

Cross Cutting Management Issues

Construction Material Cost Trends

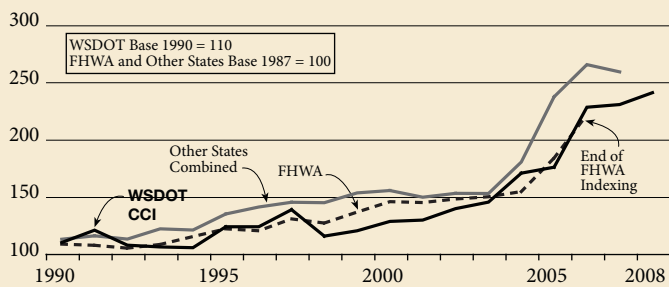
WSDOT prepares construction cost estimates using historical information about market conditions drawn from recent bids. Like other state transportation departments, WSDOT must extrapolate for the future based on past records. WSDOT accumulates construction cost information and calculates a Construction Cost Index (CCI). The CCI is then compared against the experience of other western states. WSDOT's CCI is a composite of unit price information from low bids on seven of the most commonly used construction materials. These items reflect a composite cost for a completed item of work and include the costs of labor, equipment, and materials.

Construction Cost Index increases 4.5% in the first quarter of 2008

The graph below presents the past 18 years of CCI data for WSDOT. This is plotted against the CCI of the Federal Highway Administration and a line representing the combined CCIs of several nearby western states: California, Colorado, Oregon, South Dakota and Utah.

Construction Cost Indices for Washington State, FHWA, and selected Western states

1990 - 2008 (YTD)

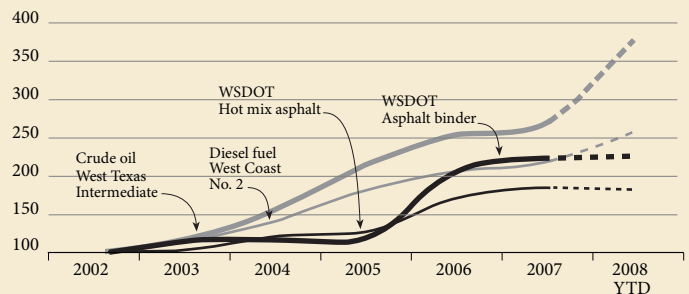


Data Source: WSDOT Construction Office.
 Note: WSDOT 2008 index is for quarter 1. The FHWA index was discontinued in 2007. Other states 2007 data includes California, Colorado, Oregon, South Dakota and Utah annual indices.
 Note: 2003 and 2004 WSDOT CCI data points adjusted to correct for spiking bid prices on structural steel.

From 1990 through 2001, WSDOT's CCI experienced an average annual growth rate of about 1.5% each year over the 11 year period. Beginning in 2002 and continuing through 2005, the growth rate increased to 8% annually. The CCI increased rapidly in 2006 and by the end of 2007, the CCI had increased by an additional 31%. During the first quarter of 2008, WSDOT's CCI has increased 4.5% over the annual average for 2007, from 230

to 241. WSDOT believes that further increases can be expected for the 2008 construction season, as the U.S. dollar's weakness causes inflation for materials that are in high demand worldwide such as steel and cement, both of which are factors in WSDOT's CCI. The rising costs of crude oil have a large impact on highway construction cost as contractors use large amounts of fuel to prepare and place materials, and the prices for Hot Mix Asphalt (HMA) are also greatly influenced by crude oil prices.

WSDOT asphalt, crude oil & diesel fuel indices 2002-2008 (year to date)



Data Source: WSDOT Construction Office.
 Note: Base in 2002 = 100. Diesel and crude indices compiled by the U.S. Dept. of Energy, Energy Information Administration.

Hot Mix Asphalt

Of the seven materials WSDOT tracks in the CCI, HMA is the most commonly used material on WSDOT construction projects and accounts for almost half the weight of the index. HMA prices typically follow a similar pattern to the price of crude oil and diesel fuel as the asphalt binder used in HMA is a residual of crude oil. In 2006 and 2007, the gap between crude oil price increases and asphalt price increases narrowed as refining trends and market conditions allowed refiners to make asphalt production a more profitable process. For more information about crude oil prices, refining trends, and asphalt production, see the June 30, 2006 *Gray Notebook* (pg. 32).

At the end of 2007, WSDOT briefly saw HMA price increases outpace crude oil price increases before falling during the fourth quarter as the paving season ended. HMA prices increased 10.4% during the first quarter of 2008. With crude oil prices topping new record highs daily, WSDOT expects further upward adjustments in contractors' bids for HMA throughout the remainder of 2008.

For more information on how WSDOT awards HMA, please see page 48.