



September 1, 2006

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Don Whitehouse, South Central Region  
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FROM: Don Nelson   
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SUBJECT: **Project Delivery Memo #06-02** – Asphalt Cost Price Adjustment

**Purpose and Direction**

**Background:** We have all been watching as prices for various materials used in highway construction have climbed to record levels. WSDOT has been working with several of the industry associations and watching other states to determine whether some sort of price adjustment provision should be included in contracts. Recently, we have concluded that a price adjustment provision should be implemented for long-term projects in order to minimize the risk for contractors, which will result in more realistic bids for the various products that use liquid asphalt.

Price adjustment provisions, or escalation clauses, have been used on WSDOT projects in the past. Beginning in the mid 1970s, and through the beginning of 1984, WSDOT used a provision that required monthly polling of asphalt suppliers, calculations of adjustments for various liquid asphalt products, and certification of actual costs by the contractor. Those few folks who are still on staff remember this as an administrative nightmare. Again, for a short time in late 1990, a price adjustment provision was included in some long duration contracts. This special provision was taken out of service in March 1991.

**Types of Projects Affected:** The Asphalt Cost Price Adjustment provisions are to be used on all projects that are longer than one season that have HMA items, or in single-season projects that contain HMA, where it is anticipated that paving will not start for at least six months after the project is executed.

**Direction:** This change is being implemented as a set of General Special Provisions to be included in the types of projects noted above. A standard bid item has been created. We anticipate that the need for this provision will continue for several years. The need for the provision will be evaluated annually in conjunction with industry associations.

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**Value in Making the Change:** This provision minimizes the risk to the contractors for continuing escalation of the cost of liquid asphalt. In a competitive bidding environment, this will result in more realistic bidding for the HMA products because the bids will not need to include excessive amounts of speculation on the cost of liquid asphalt in the long duration projects.

**Action Requested**

**Project Development**

Use GSP 04044.GR5 and 04054.GR5 and bid item for "Asphalt Cost Price Adjustment" in qualifying contracts that are scheduled to be advertised after September 4, 2006. A copy of these GSPs is attached.

Use the following guidance for estimating the amount to be included in the proposal:

For projects 1 year and less in duration, include \$1 of adjustment per 1000 tons of the total quantity of all HMA items included in the proposal.

For projects 1 to 2 years in duration, include \$300 of adjustment per 1000 tons of the total quantity of all HMA items included in the proposal.

For projects 2 to 3 years in duration, include \$1300 of adjustment per 1000 tons of the total quantity of all HMA items included in the proposal.

For projects greater than 3 years in duration, contact the HQ Construction Office for assistance in determining the amount to be included in the proposal.

Because the cost adjustment is to be calculated and paid monthly for the amount of HMA placed, some consideration needs to be given to the timing of HMA placement when developing the estimate for the cost adjustment.

**Contract Ad and Award**

Add the GSPs and bid item by addendum to qualifying contracts currently advertised for bid.

**Construction**

Projects that are currently under contract will not be eligible to incorporate this provision.

DN:cd  
KJD/HJP/JRS

Attachment

cc/att: John Conrad	Region Project Development Engineers
Tom Baker	Region Construction Engineers
Kevin Dayton	Region Construction Trainers
Harold Peterfeso	Region Materials Engineers
Megan White	Region Design Trainers
Dave Mounts	Highways and Local Programs

## **General Special Provisions:**

**(September 5, 2006)**

### **Asphalt Cost Price Adjustment**

Include in all projects containing Hot Mix Asphalt that are longer than one season, or in projects that contain HMA when it is anticipated that the start of paving will not occur until 6 months or more after contract execution.

Must include 04044.GR5 and 04054.GR5.

#### **Section 5-04.4 is supplemented with the following:**

##### **04044.GR5 Asphalt Cost Price Adjustment**

**(September 5, 2006)**

No specific unit of measurement will apply to the calculated item of asphalt cost price adjustment.

#### **Section 5-04.5 is supplemented with the following:**

##### **04054.GR5 Asphalt Cost Price Adjustment**

**(September 5, 2006)**

The Contracting Agency will make an Asphalt Cost Price Adjustment, either a credit or a payment, for qualifying changes in the index cost of asphalt binder. The adjustment will be applied to partial payments made according to Section 1-09.9 for the following bid items when they are included in the proposal:

“HMA Cl. \_\_\_ PG \_\_\_”

“HMA for Approach Cl. \_\_\_ PG \_\_\_”

“HMA for Preleveling Cl. \_\_\_ PG \_\_\_”

“HMA for Pavement Repair Cl. \_\_\_ PG \_\_\_”

“Commercial HMA”

The adjustment is not a guarantee of full compensation for changes in the cost of asphalt binder. The Contracting Agency does not guarantee that asphalt binder will be available at the index cost.

The Contracting Agency will establish the monthly cost index each month and post the information on the Agency website at: <http://www.wsdot.wa.gov/biz/construction/>. The monthly cost will be determined using posted prices furnished by Poten & Partners, Inc. If the selected price source ceases to be available for any reason, then the Contracting Agency will select a substitute price source to establish the monthly cost index.

The base cost established for this contract is the monthly cost posted on the Agency website for the month immediately preceding the bid opening date.

Adjustments will be based on the most current monthly cost for Western Washington or Eastern Washington as posted on the Agency website, depending on where the work is performed. For work completed after all authorized working days are used, the adjustment will be based on the posted monthly cost for the month during which contract time was exhausted. The adjustment will be calculated as follows:

No adjustment will be made if the monthly cost is within 10% of the base cost.

If the monthly cost is greater than or equal to 110% of the base cost, then  
Adjustment = (Monthly Cost – (1.1 x Base Cost)) x (Q x 0.056).

If the monthly cost is less than or equal to 90% of the base cost, then  
Adjustment = (Monthly Cost – (0.9 x Base Cost)) x (Q x 0.056).

Where Q = total tons of all classes of HMA paid in the current months progress payment.

“Asphalt Cost Price Adjustment”, by calculation.

“Asphalt Cost Price Adjustment” will be calculated and paid for as described in this section. For the purpose of providing a common proposal for all bidders, the Contracting Agency has entered an amount in the proposal to become a part of the total bid by the Contractor.