

## NOW VS. LATER

Everyone has heard the adage “*time is money*”. In today’s commercial construction market, those words have never rang truer. There are 5 main cost components that must be considered when evaluating proper timing of construction projects. Labor rates, material costs, and bond rates can be easily calculated and considered. The remaining two, existing commercial construction workload and real estate trends require a more detailed and case specific approach. In regards to Tupper Lake we believe the following factors are relevant and should be considered. At the conclusion of this analysis please refer to the cost chart that follows and summarizes the delay cost impact.

LABOR RATES: New York State labor law mandates that all municipalities pay prevailing wage for all on-site construction labor. The prevailing wages for 2012 and 2013 have been issued by New York State Department of Labor. The following are examples of the rates that would apply on the Tupper Lake project:

Carpenter:    2012    \$ 42.32 / hour  
                    2013    \$ 43.69 / hour  
**3.2% Increase**

Plumber:        2012    \$ 50.67 / hour  
                    2013    \$ 52.92 / hour  
**3.2 % increase**

MATERIAL: The *Engineering New-Record*<sup>1</sup>, one of the most widely accepted industry publications, publishes both a Construction Cost Index and Building Cost Index that are widely accepted in the construction industry. They provide the standard that monitors and reports on building material and labor cost trends. While its price points have not always been able to relate to local market conditions, their historical data is an excellent resource in predicting and managing market *trends* in material cost. *Reed Construction Data*<sup>2</sup> reports and comments on the index on a regular basis. In 2010 they issued the following:

According to *Reed Construction Data* Chief Economist, Jim Haughey, “...expect 5% plus overall materials cost inflation due to a declining dollar and more rapid economic recovery in other countries.”

<sup>1</sup> www.enr.construciton.com

<sup>2</sup> www.reedconstructiondata.com

**BOND RATES:** The bond rates obtained for station development are based on two main factors: the municipality's credit rating and the general performance of the bond market. Tupper Lake has a strong credit rating earned through years of proper budgeting and spending practices. The current municipal bond rates are low, and slowly climbing.

**EXISTING COMMERCIAL CONSTRUCTION WORKLOAD:** The amount of work available at any given time is arguably the single most important variable in cost analysis. A busy construction season with multiple opportunities for contractors will promote larger mark-ups, fewer bidders, and increased overall project costs. Economic periods that are struggling produce fewer opportunities for the same pool of contractors, thus, stronger competition resulting in lower bid results. The current economy in New York State has created a bidding atmosphere far more competitive than ever experienced in the past, with projects seeing three times the number of qualified bidders for a project compared to 2 years ago. The State budget has shelved the majority of the public school system infrastructure maintenance and replacement projects, an industry sector that, 5 years ago was a main stay in commercial construction. Today's economy is extremely beneficial to the bid process proposed for Tupper Lake.

At the conclusion of this tab please reference the potential tax implications for both private and publically funded projects in Tupper Lake. The tax implications listed are calculated for a \$1 million bond acquisition. The final tax implications would be calculated based upon the final project budget.

### **COST IMPLICATIONS ... NOW vs. LATER on a \$4 MILLION PROJECT**

- Bond ... \$ 421,488 over 30 years  
Assumes .5% increase on \$4,000,000 Bond for a 12 month delay
  
- Labor ... \$ 84,000  
4% increase on 12 month delay on Labor cost of 60% of construction cost
  
- Material ... \$ 70,000  
5% increase on 12 month delay on Material cost of 40% of construction

**Total Potential Budget Impact for One Year Delay = \$575,488 (14% Total Increase)**

**TAX IMPLICATION ANALYSIS**

**Public Project**

<b>Bond Value</b>	<b>Term</b>	<b>Rate</b>	<b>Yearly Payment</b>	<b>Tax Implication Based on \$100,000 Property Value</b>
\$1,000,000	15 yr	3.00%	\$82,870	\$18.10
	20 yr	3.40%	\$68,980	\$15.10
	30 yr	4.25%	\$59,031	\$12.90

**\*Private Project**

<b>Loan Value</b>	<b>Term</b>	<b>* Rate</b>	<b>Yearly Payment</b>	<b>Tax Implication Based on \$100,000 Property Value</b>
\$1,000,000	15 yr	3.80%	\$87,564	\$19.10
	20 yr	4.20%	\$73,980	\$16.20
	30 yr	4.70%	\$62,232	\$13.60

\* Private Loans Often Include 10 yr rate adjustments-these are estimates