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Cost News

Industry Articles Concerning Cost & Estimating

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Recent Hurricane Impacts will rattle construction supply chain, economists say

Expect Upward Pressure on Materials and Labor as Cleanup and Rebuilding Commence

Recent hurricanes will have an immediate impact on the construction sector will be a disruption in the supply chain for key materials, along with scheduling problems for projects that were under construction.
As the cleanup and eventual rebuilding proceed, increased demand for materials and labor will push costs upward and contractors will be scrambling to secure supplies and workers.

Expect to see this influence to construction starts in the region during 2018-19 time frame after the immediate damage is dealt with," says Robert Murray, chief economist for Dodge Data & Analytics.

Impacts of the recent hurricanes will further tighten an already tight labor market, which had a 4.9% unemployment rate in July.
The initial push will come in trades such as flooring and drywall, followed by demand for higher skilled trades, such as electricians and ironworkers. Look for a strong boost in overtime that will further increase labor costs.

However, these higher wages may take several years to unfold. Using Katrina as a benchmark, the storm hit in 2005 but it was not until 2007 that we started to measure a 10% increase in wages for carpenters in the storm area.

Most Steel Passes Through Port of Houston

Contractors may have an additional concern. The port of Houston is the largest importer of steel products into the country and the combination of a disruption of imports, lost inventory, and increased demand from rebuilding could check steel prices, which were weakening before the storm. Steel prices had been sliding, but after Harvey expect prices to flatten out.

Hurricane Harvey hit petrochemicals hard, but most of those have an indirect impact on construction costs -- the exceptions being :

- **Diesel fuel**
- **Gasoline,**
- **PVC feedstock**
- **Natural gas, which is a major energy input for materials such as cement**.

Hurricane impacts Con't

At least 70% of total U.S. capacity for PVC feedstock is either confirmed offline or has the potential to be impacted as a result of Harvey.
That number runs as high as 90% for resins used in other plastic products, he adds.

Natural gas prices did spike after Harvey but is expected to fall off, since the reliance on Gulf Coast natural gas has fallen in recent years.
The same holds for gasoline prices. So, the two Harvey-related cost items people feared most may be the least of contractors worries.

No Action on Capital Budget, Hirst Fix

Key legislators were recently in Olympia attempting to negotiate an agreement on legislation addressing the Hirst water-rights court decision.
Talks apparently broke down and no solution has been announced.
The Senate leadership has insisted that a Hirst fix needs to be enacted before the $4-billion 2017-2019 capital budget will be brought to the Senate floor for a vote.

AGC supports both a Hirst fix as well as a capital budget, and has urged the Legislature to move the capital budget bill while the Hirst negotiations continue. In a letter to all legislators, AGC and partners urged legislators "to continue working and find a solution that will result in enactment of the $4 billion capital budget."

The points made in their letter include:

Cost Impacts

a. Escalation

Construction goods are escalating at a rate 30% higher than general inflation**. Construction labor is escalating at a rate 9.7% higher** than other private sector employees. The delay means that projects in the capital budget will cost more than has been allocated, requiring either redesign or increased funding.

b. Increased Maintenance

Conditions at facilities designated for repair or rehabilitation will worsen and the cost to deal with them will increase.

c. Inefficiency

Architecture, engineering and construction firms were gearing up to have the capacity to design, bid and construct new projects. The delay forces companies to lay people off and subsequently hire new staff when the budget passes. The inefficiency translates into losses for the firms and higher costs for public owners.

No action on capital budget Con't

Schedule Impacts

a. Accumulated Impacts
Construction is weather-dependent. Losing the summer months for site work and excavation has a significant impact. Other issues increase the effects, including fish migrations and school calendars. The accumulated impacts of a late project start could result in delays of up to year, which is another factor that increases costs.

b. Agency Layoffs
Agencies have begun the process of laying off the staff that administers their capital projects. A continuing delay in passing the capital budget will increase the impact. When the budget is passed, agencies will have to conduct a hiring and training processes to refill dozens of positions, further delaying the projects and increasing risk to the agencies.

General-Fund Impacts
c. Revenue The operating budget depends upon sales tax from construction project. The loss of revenue will be on the order of $260 million, which is significant.

WSDOT Using Maximum Funds Available Specifications for a Few Projects (June 2017)

WSDOT has announced that a few projects to be advertised by the end of this year will carry Maximum Funds Available (MFA) specifications. For these projects bids will be rejected if the bid amounts exceed the specified maximum funds available.

The Connecting Washington transportation package, passed in 2015, included line-itemed project appropriations, creating fixed budgets to complete specific project-level scopes of work. WSDOT, with AGC's support, is working with legislators to find options that allow for funding flexibility.

However, until it has more flexibility, WSDOT will use MFA specification when it determines there is insufficient margin between the engineer's estimate and available funding; carefully manage the project development, track cost-to-complete and utilize practical design principles to reduce the cost of projects; and encourage value-engineering change proposals under contract.

"WSDOT appreciates the efforts that a bidder invests in putting a bid together," the department said in a memo to contractors. "We do not want to advertise projects that we do not anticipate executing. However, given the current bidding climate, it is sometimes difficult to predict if the budget will be adequate. In the event that the budget is tight, we are electing to advise the bidders of the funding constraint. This not only allows the bidder to make an informed decision but it also protects the bidders' pricing in the event of a ebid, provided the bidder is over the maximum and elects not to submit."

One project has already been advertised with the MFA specification (SR 518/Des Moines Memorial Drive interchange improvements). Three upcoming Projects may use the MFA specification: I-5/Mounts Road Vicinity-VMS, US 395/NSC Columbia to Freya, and SR 20/Sharpes Corner Vicinity improvements.

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