



For Owners And Builder-Developers Of Real Estate

HOW CAN YOU REALLY CONTROL CONSTRUCTION COSTS?



If you're happy with today's high construction bids and you have enough bidders, read no further.

If not, read on...

WE ALL HAVE A PROBLEM

Poor payment practices have taken their toll on New York City's Construction Industry and have negatively affected its health. The result: fewer qualified contractors who can accept work and rising prices.

The Subcontractors Trade Association (STA) is New York City's largest association of union subcontractors and material suppliers. With members drawn from all of the union trades, STA is the recognized advocate for the improvement of the economic condition of New York City's subcontractors and material suppliers. The purpose of this White Paper is to bring the problem of prompt payment to the attention of private owners.

OUR PROBLEM IS YOUR PROBLEM

Subcontractors advance millions of dollars every week to make payroll and pay for materials, with limited prospects of being paid within 30 days. Payments to subcontractors are running 60, 90 and 120 days on approved invoices.

Now however, this is not only the subcontractor's problem. Without industry standard ground rules to ensure timely payment, owners, developers and all New Yorkers will pay the higher construction costs that are necessary to compensate subcontractors for payment delays.

Why Do We Have Fewer Subcontractors?

Thirty percent fewer subcontractors are operating their businesses today than did a decade ago. The industry is a mix of high risk projects and high risk payment practices which when combined yield obstacles to staying in business and providing lower bids. Subcontractors are financing construction. Slow payment and slow payment approval processes constrict a subcontractor's resources and inhibit his ability to take on new projects.

WHY SUBCONTRACTORS ARE NOT GETTING PAID?

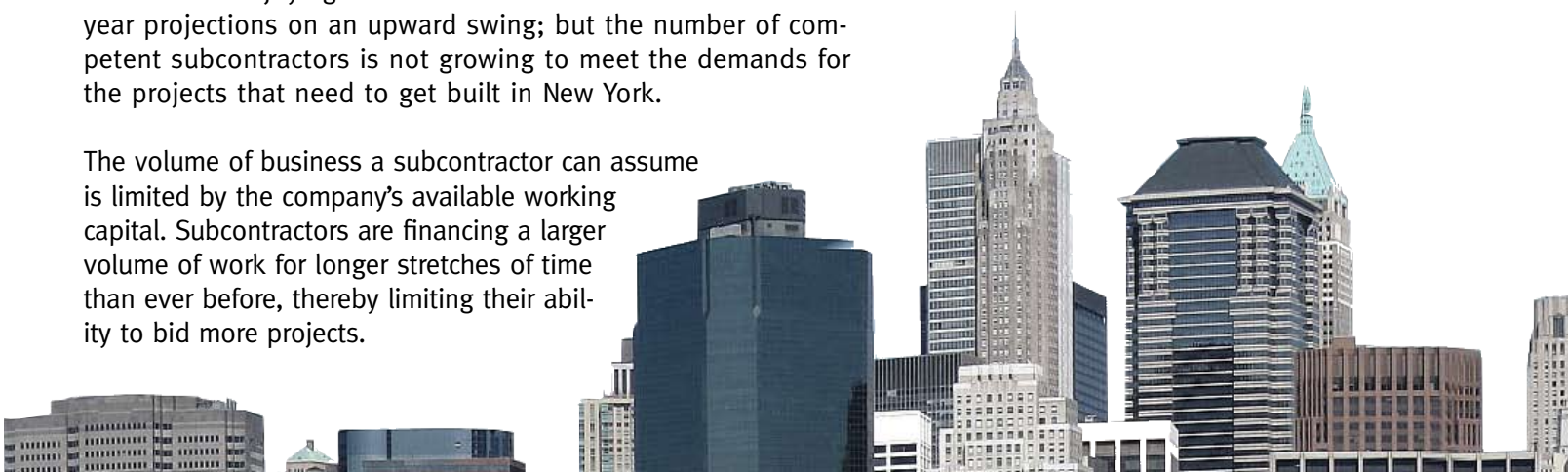
The factors affecting slow payment to subcontractors are diverse.

- (1) Payment in 30 days is not a construction industry standard. Payments must be correlated more closely to performance of work and delivery of materials or the construction industry will continue to suffer and will have to increase prices to compensate for this.
- (2) Retainage withholds part of a subcontractor's earned money. It should not apply when bonding is required. If retainage is required, it should be interest bearing and should be released promptly as projects are completed.
- (3) Change orders for work performed outside of a contract or in addition to a contract that are not paid promptly are creating havoc for subcontractors. A subcontractor should not perform any additional work unless he has explicit written authorization and payment approval.
- (4) Mobilization monies or start-up funds are the dollars needed to begin a project for labor, material purchases, storage, insurance and other expenses. Generally, subcontractors do not receive these funds and begin projects out of pocket until a first invoice is approved and paid, often more than 60-90 days after the project starts.

BOON OR BOMB?

New York is enjoying a robust construction market with five year projections on an upward swing; but the number of competent subcontractors is not growing to meet the demands for the projects that need to get built in New York.

The volume of business a subcontractor can assume is limited by the company's available working capital. Subcontractors are financing a larger volume of work for longer stretches of time than ever before, thereby limiting their ability to bid more projects.



YOU HAVE A CHOICE

Either an owner can pay more, wait longer for a project to be built, accept lower quality or less reliability, or owners can begin to recognize that better payment practices will free the funds that subcontractors need and rely on.

Private work has become more attractive to many subcontractors because the payment cycle is generally more prompt than the public sector. However, even in the private sector, payment schedules are inconsistent among owners. Compounding this, schedules are being accelerated to meet owner's needs to complete projects with no thought about how this affects the subcontractor's cash flow.

CHANGES THE INDUSTRY NEEDS NOW

To sustain a competent, qualified construction industry and encourage new bidders in both the public and private sectors, the STA recommends the following changes be implemented as quickly as possible:

- #1.** Create Industry-wide prompt payment practices, faster approval – setting a 30 day standard.
- #2.** Provide payment upfront for start-up costs and long-lead materials and storage.
- #3.** Adhere to timely payment review procedures.
- #4.** Codify change order procedures.
- #5.** Close jobs out and make final payment within 30 days of satisfactory completion.
- #6.** Remove retainage when bonding is in place or remove retainage correlated with project completion.
- #7.** Analyze all contracts provisions in a risk and rating approach.
- #8.** Impose penalties on owners for non-compliance of prompt pay.

IT'S TIME TO BEGIN OUR DISCUSSION WITH YOU

As an owner we know that you would not wait 60 or 90 days for a rent check. You wouldn't offer a lease without security. You wouldn't allow your tenants to skip a month or two of rent. Yet subcontractors are waiting 60 days, 90 days and more for payment. Many wait in excess of 300 days for payments on change orders. We know that you recognize that there is a problem in New York's construction industry.

Overall New York's construction industry economic forecast is excellent. However, the problem is who will build New York? There are a limited number of qualified contactors who want to bid the work. Those who do bid seem to be pricing their bid to manage the risk involved.

The Subcontractors Trade Association is dedicated to building New York with qualified union contractors. To that end, we propose a series of recommendations that must be incorporated into our industry quickly to stem the hemorrhaging we are seeing in our industry.

We are not simply concerned with today and our strong economy; we, like our public officials, are looking to 2030 when almost one million new residents will be living in New York City.

Who will build New York is a question to which we know the answer – We will build New York. But we will do so only if we can create the economic climate that will provide for the financial sustainability for our industry's subcontractors and over 120,000 workers we employ.





**Building New York's Future
& Restoring Its Past**

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ABOUT THE STA

The Subcontractors Trade Association was established in July 1966 by a group of subcontractors and suppliers with a vision that saw the need for representation. We have a membership of over 350 subcontractors and suppliers in the greater New York area including every discipline in the construction industry.

Our goal is to improve the economic well being of our members through representation, support and assistance through the process of legislation, legal action, public relations, education and other public information programs.

We focus our activities on problems affecting subcontractors in public and private construction, including progress payments, bid-shopping, improper back charges, legislation, prevailing wage enforcement, lien laws, insurance/bonding and the like.

STA PROMPT PAY COMMITTEE

The STA Prompt Pay Committee is one of 11 STA committees that works on behalf of its membership to advance the financial well-being of New York's subcontractors.

COMMITTEE MEMBERS

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