15 per hour within his first 6 months of office. He has stated the minimum wage hike will include a feature designed to “relieve the burden on small businesses”, but again he hasn’t released any details on what this feature will look like.

Pritzker is also an advocate of legalizing recreational marijuana. If this happens, some of the tax revenues could be used to fund a comprehensive capital program that he has said he also wants to pursue. The Governor-Elect has stated a capital program for roads, bridges and other infrastructure needs is a top priority. A large capital program will likely require a tax or fee increase of some sort; such as an increase in the gas tax. Again though, Pritzker has not indicated where he will end up on funding his top priorities.

While the election is over, our state’s budget issues remain. Our problems continue to include structural deficits and an urgent need to create a pension reform plan. Neither Democrats nor Republicans provided a specific agenda for a path forward during the 2018 election cycle. Even though Democrats are in the majority, everyone elected in November holds responsibility to move Illinois forward. Governor-elect Pritzker also campaigned on promises to negotiate our state’s issues with Democrats, Republicans and other stakeholders. Let’s hope that’s one campaign promise he keeps.

IMSCA’s top legislative priority in 2019 will be seeking retainage reform. We successfully passed our retainage bill in 2018. Although it was vetoed by Governor Rauner, we look forward to building on our momentum from last year. The bill we plan to introduce will be an amendment to the Contractor Prompt Payment Act to allow retainage to be withheld at a rate of 10% until the project is 50% complete, then retainage must be reduced to 5%. This bill will only impact private, commercial construction. Senator John Mulroe and House Assistant Majority Leader Luis Arroyo both look forward to sponsoring our legislation in 2019. I encourage all IMSCA members to pay close attention to Calls to Action on this issue and please reach out to your elected officials to express your support.

The Illinois General Assembly returns to Springfield January 7 for two days of lame duck session. The 101st General Assembly will begin on January 9, 2019 when new members and constitutional officers will be sworn in.
Senator John Mulroe and Leader Luis Arroyo were honored this year as IMSCA's 2018 Legislators of the Year. These legislators worked tirelessly on behalf of the Illinois subcontracting industry for the passage of Retainage Reform (SB 3052). Retainage Reform has been a top priority for the subcontracting industry for many years. Due to their sponsorship of SB 3052 and hard work, passage of this legislation by the Illinois General Assembly became a reality. While our work on establishing retainage reform in Illinois remains a priority and will be re-introduced in 2019, there are not two legislators more deserving than Senator Mulroe and Leader Arroyo to each be named IMSCA’s “Legislator of the Year”.
2019 Legislative Schedule

January
7, 8, 9, 10, 29, 30, 31

February
5, 6, 7, 13, 14, 15, 19, 20, 21, 26, 27, 28

March
5, 6, 7, 12, 13, 14, 19, 20, 21, 26, 27, 28, 29

April
2, 3, 4, 9, 10, 11, 12, 30

May
1, 2, 7, 8, 9, 10, 13, 14, 15, 16, 17, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31

The Spring 2019 legislation session will adjourn May 31st.

Governor’s Budget Address February 20th