



Coalition for Adequate School Housing (CASH)
 Fall Conference
 Costa Mesa October 10, 2002

Assessing the Bid Climate



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TOPICS

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Introductory Comments

Avoid the "Field of Dreams" Syndrome – "Bid and they shall Come"

Project Procurement Phase cannot be taken lightly:

- **Neighboring Districts' Construction Activity** – Ramifications when competing for similar trade specialties
- **Local Construction Activity** – Sizing up the local construction market
- **Assessing Construction, Building, & Material Cost indices** – Local, State and National trend analyses
- Contractor Outreach – Challenges to note

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Neighboring Districts' Construction Activity

Participate in County K-12 Networks to learn of other districts' challenges and Capital Construction implementation strategies.

- Project delivery methods
- Horizontal/Bulk Purchasing

Local Construction Activity

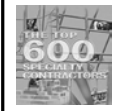
Your City's Capital Improvement Plan provides a multi-year implementation strategy.

- Civic Center Expansions, Police Stations, Libraries, etc.

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Assessing Construction, Building & Material Cost Indices



- "Through July (2002), construction saw year-to-year declines of 44% for office buildings, 29% for hotels, 25% for commercial buildings and 17% for the already depressed industrial market, according to the U.S. Dept. of Commerce. **During the same period, public markets experienced year-to-date increase of 24% for hospitals and 16% for schools**, while highway, water and sewer work remained strong."

- Construction Consultant and new ENR building cost index, Rider Hunt Levett & Bailey (RHLB) states: "Southern California has the highest inflation rate"
- Revenue figures for ENR's Top 600 Specialty Contractors – "The Top 600 posted revenue of \$54.26 billion in 2000, a 24.2% jump over 1999's previous record of \$43.68 billion."

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Source: Business & Labor - Third Quarterly Cost Report, Tim Grogan



Assessing Construction, Building & Material Cost Indices

Asphalt

- Since last March, ENR's 20 city average price for paving asphalt has increased 14% to \$162 per ton.
- The impact of higher oil prices has yet to fully impact the price of bituminous concrete, according to the Bureau of Labor Statistics. Granite Construction Co., Watsonville, Calif., has seen a 5% to 10% increase in the price of liquid asphalt in the third quarter alone.

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Source: Business & Labor - Third Quarterly Cost Report, Tim Grogan



Assessing Construction, Building & Material Cost Indices

Steel

- A 30% U.S. tariff on most flat imported steel products, i.e. plate & sheet increased prices by 41% while composite price for long products i.e. structural steel and reinforcing bar only rose 2.5% because they were excluded from the tariff.
- By next March, the tariffs fall from 30% to 24%. In March 2004, they decline again, to 18%, and by a year later they will expire, leaving the cycle of crisis in the steel industry to start all over again.

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Source: Business & Labor - Third Quarterly Cost Report, Tim Grogan



Assessing Construction, Building & Material Cost Indices

Wallboard



- ENR's 20 city wallboard price peaked at \$236 per thousand sq ft in the 1st quarter of 2000, after increasing 36% the previous year. ENR's price then fell 20% over the next two years before recovering in 2002. At \$203 per thousand sq ft, it is now 8% above last year's level
- Wallboard prices are definitely starting to trend up

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Source: Business & Labor - Third Quarterly Cost Report, Tim Grogan



Assessing Construction, Building & Material Cost Indices

Insurance

- Workers' Compensation Rates ready to take off – and are expected to hit construction next year, and the numbers could be staggering.
- The dramatic increases and impact will be felt most by subcontractors, whose rates could climb by as much as 80%.

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Source: Business & Labor - Third Quarterly Cost Report, Tim Grogan



Assessing Construction, Building & Material Cost Indices

Labor

- After a breakthrough year for wage hikes in 2001, construction workers have seen slightly lower increases during 2002. But rates still rose more than 4% for both union and open-shop workers, bettering most increases during the 1990's.
- ENR's 20 city average union wage, including fringe benefits, for 19 skilled crafts is up 3.8% over a year ago. This is down slightly from the 4% annual increase won by this group last year. Building laborers saw a 4.1% increase this year, compared to a 4.5% hike in 2001.

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Source: Business & Labor - Third Quarterly Cost Report, Tim Grogan



Contractor Outreach Challenges

- American International Group (AIG), the world's largest surety company, recently sent out a letter announcing that it will no longer support construction firms with net worths under \$50 million. An estimated 500 construction firms worldwide already have been dropped by AIG.
- To make matters worse, the Surety Association of America (SAA) recently released a report indicating that the surety industry incurred record underwriting losses of \$1.5 billion in 2000. This is an increase of more than 100 percent from 1999. While loss results for 2001 are not yet finalized, all indications are that surety losses will be worse for this past year.

Source: McGraw Hill Construction - Bonding

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The Goals

- Updating Estimates to reflect most current market conditions.
- Having Quarterly updates on Construction, Building and Material Cost Indices.
- Keeping "Bosses" updated on key indicators that may impact budgets at the time of Bids.
- Soliciting General and Specialty Trade contractors well in advance of Bid Dates.
- Streamline progress payment process to keep current contractors satisfied and prospective contractors interested.

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