



COMMON GROUND

FALL 2007

MESSAGE FROM THE PRESIDENT

Greetings MCSA members, I hope that all is well within your businesses and families as the holiday season approaches. During the holiday season we celebrate the opportunities to come together with friends and family. However, this season, we must unite and join forces as an industry to prevent the implementation of the proposed 6% use tax our security agencies face. This tax would have severe repercussions for many security agencies small and large alike.

Our organization is hosting a rally at the state Capitol on November 28th, 2007 in partnership with the Michigan Council of Private Investigators (MCPI). You will find the event details and how you can participate on the back page of this newsletter. Now, more than ever is the time for you to get involved in our organization by participating in a committee, encouraging a fellow industry member to join MCSA, or making a contribution to support our political action committee.

The purpose of this rally is to educate the Governor, Michigan legislators and the general public that security agencies are an ESSENTIAL service. We provide homeland security at local, state and federal offices. In addition, we protect Michigan citizens in their homes, businesses and at many entertainment events and venues.

This past month we launched the new MCSA web site we are very proud of, please take a moment to visit us online at www.mcsa-online.org. I would like to highlight the membership contact information on the site we hope will be beneficial to your business.

Please contact me or the MCSA office if you have questions about the opportunities available within MCSA and how you can help by attending the rally on November 28th, 2007. I look forward to seeing you there.

Best regards,

Dale White
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VISIT US ONLINE!
WWW.MCSA-ONLINE.ORG



Dale White,
MCSA PRESIDENT

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CAPITOL REPORT

6% USE TAX - HB 5198, PA 93'07 **Julian Vail, LLC, Legislative Liaison**

History of the issue first: You may recall that there was early discussion in the spring of 07 to place a 2% tax on all services that presently were not taxed. It would appear that at that time there was discussion that private investigators and security guard services would be exempt from the tax. As you are now aware as a result of the passing of HB5198, and the signing by the Governor, that we in this industry are in fact taxed to the 6% level as a non-essential service like shoe shining and baby shoe bronzing. When this bill went to conference committee it was empty - no language. The legislators then voted on HB 5198 without the actual language in front of them. This legislation has been signed by the Governor and now will take effect on December 1, 2007. So, where do we go from here and what are we doing about it?

We have joined the 'Ax the Tax Coalition' which is made up of individual job providers, trade associations and chambers of commerce from across Michigan. Members of the group are committed to working with the Legislature to repeal the sales tax on services before it goes into effect on Dec. 1, 2007. Should the Legislature fail to act, the coalition is making plans to gather petition signatures and take the repeal directly to the voters through a statewide ballot effort.

Our message is simple: repeal this tax and repeal it before Michigan consumers and job providers take a financial hit they can't afford. While there is not a lot of time, there is enough time for the Legislature and the Governor to fix this mistake if they act now.

The Legislature and the Governor extended the six percent sales tax to a list of very loosely defined services as part of a plan to balance the fiscal year 2008 budget. The new tax was approved in the middle of the night on Sept. 30. No public hearings were held on the new tax, how it would be implemented or who would be required to pay it.

In the six weeks since the tax was passed and in response to the anger and frustration of job providers and consumers, legislators and economic leaders have been meeting to develop a plan to repeal the tax.

As your representative here in Lansing, we are in discussions with other group representatives with similar concerns, with legislators in both the Senate and House and Department of Treasury to voice our concerns and attempt to get our questions answered and keep our voices heard.

We have organized several meetings with principal players to voice our disapproval of the process utilized and discuss possible resolutions to correct this horrible injustice.

CALL TO ACTION --

We need to stand up and be heard as a profession. If you have not called, emailed or written your state representatives please do so today. We must educate them. Your letters and phone calls are working. Julian Vail, LLC is getting feedback that the pressure from us and the rest of the coalition of businesses is having an impact. If you get a form letter response, I would recommend you reply back to that person calling them on that form letter and requesting that they actually read your letter. We can not let up on the pressure.

CONTACT INFO UPDATES

We at the MCSA office like very much to stay current with our members. We invite you to send us any updates or changes you might have in your contact info. Also if you have an email address, we would like to include this in our records as well.

All updates should be sent to:
MCSA
235 North Pine St.
Lansing, Michigan 48933

FROM THE VICE PRESIDENT

REPEAL OF THE SERVICES TAX:

MCSA was one the forty-one founding member organizations mobilized to fight the six per cent services tax in what became the "Ax The Tax" coalition which has now grown to almost sixty service industry members. The coalition has been incredibly successful in generating continuous media and business pressure on the legislature to repeal the tax.

On November 9, 2007 the Michigan House followed suit but its repeal measure also shifted the burden of taxation from services to a massive increase in the Michigan Business Tax scheduled to take effect January 1, 2008.

As proposed by the House the increase in the MBT would be a surcharge of 32.9% through December 31, 2008. It would be reduced to 23.4% beginning in 2009 and become permanent at that level. It would be applied to the MBT liability before investment credits are applied.

The estimated effect is that the tax on gross receipts component of the MBT would increase from 0.8% to 1.06% and the income tax on profits component would increase from 4.95% to 6.5%. Note that the tax on gross receipts will be applied regardless of whether your company makes or loses money.

As of this writing (November 9) both the Senate and the House must agree on whether to accept the Senate version which just repeals the services tax without replacing it or the House version which includes the shift to the MBT. It is certain to be an extremely contentious debate.

This means that now more than ever we must redouble our lobbying efforts to influence the application of any tax increase. The application of a surcharge to the gross receipts component of the MBT will be nearly as destructive to our industry as the services tax. It is essential we persuade our legislators to find an alternative that allows business a chance at survival in one of the already most toxic environments for business.

FINGERPRINTING:

We have finally been successful in obtaining the draft of legislation developed by the late and lamented Marc Kawahara to reduce the costs of fingerprinting and return to a saner and more practical way of implementing the requirements of P.A. 330 of 1968, The Private Security Business and Security Alarm Act.

The notable changes are in Section 18 (1), (4), (7) and (8) of that act. Section 18 (2) would be amended by inserting "Except as otherwise provided in the Section..."

Section 18 (4) by insertion to read:

A licensee shall request the department of state police to conduct a background check of each prospective employee who is a direct provider of the security business based upon a name check. The licensee shall obtain a complete and signed employment

application for all individuals for whom a name check is requested and conducted. The employment application shall be retained for at least 1 year from the date of its submission. The department of state police shall conduct the background check upon a written, electronic, or telephone request of a licensee accompanied by a fee of \$15.00. The background check shall be conducted not later than 3 days after the date a written request is made and not later than 24 hours after a telephonic or electronic request is made. Provisional clearance based on the name check shall allow the employee to be employed as a security guard, for a period of time not to exceed 90 days, pending final clearance based upon a fingerprint check as provided for in subsection (2),

(2) IF A FINGERPRINT CHECK IS REQUIRED UNDER THIS SECTION. IF A FINGERPRINT CHECK IS NOT REQUIRED AS PROVIDED FOR IN SUBSECTION (7), THEN THE CLEARANCE BASED ON THE NAME CHECK SHALL ALLOW THE EMPLOYEE TO BE EMPLOYED AS A SECURITY GUARD WITHOUT LIMITATION.

Two new subsections would be added to Section 8 and read as follows:

(7) IF THE PROSPECTIVE EMPLOYEE IS A UNITED STATES CITIZEN AND HAS VALID GOVERNMENT-ISSUED IDENTIFICATION AND A BIRTH CERTIFICATE OR OTHER PROOF OF U.S. CITIZENSHIP, THEN SUBSECTION (2) SHALL NOT APPLY TO THE PROSPECTIVE EMPLOYEE, UNLESS THE PROSPECTIVE EMPLOYEE IS A DIRECT PROVIDER OF THE SECURITY BUSINESS IN OR ON BUILDINGS OR LAND OWNED OR OCCUPIED BY THIS STATE, THE FEDERAL GOVERNMENT, OR A UNIT OF LOCAL GOVERNMENT.

(8) IF THE PROSPECTIVE EMPLOYEE (I) IS A CURRENT OR FORMER LAW ENFORCEMENT OFFICER, PEACE OFFICER OR CORRECTIONAL OFFICER; OR (II) HAS A VALID LICENSE UNDER 1927 PA 372, MCL 28.421 TO 28.435; THEN SUBSECTIONS (2) AND (4) SHALL NOT APPLY TO THE PROSPECTIVE EMPLOYEE, UNLESS THE PROSPECTIVE EMPLOYEE IS A DIRECT PROVIDER OF THE SECURITY BUSINESS IN OR ON BUILDINGS OR LAND OWNED OR OCCUPIED BY THIS STATE, THE FEDERAL GOVERNMENT, OR A UNIT OF LOCAL GOVERNMENT.

With Marc's passing efforts to get this enacted withered. It is the intention of MCSA through its legislative committee to attempt to obtain legislative sponsorship for this proposal and lobby it to enactment.

The savings in money and efficiency this would engender are incalculable. All members will be called on to attempt to influence the success of this effort.

John P. Rutherford, CPP
MCSA Vice President
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Helping manage MCSA member's Workers Compensation



The WC (workers' compensation) insurance system is a no-fault method of paying workers for medical expenses and wage losses due to on-the-job injuries. While the majority of WC claims are truthful, the National Insurance Crime Bureau reports that billions of dollars of false claims are submitted each year. To help you detect possible WC fraud, experience shows a claim may be fraudulent if two or more of the following factors are present:

- 1. Monday Morning:** The alleged injury occurs either "first thing Monday morning," or late on a Friday afternoon but not reported until Monday.
- 2. Employment Change:** The reported accident occurs immediately before or after a strike, a layoff, the end of a big project, or at the conclusion of seasonal work.
- 3. Job Termination:** If an employee files a post-termination claim:
 - Was the alleged injury reported by the employee prior to termination?
 - Did the employee exhaust their unemployment benefits prior to claiming workers' compensation benefits?
- 4. History of Changes:** The claimant has a history of frequently changing physicians, addresses and places of employment.
- 5. Medical History:** The employee has a pre-existing medical condition that is similar to the alleged work injury.
- 6. No Witnesses:** The accident has no witnesses, and the employee's own description does not logically support the cause of injury.
- 7. Conflicting Descriptions:** The employee's description of the accident conflicts with the medical history or First Report of Injury.
- 8. History of Claims:** The claimant has a history of numerous suspicious or litigated claims.
- 9. Treatment is Refused:** The claimant refuses a diagnostic procedure to confirm the nature or extent of an injury.
- 10. Late Reporting:** The employee delays reporting the claim without a reasonable explanation.
- 11. Hard to Reach:** You have difficulty contacting a claimant at home, when they are allegedly disabled.
- 12. Moonlighting:** Does the employee have another paying job or do volunteer work?
- 13. Unusual Coincidence:** There is an unusual coincidence between the employee's alleged date of injury and their need for personal time off.
- 14. Financial Problems:** The employee has tried to borrow money from co-workers or the company, or requested pay advances.
- 15. Hobbies:** The employee has a hobby that could cause an injury similar to the alleged work injury.

Remember, these warning signs are simply indicators. If you are suspicious of a claim, alert your Insurance Carrier.



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CONTRACT PRICING AND COST ALLOCATION

SECURITY MANAGEMENT ESSENTIALS — SEPTEMBER 2007

As you know, some clients, usually government entities, require one bill rate for all hours billed regardless of differences in positions, wage rates, etc. However, when that is not the case, properly allocating your costs can be critical. Whether it is armed and unarmed posts on the same contract, or differences in uniforms, training costs or equipment, the failure to build all the unique costs into the bill rate for each post or wage category, can leave you exposed to the effects of fluctuations in coverage that may result in the loss of several percentage points of anticipated profit. In a highly competitive bid situation, that can mean a lot!

Take the example of a one year contract consisting of the same hours per week at two different locations, only one of which requires a site vehicle. The bill rate at this site should be higher in order to recover the cost of the vehicle on its own. If instead, you divide the estimated annual vehicle cost by the total hours at both locations to arrive at the vehicle cost per hour, and then add that cost into your blended bill rate, you will only recover the entire cost of the vehicle if the weekly coverage at both sites remains exactly the same for the entire term of the contract. If after the first six months the coverage at the site without the vehicle is cut in half, you will find yourself in the position of having to request a rate increase for the existing hours. Obviously, if the coverage was increased, you would experience a windfall, but somehow that hardly ever happens!

In the example above, the consequences are obvious and a reasonable client would likely understand the issue and possibly grant an increase. However, most of the time the issue is far more subtle and may even elude the security company manager.

Knowing all the costs and expenses associated with a pending contract and allocating them properly when formulating your proposed bill rates, will help you manage your profits.

It would be a missed opportunity to not point out that AutoRate Pricing Pro, our contract pricing/bidding and analysis software, allows you deal quite easily with these and many other pricing issues!

MANAGING GROWTH - HOW TO GROW

Managing the growth of your company is difficult at best, and requires a good deal of strategic planning. Several factors must be considered in any successful growth plan. In this series we will discuss the key factors and the consequences on your business. These are complex issues and the intent of this series is not to over simplify them, but rather to highlight their significance.

The key factors include:

How to Grow

Where to Grow

How to Fund your Growth

Building your Infrastructure

We discussed How to Grow in our August 2007 issue. In this issue we will examine the question of:

WHERE TO GROW!

Becoming a strong regional or national company is the goal of most security company owners/managers; however, that expansion and where to concentrate your marketing efforts also requires strategic planning and careful consideration.

The most logical markets on which a company should first focus its growth efforts are those in which it is currently operating. Consider the fact that multiple locations mean multiple sets of overhead costs. The overhead associated with a new branch office must be covered by the gross profit from new contracts sold there before any income falls to the bottom line. The same number of weekly hours sold in an existing market will produce income immediately. At some point, however, whether due to market saturation, local economic or other factors, it becomes time to look elsewhere for growth.

It is not uncommon to have a client in a current market request coverage at their site in an area that is new to your company. Obviously, this is an ideal situation, since you enter that new market with a base of business on which you can expand. Unfortunately, we all don't get that lucky!

The key to successfully expanding into a new market is a well thought out and detailed sales and marketing plan. Make sure the new market is a good fit for your company. Study it first, in terms of the local economy, competition, prevailing pay rates, price sensitivity and general quality of service. Don't leave gaps in your service coverage footprint! Choose a city or area that is adjacent to an existing market, yet large enough to provide growth opportunity.

It is essential that when you finally "pull the trigger", you hit the ground running. Develop a prospect list and gather all the information you can on those potential clients such as current provider, contract size, and even renewal dates and pay rates, if possible. Consider a telemarketing effort to help gather the information and set targeted appointments. Hiring a local person who is familiar with the market and has a proven track record in the industry has its obvious advantages, however, be very cautious of any obligations resulting from non-compete agreements with former employers to avoid potential litigation.

Once the new operation is up and running, allow it to stabilize, grow and produce net profits before moving on to the next new market!

PROTECT YOUR RIGHTS AS AN ESSENTIAL SERVICE!

SECURITY AGENCIES NEED TO BE HEARD BY MICHIGAN LEGISLATORS

WHO: MICHIGAN CONTRACT SECURITY ASSOCIATION

WHAT: We encourage you to attend this important rally to help Michigan legislators understand we are an essential service, and want to eliminate the proposed 6% Use Tax. Members will visit with their legislators in their offices and outside chambers. Please bring employees with you to this event, they are impacted by this tax as well.

WHEN: Wednesday, November 28th, 2007
9:00 a.m. - 3:00 p.m.

WHERE: Capitol Building, 2nd Floor, West Wing, Library

NOTE: Please drive your marked vehicle and wear uniform if available.



Please RSVP by November 20th, 2007 by calling (800) 710-2371 or by email to val@julianvail.com.

WE HOPE TO SEE YOU THERE, WE MUST SUPPORT OUR INDUSTRY!

Visit www.mcsa-online.org for information about our organization and how to join.

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