



March 2007

The DR Group / Business and Financial Consultants, in conjunction with Appel Research LLC / Marketing Research & Public Policy Consultancy, is proud to present the results and findings of a survey recently conducted among construction companies in the Capital Region. In this report, you will find out what your colleagues and competitors think with respect to the coming year and comparisons with previous years, in addition to actual reporting on contracts and strategies. You'll also see tables that contain information given by the respondents on average salaries and employee benefits in the industry. We think you'll find these results interesting, and perhaps surprising at times. The data represents opinions and statistics representing Calendar Year 2006, except when otherwise noted.

While these results represent a reflection of the construction industry in the Capital Region as a whole, figures presented for subgroups (by volume, sector, or type of work, for example) are considerably less reliable.

Key Findings

- **Outlook for 2007**
 - ◆ Construction activity will increase, but not as much as last year. Nearly ¼ of respondents expect a decrease.
 - ◆ Fewer contracts in 2006, compared to 2005 – 24% drop
 - ◆ Less backlog than last year. More expect decreasing backlog level than increasing levels.
 - ◆ Little planned new investment in strategies, management tools, software.
 - ◆ Credit and bonding should be a little easier.
- **Tech Valley Initiative**
 - ◆ More than 1/3 of companies have performed some work related to the Tech Valley initiative.
 - ◆ Of those, Tech Valley work is approaching 10% of their total volume.
- **Staffing & Human Resources**
 - ◆ Staff unchanged, but drop in number of companies that expect to hire more staff.
 - ◆ Executive salaries and bonuses constant.
 - ◆ Health insurance premiums barely increased, but the cost is down overall, due to businesses establishing higher deductibles and co-pays, and paying a lower percent of premiums.
- **Acquiring Work and Bidding**
 - ◆ Three quarters of Capital Region construction volume is in the private sector.
 - ◆ Construction firms will travel further from HQ for work.
 - ◆ Work is acquired almost equally through competitive bid and advertising/referrals/word-of-mouth.
 - ◆ The success rate for competitive bids is 51%, but much lower for larger companies on larger projects.
- **Proposed Legislation & Top Issues**
 - ◆ Wicks Law – raise the threshold, but don't end it. It raises public project costs, but has a mixed effect of companies. Some trades benefit.
 - ◆ Scaffold Law – mixed reviews. General contractors should not have absolute liability, but the law is at least somewhat responsible for safer conditions.
 - ◆ Energy costs are at top of major concerns.
 - ◆ Insurance issues remain important, despite some progress – Workers Comp, health, liability.
 - ◆ Material pricing & availability are significant.
 - ◆ Serious shortage of skilled labor, unskilled – less so.
 - ◆ State tax competitiveness with other states, and high level of federal taxes.

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Outlook for 2007

Capital Region construction industry respondents are generally optimistic about levels of activity for 2007, but less so than at a similar period, last year. Expected revenue, backlog, and new hiring expectations are all positive, although they are slightly reduced as compared with our survey of last year that predicted strong growth for 2006.

To begin, we found that 42% of companies predicted an increase in contract revenue, a slight drop from the 2006 figure of 48%. However, there are a larger number of companies expecting a revenue decrease for 2007, as compared to 2006, up from 11% to 23%.



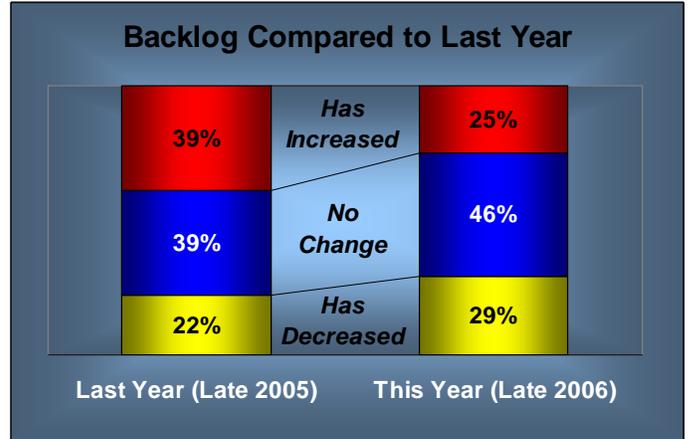
Among those who anticipate an increase over 2006, most see 1%-10% growth, although we note that 16% of all companies are expecting a very successful 2007 – 11% plus.

Looking forward, what do you expect next year's contract revenue (2007 estimated volume) to be?

| Decrease | Stay Even | Increase |
|-----------------|-----------|------------------|
| -50% or more 0% | | +50% or more 0% |
| -49% to -25% 1% | | +26% to +49% 1% |
| -11% to -24% 3% | | +11% to +25% 15% |
| -10% to -1% 19% | 35% | + 1% to +10% 26% |

Few respondents expect revenue to drop by more than 10% over 2006.

Another strong indication of future business conditions is current backlog, which is not as favorable now as it was last year.



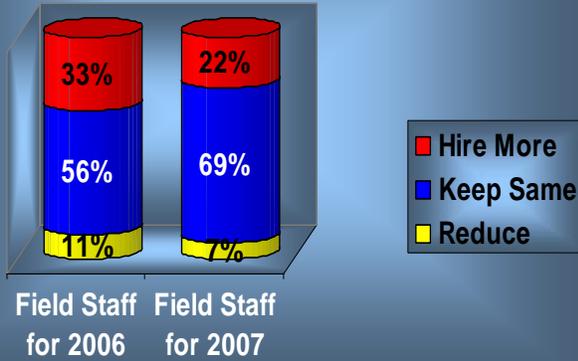
Compared to last year (2005), has your total backlog at the end of 2006:

| Decrease | Stay Even | Increase |
|-----------------|-----------|------------------|
| -50% or more 1% | | +50% or more 0% |
| -49% to -25% 3% | | +26% to +49% 3% |
| -11% to -24% 9% | | +11% to +25% 9% |
| -10% to -1% 16% | 46% | + 1% to +10% 13% |

Greater backlog usually indicates growth, and this data records that more companies expect a backlog decrease than an increase, which represents a reversal from last years' findings.

Expected hiring, especially of field staff, is an important indication of future conditions in the construction industry. For next year, there is a significant decline in the number of businesses anticipating increased hiring in the field (22%), as compared to 2006 (33%), dropping to 22% from 33% in the previous year.

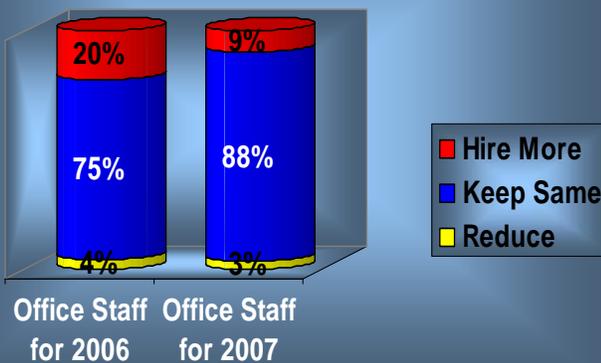
Reduced New Hiring for Field Staff Anticipated for 2007



It should be noted that most construction companies in the Capital Region are owner-operated and fairly small, with no need to be responsive to outside shareholders. Among the comments we received are those indicating a satisfaction with current business size, especially among the smaller ones. Growth that requires additionally hiring is done only reluctantly, in many instances.

Office staff are more likely to be permanent employees. In numbers, they tend to remain fairly constant. For 2007, 88% of companies reported no expected change in office workforce.

Little Change in Office Staff Anticipated for 2007

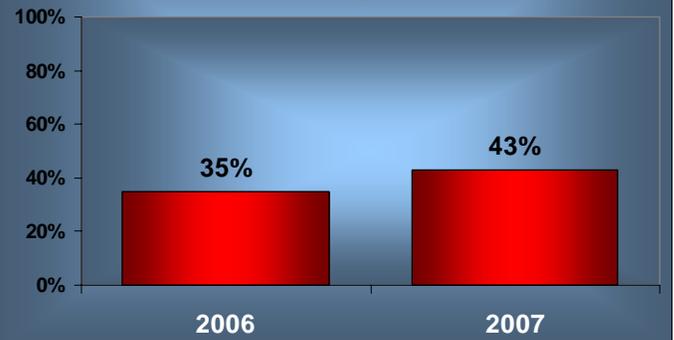


The other factor in hiring is the difficulty in finding qualified staff, especially skilled labor. Businesses are reluctant to hire – and grow, in some instances – if they are unsure of the quality of their labor force.

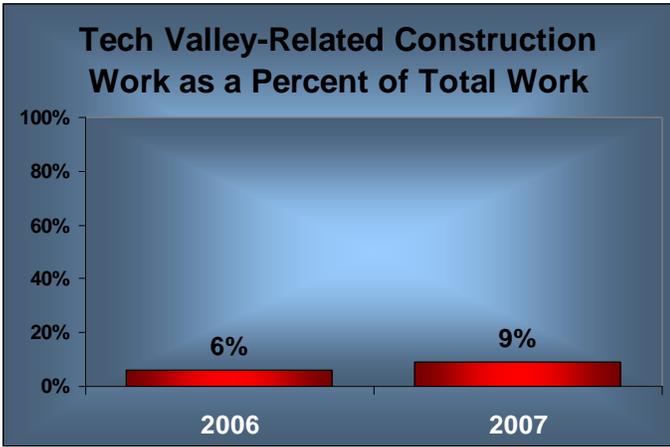
Effects of Tech Valley on the Regional Construction Industry

Using the broadest definition of Tech Valley and the sectors it might include, we asked construction firms if they had done any work in 2006 related the Tech Valley initiative, or expected to do any work on this related to this initiative in 2007. If so, they were asked to tell us the percent of their total work it represented or would represent. We were surprised to find that 53% of companies had done some Tech Valley related work in 2006, representing 6% of total work.

Percent of Companies Who Did/Will Do Tech Valley-Related Work



So far, Tech Valley-related work is just beginning to comprise a measurable portion of total construction work for the region. For 2007, among the 43% of firms anticipating that they will do some Tech Valley related work, it will represent 9% of their business:



The work is not yet distributed evenly – most of the revenue is directed toward larger companies. Most of the 57% of businesses that do not expect to perform Tech Valley-related work in 2007 are smaller concerns.

Still, nearly one-third of those doing at least some Tech Valley-related work expect that at least 25% of their volume will be in that sector.

Characteristics of the Local Construction Industry

The profile of the local construction industry in the Capital Region is that of predominantly small companies, with significantly more than half (64%) in business for greater than 20 years.

Age of Company (How long in business):

| | |
|------------------|-----|
| 0 – 5 Years | 7% |
| 6 – 10 years | 9% |
| 11 – 15 years | 10% |
| 16 – 20 years | 10% |
| 21 – 50 years | 44% |
| 51 or more years | 20% |

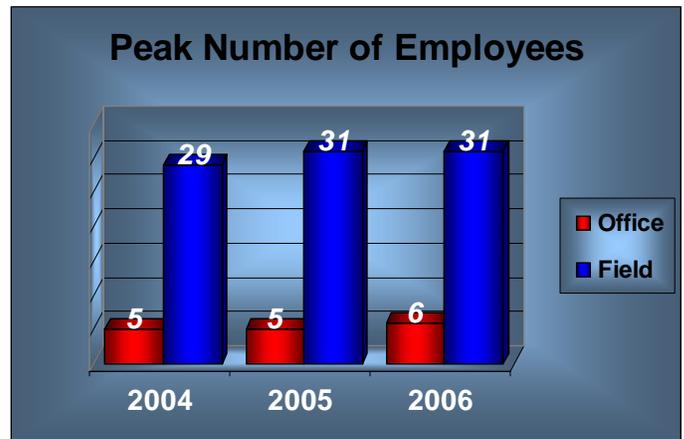
The average annual revenue is fairly small, often family-owned, with a few large players.

Estimated Annual Revenue for Calendar Year:

| | 2005 | 2006 |
|------------------------|------|------|
| Under \$1 Million | 44% | 37% |
| \$1 - \$4.9 Million | 33% | 34% |
| \$5 - \$9.9 Million | 7% | 11% |
| \$10 - \$24.95 Million | 10% | 11% |
| More than \$25 Million | 7% | 6% |

Workforce

In terms of employees, there was little change from 2004 to 2005 to 2006.



The number of employees per company increases with the reported revenue of responding companies:

Total peak number of employees – 2006 (busy season):

| | Office Staff | Field Staff |
|------------------------|--------------|-------------|
| All respondents | 5 | 31 |
| Under \$1 Million | 1 | 4 |
| \$1 - \$4.9 Million | 3 | 13 |
| \$5 - \$9.9 Million | 7 | 33 |
| \$10 - \$24.95 Million | 12 | 84 |
| More than \$25 Million | 34 | 199 |

For field staff, companies engaged in demolition and site work tend to have larger workforces, while steel, glass, roofing, and painting concerns are somewhat smaller.

In the office, smaller companies, logically, have fewer employees. Those with volumes under \$1 million average only 1.4 office employees, as compared with 33.8 for companies larger than \$25 million.

General Contractors/Subcontractors

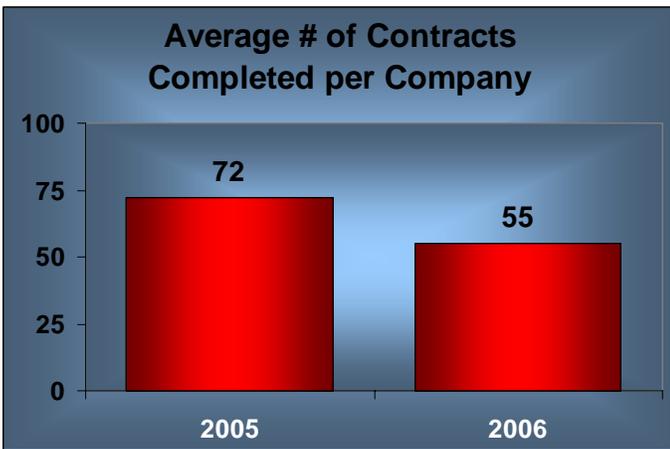
Each company was asked if it defined itself as primarily a prime/general contractor or subcontractor. Among those responding, 56% of companies said they are prime or general contractors, but there is some overlap, since many also act as subcontractors from time to time. Subcontractors tend most often to be engaged in commercial, institutional, or HVAC work.

We found that 78% of companies have subcontracted out at least some portion of work in 2006, even if they are not

primarily prime/general contractors. (Only 1% subcontracted all [100%] of their work). Among those who subcontracted part of their work in 2006, the average portion of subcontracted work was 25%.

Contracts Completed

With respect to the overall number of contracts completed, there was a 24% drop in 2006, as compared to 2005. Keeping in mind that the figures for 2004 were almost identical with 2005, companies entered 2006 with an expectation of at least the same performance and were disappointed. This re-centering of expectations may account for the expectation of reduced new hiring for 2007.



There is a large variation in the sheer number of contracts started or completed in 2006 among companies with differing volumes, sectors, and types of work:

Contracts Completed -- By Revenue:

| | 2005 | 2006 |
|------------------------|------|------|
| All Respondents | 72 | 55 |
| Under \$1 Million | 41 | 37 |
| \$1 - \$10 Million | 150 | 159 |
| More than \$10 million | 155 | 105 |
| More than \$25 Million | 20 | 45 |

Contracts Completed -- By Sector:

| | 2005 | 2006 |
|---|------|------|
| All Respondents | 72 | 55 |
| Residential | 57 | 64 |
| Commercial | 76 | 65 |
| Industrial | 70 | 59 |
| Heavy Highway | 34 | 28 |
| Bridge | 35 | 11 |
| Institutional (school, hospitals, etc.) | 55 | 70 |

Sectors and Types of Work

There is significant overlap among the companies doing residential and commercial construction. Seventy-one percent of those doing residential work also do commercial work, while 63% doing commercial construction also do residential work. Almost all who do industrial, heavy highway, bridge, and institutional construction checked off commercial, as well.

In what construction sector(s) do you work?

| | |
|---|-----|
| Residential | 64% |
| Commercial | 73% |
| Industrial | 40% |
| Heavy Highway | 10% |
| Bridge | 4% |
| Institutional (school, hospitals, etc.) | 30% |

The companies engaged in residential construction have lower annual volumes, while few of the larger companies (over \$10 million) do any residential work at all. Not surprising, the heavy highway and bridge construction enterprises tend to have the highest volumes.

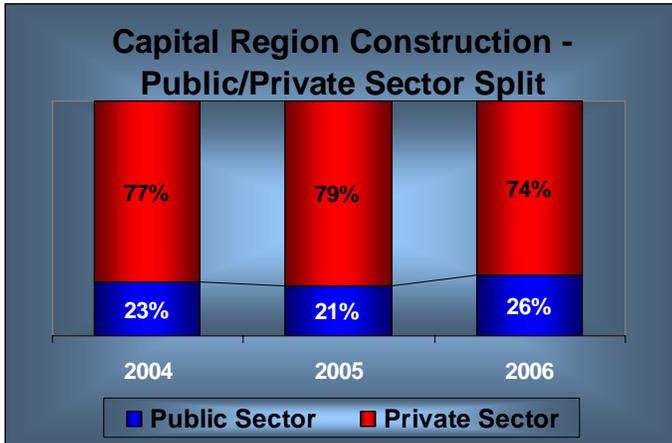
Most of the construction companies sampled work in many fields. On average, each respondent reported three different types of work.

What types of work do you do?

| | | | |
|------------|-----|---------------------------------|-----|
| HVAC | 14% | Roofing/Siding | 26% |
| Plumbing | 20% | Demolition | 19% |
| Electrical | 31% | Interior, Carpentry, Insulation | 41% |
| Steel | 11% | Hazardous Material Abatement | 1% |
| Masonry | 24% | Site work/Excavation | 24% |
| Concrete | 34% | Painting/Wall Covering | 24% |
| Glass | 10% | | |

Public/Private Sector Work

Most of the overall construction work in the Capital Region is performed for private sector clients, and the split has remained constant on recent years, with public sector work up slightly for 2006.



By volume, there is a correlation between yearly revenue of company and percent of public/private work – volume increases with a predominance of public sector work.

2006 -- What percent of your work was:

| | Public Sector | Private Sector |
|------------------------|---------------|----------------|
| All Respondents | 26% | 74% |
| Under \$1 Million | 12% | 86% |
| \$1 - \$4.9 Million | 19% | 81% |
| \$5 - \$9.9 Million | 39% | 66% |
| \$10 - \$24.95 Million | 67% | 33% |
| More than \$25 Million | 43% | 58% |

One third of companies responding perform no public sector work, and conversely, one-third do no private sector work.

Public sector work is often subject to Davis-Bacon or prevailing wage regulations.

Approximately what percent of your work is for city, state, or federal governments, and therefore subject to Davis-Bacon or state prevailing wage regulations?

| | Percent Who Have Some Davis-Bacon/Prevailing Wage Work |
|------|--|
| 2004 | 46% |
| 2005 | 46% |
| 2006 | 55% |

We found that 55% of the companies perform at least some Davis-Bacon or prevailing wage work for 2006, usually in larger dollar value jobs. Limiting the discussion to just those companies doing at least some Davis-Bacon or prevailing wage work, the average percent was 41%.

The payment of supplemental benefits on Davis-Bacon or other prevailing wage projects are handled in a variety of ways:

| | |
|---|-----|
| Included in pay envelope | 50% |
| Contributed to a bona fide trust | 40% |
| Take a credit for benefits provided directly by the company on prevailing wage jobs | 10% |

Including supplemental benefits in employee pay envelopes increased to 50% from last year's 38% of companies. Contributing to a bona fide trust dropped from 50% to 40% from 2005, possibly attributable to regulations that make it more difficult to take this route. Companies taking a credit for benefits also dropped, from 13% to 10%.

Unionization

With respect to unionization, unlike the downstate construction industry, the Capital Region industry consists mostly of open-shop companies.

Which of the following best applies to your company?

| | |
|--------------------------|-----|
| Union Contractor | 17% |
| Open-Shop Contractor | 73% |
| Both Union and Open-Shop | 10% |

Dollar volume matters, we found. No small company (under \$1 million) operates exclusively as a union contractor. Institutional builders (often doing largely public work) are more likely to be fully unionized. A few companies employ union labor specifically for public contracts.

Organizational Structure

The organizational structure mix is indicative of small businesses.

What is your organizational structure?

| | |
|---------------------------------|-----|
| S Corp | 46% |
| C Corp | 24% |
| Partnership | 1% |
| Sole Proprietor | 14% |
| LLC (Limited Liability Company) | 14% |

There continues to be a sizable portion of construction companies in the region that are organized as sole proprietors or partnerships, which by their choice, are missing out on corporate liability protection. Virtually all of the companies who reported themselves as "Sole Proprietor" and "Partnership" have under \$1 million in

volume. While there is a cost in legal bills and fees to incorporate, most business analysts would say that the limited liability features of the C Corporation, the S corporation, and the LLC are more than worth it.

Also, switching from C Corporation to S corporation will result in an overall tax savings, long term, for most business owners while providing the same liability protection.

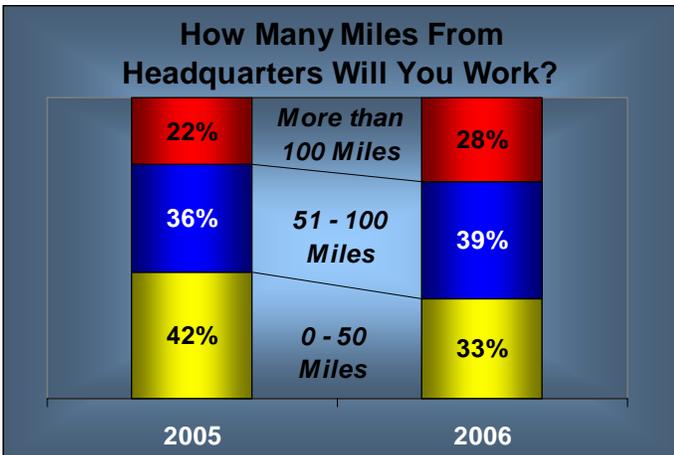
Still, most small companies have taken the various routes to incorporation as S Corps, or Limited Liability Companies. And the largest companies by volume (\$25 million or greater) favor the S Corp over the C Corp, two to one.

With respect to other government regulations or opportunities, 10% of the companies sampled qualify as a minority or disadvantaged business enterprise (MWBE).

We also learned that 25% of the companies have a New York State approved apprenticeship training program.

Acquiring Work & Bidding

First, most work comes from close to home, but there is slight shift toward a willingness to travel further for business opportunities.



Significantly, there is little variation in these findings by size or sector.

For the future, 21% of companies surveyed plan to seek construction projects in new geographical areas, as compared to 19% last year.

When asked how the work is acquired, the respondents replied that informal methods, such as referrals, advertising and word of mouth, are major sources. Formal methods, such as competitive bidding, come next. In many instances, work is steered through related parties.

How do you typically acquire work?

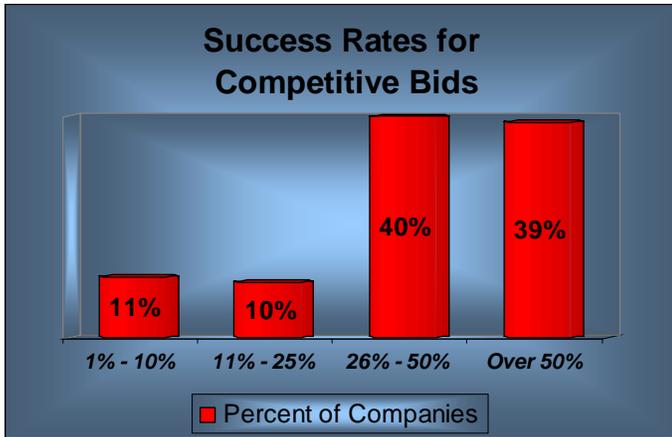
| | Competitive Bid | Referrals, Advertising, Word of Mouth | Related Parties |
|------------------------|-----------------|---------------------------------------|-----------------|
| All Respondents | 43% | 48% | 14% |
| Under \$1 Million | 22% | 65% | 13% |
| \$1 - \$4.9 Million | 37% | 46% | 17% |
| \$5 - \$9.9 Million | 82% | 38% | 22% |
| \$10 - \$24.95 Million | 83% | 15% | 3% |
| More than \$25 Million | 63% | 35% | 2% |

By volume, we note that competitive bidding assumes a larger role for companies with bigger grosses. It is relatively rare for residential projects (28%). Also, those providing steel (19%), and painting/wall covering (19%) services receive comparatively little of their work through formal bidding.

We note the larger companies tend to do more public projects, which require a competitive bidding process. Almost all of the heavy highway and bridge construction work is acquired in this manner.

Smaller companies, especially in the residential sector, get much of their work as a result of advertising and referrals, generally relying on "reputation."

As for success rate for competitive bids submitted, the average is 51%.



Smaller companies have higher success rates:

| | Average Success Rate |
|------------------------|----------------------|
| All Respondents | 51% |
| Under \$1 Million | 63% |
| \$1 - \$4.9 Million | 53% |
| \$5 - \$9.9 Million | 42% |
| \$10 - \$24.95 Million | 31% |
| More than \$25 Million | 21% |

Furthermore, 54% of companies under \$1 million in volume report success rates of greater than 50%.

Banking & Bonding

Forty-five percent of local companies have at least some percentage of their work bonded. Of those companies who have some bonded work, the mean percentage of work that is bonded is 36% (down from 44% in the previous year).

Among all companies in the Capital Region, 16% of all work is bonded (down from 18% last year), based on the aggregate answers of those responding. The percent increases by volume – 60% of the work from companies with grosses of greater than \$10 million is bonded.

Does ownership provide personal guarantees on financing?

| | Yes | No |
|-----------------|-----|-----|
| All Respondents | 52% | 48% |

This represents a slight drop from last year’s 59% owner guarantees.

The data indicates a relatively high and stable business net worth among bondable contractors, as the industry trend is for more sureties to require personal guarantees.

Credit availability has not changed significantly in the last year, according to most of our respondents.

Compared to last year, is the general availability of bank credit/bond credit for your company:

| | Bank Credit | Bond Credit |
|----------------------|-------------|-------------|
| Easier today | 22% | 10% |
| More difficult today | 10% | 5% |
| No change | 68% | 84% |

In last year’s survey, bank credit was judged more difficult today by 21% of respondents, so bank credit availability is improving somewhat, in the judgment of the local construction industry.

Similarly, bond credit is slightly easier, with a drop among those who said it was more difficult today from 17% to 5%. All those who felt bond credit was more difficult fell into the \$1 million to \$5 million gross revenue category.

Human Resources / Compensation 2006

The respondents were asked to fill in the following chart, chronicling years of service, current annual salary, and bonus, if any. Given that many of the companies are small, most do not have all the positions listed. Also, a portion of the respondents chose to skip these questions. Therefore, the data presented represents a small sample size, limiting its reliability. The comparisons are all with respect to 2005 figures.

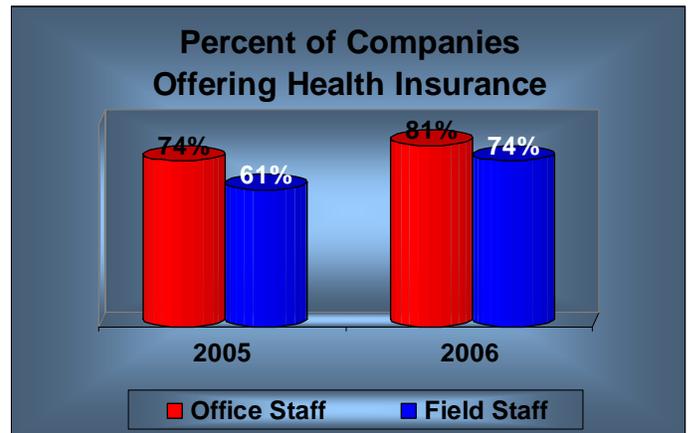
| | Years of Service | Salary | Bonus (if any) |
|--|------------------|----------|----------------|
| President/CEO <i>Notes:</i> Years of Service: no change from 2005. Similar figure for all sectors. Salary: no change. Industrial highest at \$134,643. Bonus: 10% decrease. | 25 | \$94,639 | \$28,922 |
| Chief Financial Officer <i>Notes: (small sample)</i> Years of Service: no change.* Salary: up 6%* Bonus: up 11%* | 16 | \$84,707 | \$14,244 |
| Controller <i>Notes: (small sample)</i> Years of Service: no change.* Salary: up 7%.* Bonus: no change.* | 13 | \$57,692 | \$5,881 |
| Project Manager <i>Notes: (small sample)</i> Years of Service: no change overall, but for companies under \$1 million in revenue, the average figure is 7. Salary: up 17%. | 13 | \$81,147 | * |
| Estimator <i>Notes: (Small sample)</i> Years of Service: no change.* Salary: up 7%* | 13 | \$64,133 | * |
| Superintendent <i>Notes: (small sample)</i> Years of Service: up 42%* Salary: 3% decrease.* Bonus: 30% decrease.* | 20 | \$60,423 | \$3,088 |
| Field Foreman <i>Notes:</i> Years of service: no change. Salary: up 5% Bonus: No change | 11 | \$50,592 | \$3,708 |
| Sales/Marketing <i>Notes: (Very small sample)</i> Years of Service: no change.* Salary: up 29%.* | 8 | \$88,000 | * |
| * Sample size too small to be statistically significant. | | | |

Not surprisingly, larger companies pay their top officers more:

| | CEO/President |
|------------------------|---------------|
| All Respondents | \$94,639 |
| Under \$1 Million | \$61,000 |
| \$1 - \$4.9 Million | \$69,333 |
| \$5 - \$9.9 Million | \$165,000 |
| \$10 - \$24.95 Million | \$113,250 |
| More than \$25 Million | \$180,000 |

Health Insurance

Health insurance continues to increase as percent of total overhead for businesses in the United States. Despite that, we found that most Capital Region contractors offer health insurance at some level, and interestingly, there was an overall increase in number of employees covered for both office and field staff. The biggest jump was among businesses with revenue under \$1 million – field staff health insurance coverage increased from 35% of employees to 57%.



We note that some field staffers are covered through their unions, which accounts for the lower percentage overall for field staff.

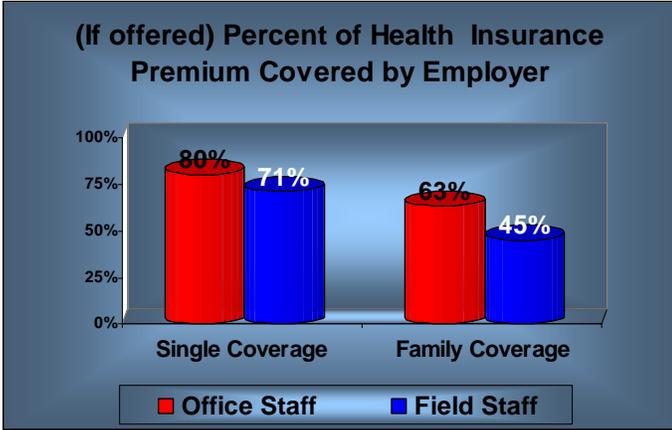
There is a correlation between offering health insurance and size of company.

Offer health insurance for:

| | Office Staff | Field Staff |
|------------------------|--------------|-------------|
| All Respondents | 81% | 74% |
| Under \$1 Million | 61% | 57% |
| \$1 - \$4.9 Million | 86% | 82% |
| \$5 - \$9.9 Million | 100% | 100% |
| \$10 - \$24.95 Million | 100% | 63% |
| More than \$25 Million | 100% | 100% |

Companies tend to cover a higher portion of health care premiums for single coverage over family coverage, often

based on the premise that the dollar value of the benefit will be similar for all employees. Since the single coverage premium is typically less than half that of family coverage, the constant dollar amount will assume a higher percentage for single coverage.

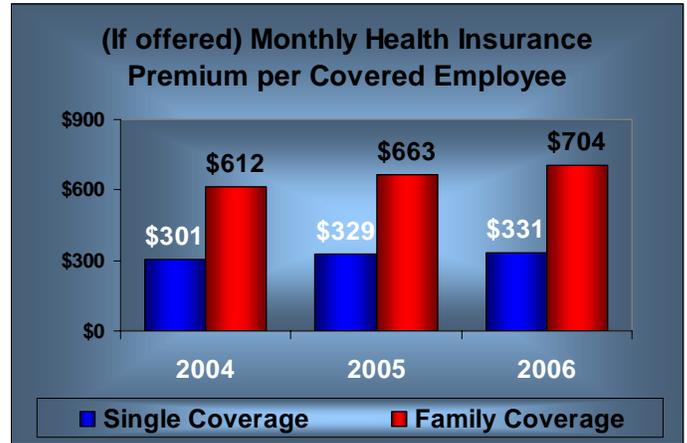


Companies tend to cover a larger portion of health insurance premiums for office staff, especially in family coverage.

For single coverage, the larger the company, the higher the percent of premium paid. The Percentage of coverage for both single coverage/office staff (71%/small companies to 91%/large companies) and single coverage/field staff (65%/small companies to 100%/large companies) increase as the company size (based on revenue) increases. But percentage of premiums paid for family coverage does not correlate with company size.

Also, there was minimal change in percent of health insurance premium coverage as compared to 2005.

Another explanation for the reduction in covered premium percentage for family coverage was the price increase in family plans. While health insurance premiums rose minimally for single coverage, they went up by 6% for family coverage in the past year.



Given the significant expense of health insurance, employees are always searching for ways to reduce, or at least control premiums. One method is to limit the number of providers offered to a single provider, a route taken by 67% of our respondents. Other strategies include reducing coverage or passing more costs to employees, the most common of which is to raise deductibles or co-pays.

Please select actions you have taken during the past year to control your health insurance cost:

| | |
|-----------------------------|-----|
| Reduced coverage | 19% |
| Raised deductible or co-pay | 40% |
| Changed carriers | 16% |
| Changed brokers | 15% |
| Decreased company | 13% |

Perhaps because premium increases were less than in previous years, fewer companies changed carriers (2005 – 23%) and fewer raised deductibles or co-pays (2005 – 51%).

In addition to health insurance, construction companies in the Capital Region often offer other benefits to their employees.

Do you offer:

| | Office Staff | Field Staff |
|--|--------------|-------------|
| 401(k) and/or Retirement Plan | 50% | 44% |
| Paid vacation/holiday benefits | 86% | 75% |
| Life insurance benefits (new) | 23% | 21% |
| Supplemental Disability benefits (new) | 38% | 34% |
| Dental insurance (new) | 23% | 25% |

There was little change from last year's results, except that slightly more companies were offering paid vacation or holiday benefits for their employees.

There are some new questions in this year's survey with respect to benefits, to enable construction companies in the Capital Region to compare themselves to others:

Life insurance and dental benefits are less likely to be offered by smaller companies (9% of companies grossing under \$1 million offer them for both office and field staff).

Worker's Compensation is another large expense for businesses, and we found that 42% of our sample had claims filed during the most recent year, compared to 43% during the previous year. None of the companies surveyed had more than ten claims filed, and no company that grossed less than \$10 million had more than five. New legislation has been signed in New York State that may alter the Worker's Compensation environment in the future.

Of those who had claims, most had between one and five, typically in the \$500 to \$2,500 range. The largest number of claims over \$5,000 were in the concrete field.

Indicate the range of your current workers Compensation Experience Modifier:

| | |
|------------------|-----|
| Less than 0.30 | 20% |
| 0.31 to 0.49 | 13% |
| 0.50 to 0.79 | 15% |
| 0.80 to 0.99 | 41% |
| Greater than 1.0 | 11% |

There was little change from last year, but companies performing commercial construction had modifiers that were slightly higher than those engaged in residential construction.

We found that 29% of respondents filed liens in 2006, just about the same as in prior years. Liens are less common in residential construction (18%).

The data also showed that 62% of the companies responding had been involved in a payment dispute with a customer in the past two years, (slightly higher than in 2005). Resolving these disputes took eleven months, on average. Almost all companies grossing greater than \$10 million have been involved in payment disputes.

If involved in payment dispute, what percent of the contract value of the most recent dispute did the disputed amount represent?

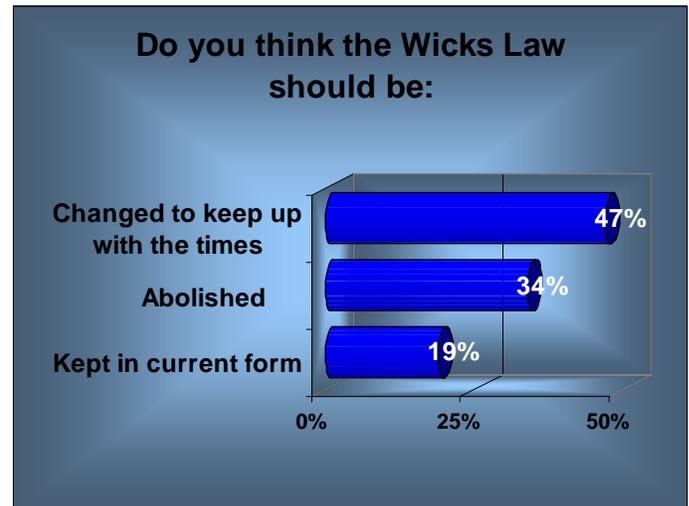
| | |
|---------------|-----|
| Less than 2% | 26% |
| 2.1% - 5% | 26% |
| 5.1% - 10% | 24% |
| More than 10% | 24% |

The percent for disputes of more than 10% dropped from the 2005 figure of 36%.

Proposed Legislation

Wicks Law

The Wicks Law is a controversial regulation that is receiving considerable attention within the construction industry, the New York State Legislature, municipalities, and the courts. It requires municipalities, when planning for most public construction projects of \$50,000 or more, to separate the job into at least four prime contractor bids (HVAC, electrical, plumbing, and general). The statute and the threshold amount (\$50,000) have been in effect for many decades.



Relatively few respondents want to keep the Wicks Law intact, but opinions are mixed on whether it should be abolished or amended to reflect new conditions. Those companies that perform public sector construction work are more likely to want to keep the law in current form (23%). Among those who perform no public sector work, only 5% would keep the Wicks Law in its current form.

Compared to a bid process in which a single prime contractor places a bid and includes subcontractors within that bid, what effect does the Wicks law have on the overall cost of the construction project?

| | |
|------------------------------|-----|
| Raises overall cost | 68% |
| Lowers overall cost | 10% |
| Cost is the same, either way | 22% |

There is a consensus among respondents that the Wicks Law currently increases construction costs on public sector work. The percent is even greater among those who perform no public sector construction (80%).

The Wicks Law affects businesses in the construction industry in different ways. What effect does the Wicks Law have on your business specifically?

| | |
|------------------|-----|
| Positive effect | 13% |
| Negative effect | 24% |
| No effect at all | 64% |

Only about one-third of respondents said that the Wicks Law affects them, with more companies reporting negative effects than positive effects. Almost all those who state that the Wicks Law has a positive effect perform public sector work, mostly in HVAC, plumbing, and electrical trades.

One suggestion to revise the Wicks Law is to increase the threshold amount to \$2 million in New York City and \$1 million everywhere else in New York State. Proponents say that most public construction projects are smaller, and thus would be exempt. Do you:

| | |
|--|-----|
| Favor raising threshold | 75% |
| Oppose raising threshold – keep \$50,000 threshold | 25% |

There is a clear majority for raising the threshold, keeping the Wicks Law requirements for larger projects, while exempting smaller ones.

Scaffold Law

The Scaffold Law places “absolute liability” on owners and general contractors, making them totally responsible for gravity-related injuries to construction workers. It is also noted that premiums for liability insurance in New York State are among the highest in the country.

One suggestion to reform the Scaffold Law would be to change the law, so that awards for injuries would be reduced by the percentage or worker responsibility for the injury.



There is overwhelming approval for this proposal, but we recognized that the solution is somewhat simplistic. Rather than leave the subject at that, we added some other facts and opinions to the mix.

If worker responsibility were to be taken into account, some people say that the cost of liability insurance would go down. On the other hand, deciding if workers had a role in causing their own injuries would mean more litigation and lawyers. With this in mind, do you think that liability insurance costs would increase, decrease, or remain the same if this reform were to take effect?

| | |
|-----------------|-----|
| Increase | 15% |
| Decrease | 48% |
| Remain the same | 37% |

Most respondents rejected the argument that increased legal costs would result in higher liability premiums, but nearly four in ten felt that overall, there would be no liability insurance cost decrease.

New York State has the lowest reported construction injury rates in the country. Since the Scaffold Law places the burden (and the incentive) on owners and contractors to insure a safe workplace, how much is the scaffold law responsible for that?

| | |
|------------------------|-----|
| Extremely responsible | 5% |
| Somewhat responsible | 63% |
| Not responsible at all | 32% |

Two-thirds of respondents agree that the Scaffold Law is at least partially responsible for low injury rates, presumably a good thing.

Noting the increase in non-English speaking construction workers, do you agree or disagree that the Scaffold Law, encouraging owners and contractors to make a maximum effort to ensure conditions are safe, increases the safety of those who can't always understand written and verbal instructions?

Agree 48%
Disagree 52%

The results to this proposition are mixed, but the fact that nearly half the respondents in a construction industry survey allow that the law is working is a powerful statement against major changes.

With the view among a substantial number of respondents that if insurance rates would not change, workplaces are safer, and non-English-speaking workers are protected, it appears that the movement toward major reform is not nearly as strong as for the Wicks Law.

Top Issues Affecting You In 2007

The companies were asked to rate each item from a list of issues on a one to five scale, in which five was "most important." Adding answers "four" and "five" together as significantly important, the issues were ranked in the following order:

| Issues | 2006 | 2005 |
|--|------|------|
| Workers Comp Insurance | 83% | 89% |
| Energy and Fuel costs (new) | 83% | ---- |
| General liability | 82% | 87% |
| Healthcare insurance | 78% | 73% |
| Sources of future work | 74% | 75% |
| Material pricing | 72% | 72% |
| Material availability | 71% | 71% |
| Shortage of skilled labor | 62% | 74% |
| Federal tax legislation | 47% | 49% |
| State business taxes competitive with other states (new) | 47% | ---- |
| Safety/OSHA | 46% | 54% |
| State agency actions | 45% | 47% |
| State legislation (PLA's, etc.) | 43% | 46% |
| Changing technology | 36% | 43% |
| Shortage of unskilled labor | 31% | 31% |
| Federal legislation other than taxes | 22% | 14% |
| Surety bonds | 21% | 25% |
| Litigation | 21% | 21% |
| Collecting bargaining issues | 19% | 19% |

Insurance issues continue to be at the top of the list, led by Workers Compensation, a key issue for the Capital region

construction industry. We take note of the recent agreement reached between the Legislature and the Governor:

The just-signed Workers Compensation reform legislation includes the following key provisions:

- *Expected reduction in premiums, in the range of from 10% to 15%*
- *Increased maximum payments to workers from the current \$400 to \$600 over 4 years, thereafter indexed.*
- *Capped payments for permanent partial disabilities.*
- *Establishing an end period for payments, ranging from 4 to 10 years.*

General liability insurance came up as a top tier concern, followed by health insurance.

An energy and fuel costs category was added this year, recognizing the impact of high oil prices as an impediment to doing profitable business.

On the labor front, availability is an important issue, especially skilled labor.

Material pricing and availability remain significant, attributable to a general building boom in the United States, and demand abroad, especially China.

Also on the list was Project Labor Agreements, but when we asked about them specifically, we found that PLA's are not a major concern to most respondents, although 29% were now affected, as compared to 18% in 2005. Those affected are split on whether the effects were positive (7%) or negative (22%), although we note that the percent who recorded negative effects is up from 11% in 2005. Few small construction companies feel any impact.

Things to Do in the Future

There is a clear winner among the technology investments that companies would be most willing to try – estimating and project management. Interestingly, there does not seem to be significant variation by size of company with respect to any of these technology investments.

Over the next two years, which technology investments do you believe would help your company most?

| | 2006 | 2005 |
|-------------------------------|------|------|
| Estimating/project management | 60% | 53% |
| Customer service | 37% | 27% |
| Web/internet | 32% | 23% |
| Sales and marketing | 28% | 37% |
| Internal processes | 25% | 21% |
| Document management | 25% | 21% |
| Technology security | 0% | 8% |

Strategies under consideration to improve profitability are widespread, but the likelihood of implementing them is often dependent on the size of the company.

Other than geographic expansion, what other strategies are under consideration to improve your company's profitability?

| | 2006 | 2005 |
|--|------|------|
| Do what we do better | 80% | 84% |
| Cut overhead | 45% | 27% |
| Improve marketing (volunteered in 2005) | 31% | 4% |
| Training | 28% | 22% |
| Offer additional related services | 26% | 38% |
| Design-build projects | 25% | 40% |
| Safety and risk management | 20% | 23% |
| Information Technology implementation or upgrade | 17% | 23% |
| Mergers/acquisitions-related businesses | 8% | 8% |
| Investment in unrelated businesses | 6% | 10% |

There was a significant increase in the number of companies considering serious efforts to cut overhead. Marketing, a new category for 2006, is offered as a way to improve profitability by nearly one-third of respondents. Improving workforce productivity by way of training or information technology has a limited appeal, although larger companies are more likely to have plans in these areas.

By size, smaller companies are looking into offering additional related services with greater frequency, while larger ones have a greater tendency to consider mergers and acquisitions of related businesses, as well as increase efforts toward safety and risk management (especially those who build highways and bridges).