



Construction Outlook for New Jersey



William C. McNamara, CPA, CCIFP®
Shareholder-In-Charge
Construction Services Group
Cowan, Guteski & Co., P.A.

As we did in the 2003 President's Day snow storm, New Jersey finds itself digging out. It's not the weight of snow on our shovels, but global economic conditions. In New Jersey, we see state government faced with significant budget shortfalls combined with spending issues. Nationally, we're seeing more home foreclosures, a volatile stock market and financial institutions being crushed with debt from sub-prime mortgages.

The impact extends internationally with the rising costs of crude oil and our dependence on foreign energy. So what will 2009 bring us, besides a new President? By the spring of 2009 we should feel the impact of newly adopted legislation and economic stimulus proposals funding large statewide infrastructure contracts. Trade organizations have persisted in pushing forward programs to create construction projects to fuel New Jersey's economy. While no one can guarantee an immediate rebound, these collective forces will have a positive impact on contractors statewide. This will allow contractors to once again grow their business and make long-term investments in equipment, technology and people.

Residential Development

Timothy Touhey, Executive Vice President of the New Jersey Builders Association (NJBA), identifies the positives New Jersey's housing market enjoys over other areas of the country: "New Jersey is not built-out and has not experienced the mortgage meltdown to the extent of California, Nevada, Florida or other states."

Touhey also cites the support the state's economy receives from a mix of diverse industry segments (financial, pharmaceutical, education, travel/tourism/gaming), as well as by bordering metropolitan areas – including New York City, Philadelphia and Wilmington. "These advantages provide benefits such as a well-educated and affluent workforce that enhances New Jersey's ability to remain a competitive place to conduct and attract business." The NJBA's value to the industry has been evident in its pursuit of legislative issues aimed at improving the economic recovery of the housing industry.

Permit Extension Act

In September, Governor Corzine signed the Permit Extension Act of 2008, an NJBA-supported bill that extends permits and approvals typically required for subdivision and site-plan approval in New Jersey through July 1, 2010. Some contractors were faced with the expiration of site

permits or approvals when their projects were delayed due to sales reductions and/or the limited infusion of capital financing. Under the extension, contractors will have three additional years to finish a project before facing the permit or approval expiration date. This extended timeframe reduces the financing burdens imposed with the near closure of financing and investment markets withdrawing from the housing industry.

This act will allow a contractor additional time to restructure financing or generate sales opportunities to complete developments. For new and proposed sites, developers and investors get the time and capability to correctly evaluate the changing economic environment to prudently modify their strategic objectives.

State Infrastructure Projects

Outside the residential housing market, school, highway, bridge, water and sewer infrastructure projects are coming off the drawing boards and onto bid and proposal requests in connection with federal and state stimulus packages or financing through the New Jersey Transportation Trust Fund Authority and the New Jersey Environmental Infrastructure Trust. Collectively, the amount of funds generated for these new construction-related projects will be unparalleled in size and scope since the New Deal of the 1930s.

These infrastructure projects were first outlined by Governor Corzine in his Economic Assistance and Recovery Plan. The Governor's goal was to expedite public projects that create new jobs in the short term, while providing long-term benefits to sustain economic growth. He identified the need to provide funding of \$1.8 billion in urban and suburban school construction contracts. Additionally, the plan calls for transportation improvements on New Jersey roads that will have corresponding federal funding totaling \$7 billion over the next 10 years. A third stimulus piece is the new Trans-Hudson Express Tunnel, which is estimated to cost \$1.8 billion and promises to address New Jersey's already congested highways.

The highway and tunnel projects alone will provide a broad spectrum of services for contractors ranging from road realignments to drainage systems to bridge repairs. The funding for these items will come from the December 1, 2008, highway toll increases. "This is a very significant event for transportation infrastructure needs," states Robert Briant Jr, CEO of the Utility and Transportation Contractors Association (UTCA). Prior funding for these types of projects came from the New Jersey Transportation Trust Fund Authority (TTFA). But, as Briant explains, "Doomsday is coming as debt service payments will equal annual revenue for the fund by 2011." This fund has been severely hampered by its own fiscal policies. The TTFA's revenue stream has been designated for debt service payments and not dedicated to funding new projects. The Governor's recovery plan addresses short-term funding needs, while a long-term fix is researched.

Briant identifies the New Jersey Environmental Infrastructure Trust (NJEIT) as a model for how infrastructure trust funds are structured going forward. The NJEIT provides approximately \$600 million annually in revolving funding. As payments for existing projects come back to the fund, newer loans are funded. The trust's total principal increases and grows on a yearly basis. It

provides funding for a variety of water and sewer needs to local and county governments who ultimately bid out this work.

While several economic issues facing the construction industry will require deeper assistance and a longer timeline to demonstrate improvement, building blocks have been placed. Economic upturns are usually created when individual synergies are bundled and leveraged for growth. An example is the emergence of green technology for building needs, which is becoming a catalyst for change in our nation to reduce energy dependence on fossil fuels. Change is also demonstrated by the leadership of new organizations such as the New Jersey Smart Growth Economic Development Coalition that has developed legislative proposals to help jump-start New Jersey's economy.

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