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Rising Healthcare Costs – A Problem That Will Not Go Away, By Itself!

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Most of us are really tired of talking about the double-digit annual increases in health insurance costs – why? Because it seems that no one has been able to do anything to significantly improve the situation. It almost seems that the insurance companies are able to force us to change our business model, diverting our resources from productive uses, so that we can pay the premiums that they tell us we have to pay! Even if we raise our co-pays, or reduce the coinsurance, on our plans, we might reduce the premium increase to 11%, but we will have the same meeting, this time, next year!

Do we give up on the American “experiment” of free enterprise in the case of healthcare? What would happen to the quality of health science research, and the development of new medicines, if healthcare was managed by the federal government? The mental image of standing in line at the post office comes to mind... Our policy experts and economists, however, believe that the best chance that we all have for significantly reducing the rising cost of health insurance is for the private sector (that’s all of us!) to reform our healthcare system – at least, as much of the system that affects our employees and income statements! Our federal government has actually been active in providing tools and incentives for the private sector to implement. The most significant tool is the Medicare Act of 2003, authorizing the creation of the Health Savings Account (“HSA”).

There are also several private, nonprofit organizations that are functioning as a “bridge” between Capitol Hill, The White House, and the private sector. These are organizations like The Center for Health Transformation, The HSA National Awareness Campaign, and the HSA Coalition, which your company may join to build economic and political clout for future improvements and threats to the reform.

Even though we are in the early stages of the HSA movement, there has been a phenomenal rate of adoption with 346,000 families choosing an HSA in just nine months after they were introduced.¹ Employee benefits consultants have published a number of articles, and we are starting to see education and training seminars for the insurance agents and brokers become more prevalent. Large employers, mid-sized companies, small businesses, nonprofit organizations, and even federal and state employees are all represented in the number of organizations who have already adopted these new tools. President Bush recently announced that he had signed up for an HSA, himself, through the new federal employee plan. So, what is driving this rapid pace of adoption? Pure and simple - economics...

¹Health-savings accounts popular with individuals; employers next” by Kent Hoover. American City Business Journals Inc.;
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Navigating Commercial Properties

With the slow recovery of the Atlanta office market, more and more companies will be relocating and renegotiating their commercial leases in the next few years.

It is the job of the landlord appointed real estate broker to negotiate the best business terms for his building owner. So it is strongly suggested that the company looking for space, appoint a tenant representative to locate and negotiate the best business terms for the company and to assure that all current and future needs of the company will be addressed by a professional.

Start the Process early- With high vacancies still prevalent in most markets, most landlords are providing concessions to entice a good credit tenant to move into their buildings.

Free rent and moving allowances are common. If you expect to negotiate 6 months free rent you must start the process at least 8 to 12 months before your current lease expiration.

Understanding Rental Rates- Atlanta office rates are normally quoted on an annual basis. A rate of \$24.00 per square foot is the same as \$2.00 per square foot per month. Most Class A office properties quote rates on a gross or full service basis which is all inclusive of utilities, common area maintenance, building insurance and taxes.

Industrial properties are normally quoted on a net or modified gross basis and do not include utilities or some building operating expenses. A charge for common area maintenance is sometimes quoted separately. Other expenses, such as building insurance and taxes

are passed to the tenant in a net lease. Since there are many variables to a net or a modified gross lease, it is very important to understand exactly which costs are included in your lease and what expenses are outside of your monthly lease payment.

Eight Steps to Commercial Leasing

1. Define your requirements- The following chart will help determine your approximate space requirements

USE	Usable Sq Ft.	Estimated Size	Number of People	Total Sq Ft. Requirement
Sr. Executive	250-400		x	=
Executive	150-250		x	=
Private Office	100-150		x	=
Partitioned Open	50-100		x	=
Conference Rooms	25-30		x	=
Reception Room	100+25 guest		x	=
Kitchen/Lounge	10+15/ Person		x	=
File Room	7 per file		x	=
Other			x	=
Subtotal				
Circulation Load Factor				30% Addition
			Total Required	

2. Locate suitable property- Your broker can provide listings of all properties in your required sub market that have available space in your pre determined size range. Some important questions to answer-

Do you prefer Class A or Class B space? Is an office with a view important?

What is your annual budget? What length of lease is preferred? Is future expansion important? When does your company intend to move? What are your parking and transportation needs? Will your office be located in an area that provides ease of commute for your current employees or is your customer access more important (near the airport etc)?

3. Tour properties- Have your broker provide floor plans on all interesting spaces. Review the floor plans before your tour. Landlords anticipate that the commercial space will need to be modified to meet the needs of the tenant. The goal of your broker is to negotiate with the landlord to provide an improvement allowance that will allow the space to be modified without any out of pocket expense from your company. Your broker will provide a tour site checklist form for comparing the various properties that you tour.

4. Make a Letter of Intent to lease- Once you have narrowed your choices down to one to three good potential sites, its time to make your proposal or proposals, as the case may be. Because you are making non-binding proposals it may be all right for you to make more than one at a time.

Your letter of intent will address the big issues. The size of the space, the term of the lease, any rent escalations including operating expense pass throughs, the right to sublease, a right of first refusal on adjoining space is prudent if your company intends to grow and a buyout clause in case any early termination is required are all items that should be addressed in the letter of intent.

5. Analyze responses- There are several items to compare in your analyze and your broker can provide a side by side comparison outlining the differences in the responses. As mentioned earlier, rent is calculated in several ways. For office lease comparisons it's best to convert all quotes to gross or full service rates. Your broker will compare rentable

and usable square footage based on the buildings loss factor (additional square footage charge for common areas) as well as the effective rate over the term taking into consideration any free rent, escalations and concessions. Different properties have different operating expense histories. It's always a good idea to have the property provide operating expenses for the past 3 years for a good comparison. You will also compare the tenant improvement allowance, length of term of the various responses, time of delivery and overall suitability.

6. Space planning and architectural evaluation-Space planning usually occurs after an initial proposal has been tendered, although sometimes it will be delayed until the major deal points have been agreed upon and your credit has been reviewed. In most cases the landlord will include an allowance for space planning and they will provide the planner. A commercial tenant requiring a substantial amount of office space is well advised to consider retaining his or her own architect. The architect that is retained by the tenant will be more inclined to design an efficient plan keeping rental costs in line while providing the minimum square footage required for your companies needs.
7. Negotiate the lease contract-Negotiating the lease contract is one of the most critical steps in the relocation process. There are many various lease contracts normally ranging from 10 to 80 pages and each landlord seems to have their own version. It is not advisable to sign a lease contract without a review by qualified legal counsel. All leases define the

business terms. The balance of the lease seeks to contemplate possible future events and prepares for these events. There are several important issues that should be addressed in the lease. We will attempt to hit on a critical few and save lease negotiations for a future article. All leases should address operating expense rental increases and limit the amount of increases to the tenant. A lease renewal option is also important. Typically, one of three methods for establishing the new rental rate is used. The fixed rate option is the clearest and easiest to understand but is normally the hardest to reach an agreement on. The second is the Cost of Living adjustment and is based on the Consumer Price Index. Market rental value adjustments are more flexible and meet the needs of both owner and tenant. Your broker can provide an average rental rate for like properties in your area and can assist in negotiating this rate to your landlord. All maintenance, repairs and alterations issues will be addressed in the lease. As a general rule, in a full service lease, the landlord will be responsible for the interior and exterior maintenance as well as common area maintenance. Most leases will require landlord consent in order to alter the premises in any way. It is possible to negotiate that certain smaller alterations can be made without landlord consent. Your company should have the ability to sublease the space if needed with landlord approval. It is important that language is added to assure that the right to sublease will not be unreasonably withheld.

Some landlords will ask for the option to relocate a smaller tenant (normally under 3000 s.f.) to another space in the

building or complex if a larger tenant wants their space. Strike this clause if possible. If your company holds over, or remains in the space past the lease expiration date, landlords revert to hold over charges that are sometimes 200% of the current rent. It is best to negotiate for no additional holdover charge if possible. A 150% rental increase is common in most Atlanta markets. It is always wise to negotiate the right for early termination to protect your company from being "land Locked" in a space. If the landlord cannot supply additional space for your companies expansion needs, you may be forced to relocate.

8. Close the transaction-Once all business and legal terms are agreed on it's time to put the finishing touches on the lease and execute the document. Be aware that the entire lease process can take several months and a prudent business man will allow plenty of time. The earlier you start the better chance you have of maximizing concessions such as free rent and moving allowances. Your broker can help make the process less stressful and assure the process stays on schedule.

For more information about our services, please contact us via e-mail at dp@benchmarkresources.net or call David Payne at 404-531-6435.

The health insurance business is already in an uproar! Employers are reducing their health insurance premiums by increasing their deductible levels through the HSA program. If their carrier is one of the “gorillas” in their market, employers may realize little, if any savings, because many of the “gorillas” are continuing to fight for their premium dollars – sometimes reverting to inappropriate tactics to try to keep their clients paying the higher premiums! In Georgia, currently, there are over seventy-five (75) insurance carriers that provide HSA-compliant plans, so there are many choices. The challenge for employers is to find quality plans at the best prices!

Unfortunately, the health insurance industry is not known for providing concise and intelligible consumer information. This makes finding quality healthcare options at the best market prices a daunting task – similar to someone purchasing their first car! One of the new market improvements will be the emergence of value-based organizations. These new value-based organizations provide full implementation services with the client’s best interests in mind, such as facilitating their client’s procurement process to find the best price and appropriate high deductible insurance plan for the employees, finding the best trustee for employee HSA accounts, and providing education services that enable the employees (and their families) to become better consumers of healthcare. These value-based organizations will necessarily be based on a different economic model than the current commission-based market participants.

The penalty to employers for doing nothing is an estimated 14.2% increase in your health insurance premiums, this year. The national average annual cost for an employee with family coverage is approximately \$10,215 per employee, excluding the internal and/or external administrative, compliance, and COBRA administration. The potential savings for implementing an HSA-compliant program range 35-50% (\$3,575.25 to \$5,107.50 per employee), plus the elimination of the 14.2% increase (another \$1,450.53 per employee). With such compelling economics, companies are rapidly becoming participants in the private sector reform of the healthcare system.

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Preparing For Transition? What are your options?

The last four years have been challenging for senior level finance and accounting professionals. Some of these professionals have been at their jobs for ten or more years, but these stories of longevity are quickly becoming the exception. The recent drastic changes in the economy have created an environment where job duration is frequently less than two years. If you are currently employed in the top finance/accounting chair of your company, now may be a good time to think about what you will do if/when your next transition becomes a reality.

One of the questions I often hear from senior finance/accounting professionals is 'Now that I'm in transition between jobs, should I work on contract?' In some ways, that's like going to a doctor and asking during the first minute of the meeting if you require brain surgery. A bit of analysis is a good idea.

Each person has a different set of skills and goals for their career. For many who ask me what they should do, this transition is the first one where they are not moving from one job directly to another. They don't have any idea what their next job is going be. They also don't have a solid plan of how they will find their next job. Who would have thought that the 'stable' career in accounting or finance would lead them to this point?

I like to know how they plan to use their time while in transition. Are they going to work 40+ hours per week networking and digging through the job boards, or do they plan on becoming an expert in trimming their hedges or exploring the thought process of the characters on their favorite TV show. I also like to know 'what is your preference? Are you interested more in a 'permanent' (I now consider this to really be 'salaried') position, or do you want to use an uncommon capability in a variety of different environments? Some have a difficult time seeing themselves doing anything other than working in a full-time salaried position and don't want to distract any effort from their search for the next job on their career path. Some others have a similar preference, but don't have the financial cushion to be without work for extended periods of time. Still others have been thinking for years that they have a special skill set and want to give consulting a try to see what its like.

If you're considering consulting during transition, you will want to be aware of a few differences between consulting and a salaried job. With rare exception, a

person's professional strengths are not needed all of the time by all companies. Occasionally, you may find yourself in transition between consulting assignments. A good question to ask yourself is 'can I handle a variable demand on the commodity that I'm selling ... my time.' Some people like the flexibility of being able to determine when they can take time off between consulting engagements. There is also a requirement that professionals who consult must be able to communicate their strengths to potential buyers of their services. The better a person is in selling their strengths, the more they will be able to find consulting work on their own. If the skill of selling has not yet become a strength, you will want to consider using a personnel service that specializes in finding opportunities for senior finance and accounting professionals.

Some advantages of consulting include the ability for you to keep your skills sharp, improve cash flow, and get into environments that might have otherwise been unavailable to you, or to put it another way, network. You will also realize the benefits of receiving compensation for time worked in excess of 40 hours per week, and of being able to avoid many of the challenges of corporate politics. It may take some getting used to, but most professionals in transition who elect to consult figure out a way to consult and conduct a search for a salaried position simultaneously.

If you have additional questions about consulting, feel free to reach me at

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The CFO Advocate Newsletter is designed to provide articles of interest. Please let us know of topics you would like to see in future editions.

The next edition lead article will be on new savings trends in Telecom.

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