

DATE ISSUED: January 28, 2004

REPORT NO. 04-023 REV
(includes Attachments 3-6)

ATTENTION: Honorable Mayor and City Council

SUBJECT: Construction Cost Escalation for Public Buildings Contracts

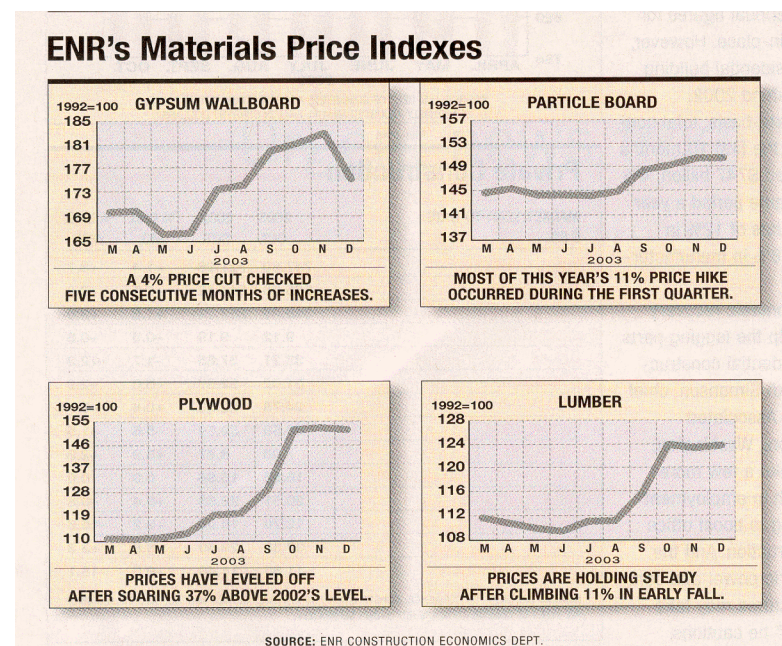
REFERENCE: Manager's Report No. 03-035, dated February 26, 2003

SUMMARY

THIS IS AN INFORMATIONAL ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE COMMITTEE

BACKGROUND

City of San Diego construction projects, especially building projects, have been experiencing unprecedented construction cost increases in the last eighteen months, mostly as a result of escalating national and local material costs (as exhibited below in National Lumber and Plywood Charts), higher insurance costs, high volume of construction in the region, and higher demand for services and materials.



DISCUSSION

As our recent bid openings for City of San Diego building projects have demonstrated, we have been impacted greatly with the unpredictability of the current construction market. Most City building projects are designed by professional architectural and engineering consultants who in turn utilize professional construction estimating firms. These professional consulting firms utilize the latest construction industry data when

submitting project cost estimates to City staff, and include in their estimates every component of the project specifics, such as materials, labor, equipment, and specific design and unusual site requirements. However, due to the dynamic and significant escalating nature of materials and labor cost increases, our bids have been consistently exceeding the estimates, and therefore project budgets. These increases are attributed to recent spikes in the cost of lumber and plywood (see above charts), with an average increase of 50% according to the California Framing Lumber Brief dated September 5, 2003 (see Attachment 1), and other material cost increases such as cement, concrete masonry units, and steel. Just this month, a recent alert went out to the industry (see Attachment 2) about a severe metal shortage nationally, and metal stud pricing and rebar cost increases. Our sources indicate that an 8% price increase went into effect the first of January, and manufacturers are saying that a 50% increase is possible by May 2004. Other factors cited affecting the construction industry are 1) increases in wages and fringe benefits for construction workers due to higher building trade skills required, 2) higher fuel, energy and equipment cost, and 3) escalating workers compensation and general liability insurance.

In addition, other regulatory factors and/or initiatives have brought increased design and construction cost to Capital projects. Some of these include the implementation of Stormwater Urban Runoff Management Plan, Leadership in Energy and Environmental Design (LEED) certification requirements, and City's Subcontractor Outreach Program (SCOPE) requirements.

A lack of adequate competition has also been observed. A smaller number of contractors are bidding City building projects. Recent bid openings for a new lifeguard station, and a package of two Fire Stations resulted in only one contractor submitting a bid on each of these projects. Another bid opening for a fire station only brought two contractors. On a library project only one subcontractor provided a framing bid to

Project	No. of Bidders
South Pacific Beach Lifeguard Tower	1
Fire Station 12 and 31 – rebid	1
Fire Station 29 – rebid	2
MLK Senior Center	2
Otay Library Expansion	2

all contractors bidding the job. We interviewed some of our local contractors for their reasons for not bidding City projects, and some of the reasons cited were a 1) heavy workload, partially driven by the region's strong School reconstruction program, and 2) other private and public development projects, 3) bonding capacity, and 4) uncertainty of being awarded City projects due to lower budgets versus the actual bid cost. Additionally, the major trade groups who provide subcontract work on building projects such as mechanical, electrical, plumbing and framing contractors either are very busy or shy away from submitting subcontractor bids on City jobs.

In an effort to understand the magnitude to which the City of San Diego is being affected, Attachment 3 presents a compilation of bid information from various public agencies throughout California for the last ten years. The data presented is from buildings which include 18 fire stations, 2 lifeguard stations and 18 libraries from the City of San Diego, City of Escondido, City of Oakland, City of Los Angeles, City of Sacramento, City of Encinitas, and the City and County of San Francisco. In this chart we can observe a couple of important items. Although, historically, the cost of construction for City of San Diego building projects have been less than other municipalities in northern California and Los Angeles, we can see that in the last year the cost of construction has equaled and in some cases exceeded the cost of construction in those

areas. In addition, it can be seen that the latest projects are not following a trend line, but in most cases exceeding what would have been reasonably expected, with prices getting up to \$400 per square foot. The lifeguard tower project exceeds any of the other projects due to special construction requirements along the shore, in addition to the construction escalation.

Attachment 4 segregates the projects to show only City of San Diego Projects. In this chart we can see the great variance experienced in current bids, ranging from \$200 to \$400 per square foot. These variances make forward looking cost estimating unpredictable.

Attachment 5 shows the City of San Diego fire station projects. On this chart we can see the sudden jump in construction costs for this type of building. During the previous three years of 1999 to 2002, City's average cost per square foot increased at an average rate of 6%. However, during the last calendar year, the square foot cost has increased by an average of 50 %.

Attachment 6 shows the City of San Diego libraries, where the variance is extreme, and bids have been as high \$400 per square foot. The average construction cost per square foot for these buildings increased approximately 2% during calendar year 2000 to 2002, and in late 2003, the average cost increased by approximately 36%.

Until the construction industry stabilizes, estimating projects will continue to be challenging. In order to develop better construction estimates and budget management, staff will assure that consultants and estimators have the latest bid information from our projects, and will require more refined cost estimates at major project milestones, i.e. 30%, 60%, 90% and 100% design. In addition, in an effort to receive more competitive bids, staff is in discussion with Construction Industry to garner higher interest and to gauge the local construction activity. When feasible we will time our bid openings during periods when more contractors are interested and available to submit bids.

Respectfully submitted,

Afshin Oskoui, P.E.
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ATTACHMENTS

- [1. California Framing Lumber Brief](#)
- [2. Steel Market Price Update](#)
- [3. Bid Information for City of San Diego and other California Municipalities](#)
- [4. Bid Information for City of San Diego Building Projects](#)
- [5. Bid Trend for City of San Diego Fire Stations](#)
- [6. Bid Trend for City of San Diego Libraries](#)