

Cross Cutting Management Issues

Construction Material Costs

WSDOT collects construction cost information and calculates a Construction Cost Index (CCI). WSDOT's CCI is a composite of unit price information from low bids on seven of the most commonly used construction materials which include Hot Mix Asphalt (HMA), structural concrete, roadway excavation, crushed surfacing, structural steel, steel reinforcing bar, and concrete pavement. These items reflect a composite cost for a completed item of work and include the costs of labor, equipment and material.

Like other state transportation agencies, WSDOT prepares construction cost estimates based on recent bids. Because it is difficult to accurately predict future market conditions, engineers use recent bids and past records to create and inflate project estimates. WSDOT experiences contractors' bids exceeding engineers' estimates and available budgets during times when prices for materials escalate rapidly as they did from 2004 to 2006. In 2007, bid prices for the materials most commonly used on WSDOT construction contracts showed both increases and decreases. The net result was a modest increase in the overall construction cost index for the year. Unfortunately, WSDOT does not see the recent slowing of inflation as a return to the low growth rate that the index experienced between 1990 and 2001.

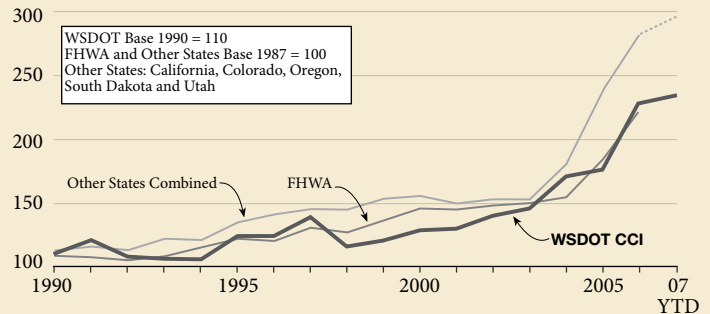
Construction Cost Index Increased 1% in 2007

The graph at right illustrates the past 18 years of CCI data for Washington State. This is plotted against the CCI of the Federal Highway Administration (FHWA) and a line representing the combined CCIs of several Western states: California, Colorado, Oregon, South Dakota and Utah.

WSDOT's CCI held steady at about 1.5% growth per year from 1990 through 2001. Between 2002 and 2006, the annual growth rate averaged 10.6% per year. In 2007, WSDOT's CCI increased by 1% from 2006. This appears to be a balancing to the 30% increase in 2006, which is the largest annual increase the CCI has recorded. Of the materials included in the CCI, HMA is 48.5%, or almost half the weight of the index. HMA prices rose 7.4% during 2007, however inflation as measured by the index was held back by a recorded 36.3% drop in structural steel prices and a 49.6% decline in price for concrete pavement. The 2007 bid prices for structural steel and concrete pavement appear to be the result of increased quantities compared to 2006 and not a downward trend in construction cost.

While cost escalation leveled off in 2007, a return to the 1.5% average annual growth rate experienced between 1990 and 2001 is unlikely. Crude oil prices recently exceeded \$100 per barrel and, although they have since decreased, industry analysts expect crude oil prices to be higher in 2008 than they were in 2007. Many construction materials include crude products or require fuel-intensive processes to place or prepare the materials. The higher price of crude oil will eventually lead to higher prices for construction activities and construction materials.

Construction Cost Indices Washington State, FHWA, and Other States



Data Source: WSDOT Construction Office, Federal Highway Administration (FHWA)
Note: WSDOT 2007 Index covers the entire year. The FHWA Index was discontinued in 2007. Other States 2007 data includes Quarters 1, 2, and 3 for California, Colorado, Oregon, and Utah. South Dakota data includes Quarters 1 and 2.
Note: 2003 and 2004 WSDOT CCI data points adjusted to correct for spiking bid prices on structural steel.

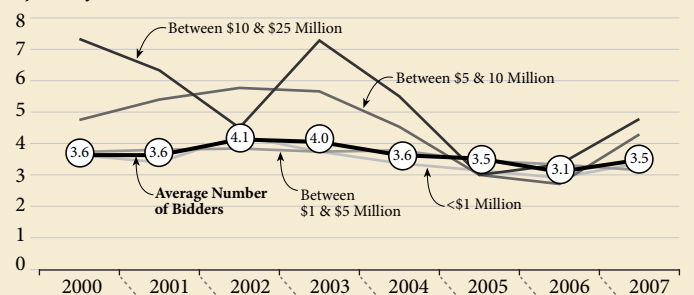
Average Number of Bidders Increased in 2007

WSDOT's goal is to have three or more bidders for each highway construction contract. Since 2003 there has been a trend of fewer bidders on WSDOT projects due to a greater number large public and private construction projects for bidders to choose from.

The average number of contractors bidding on each WSDOT contract increased 12.3% in 2007, from an average of 3.1 bidders in 2006 to an average of 3.5 bidders in 2007. WSDOT is optimistic that the recent increase in bidding competition could lead to more favorable prices on WSDOT contracts. The size of WSDOT's construction program has increased due to the passage of the Nickel and Transportation Partnership Account. A reduction in bidding competition is a sign that contractors have a full workload. The recent increase in competition leads WSDOT to believe that the contracting community is now able to better assist WSDOT in delivering these large programs.

Average Number of Bidders

By Size of Contract



	2000	2001	2002	2003	2004	2005	2006	2007
1 Bidder	7.7%	12.3%	12.6%	8.5%	13.4%	9.2%	10.3%	8.1%
2 Bidders	26.1%	23.2%	22.2%	17.6%	20.4%	22.0%	37.6%	34.5%
3 Bidders	23.9%	23.2%	15.6%	24.2%	22.5%	33.3%	19.7%	23.7%
More than 3 Bidders	42.3%	41.2%	49.6%	49.7%	43.7%	35.5%	32.5%	33.8%

Data Source: WSDOT Construction Office.