



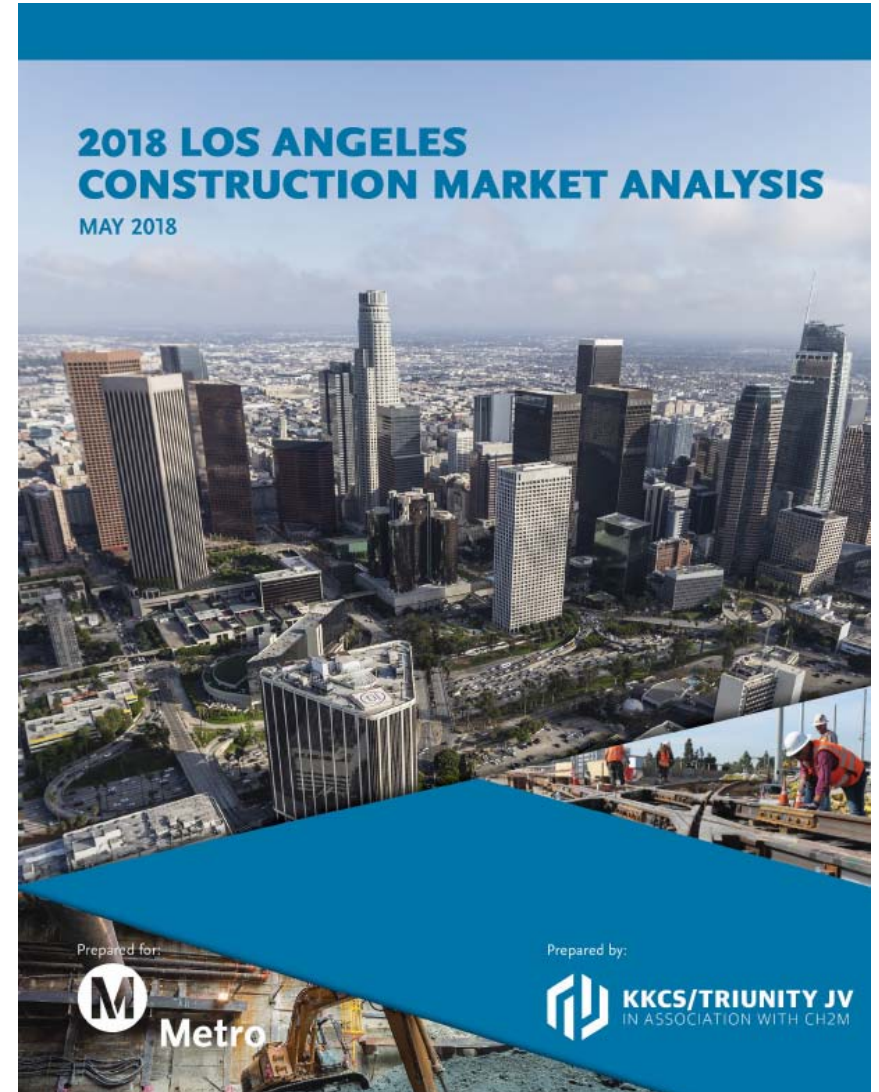
2018 Los Angeles Construction Market Analysis Report

May 2018



Background

- 2015 Los Angeles Construction Market Analysis was reported to the Board in September 2015
- 2018 Los Angeles Construction Market Analysis:
 - Program Management
 - Vendor/Contract Management
 - KKCS/Triunity Joint Venture in association with CH2M



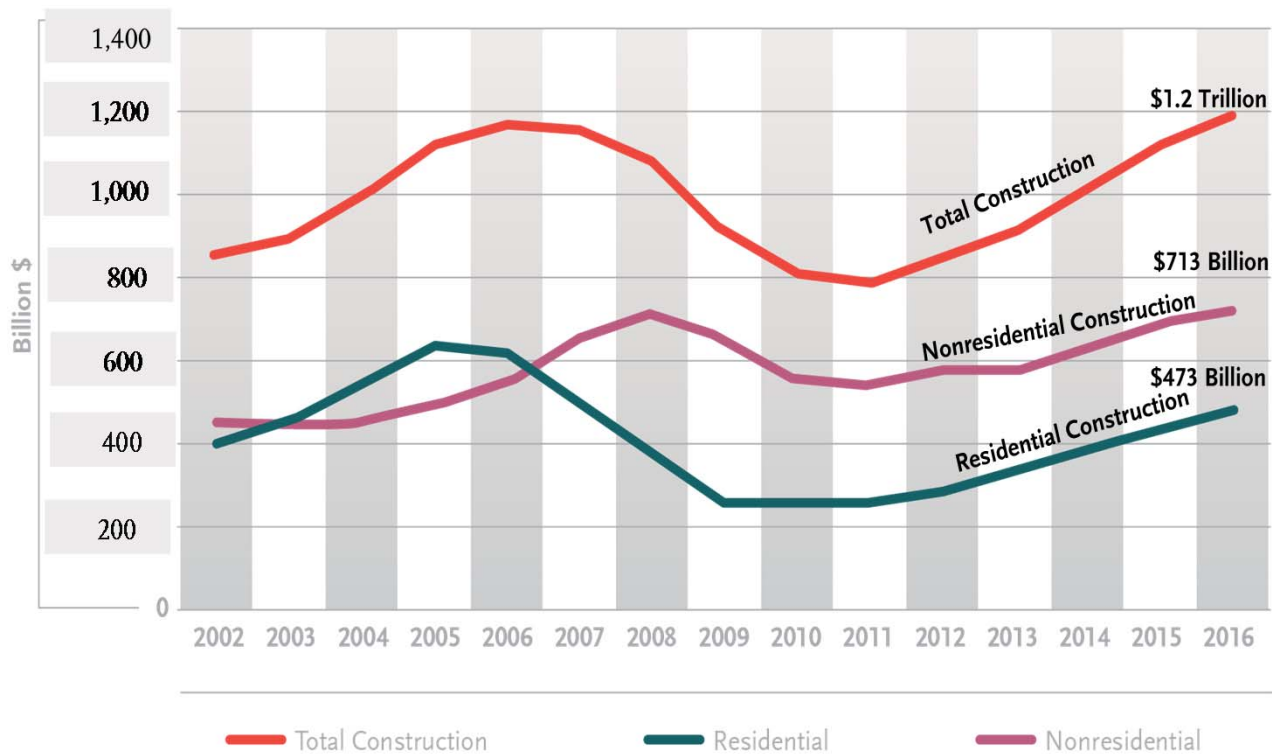
Objectives

- Analyze economic conditions and identify potential impacts to Metro's construction program
- Survey contractors for input on market trends and their decisions to pursue Metro contracts, or not
- Compare Metro's program to others in the region
- Survey peer transit agencies for best practices
- Provide recommendations on how Metro can be an "Owner of Choice"



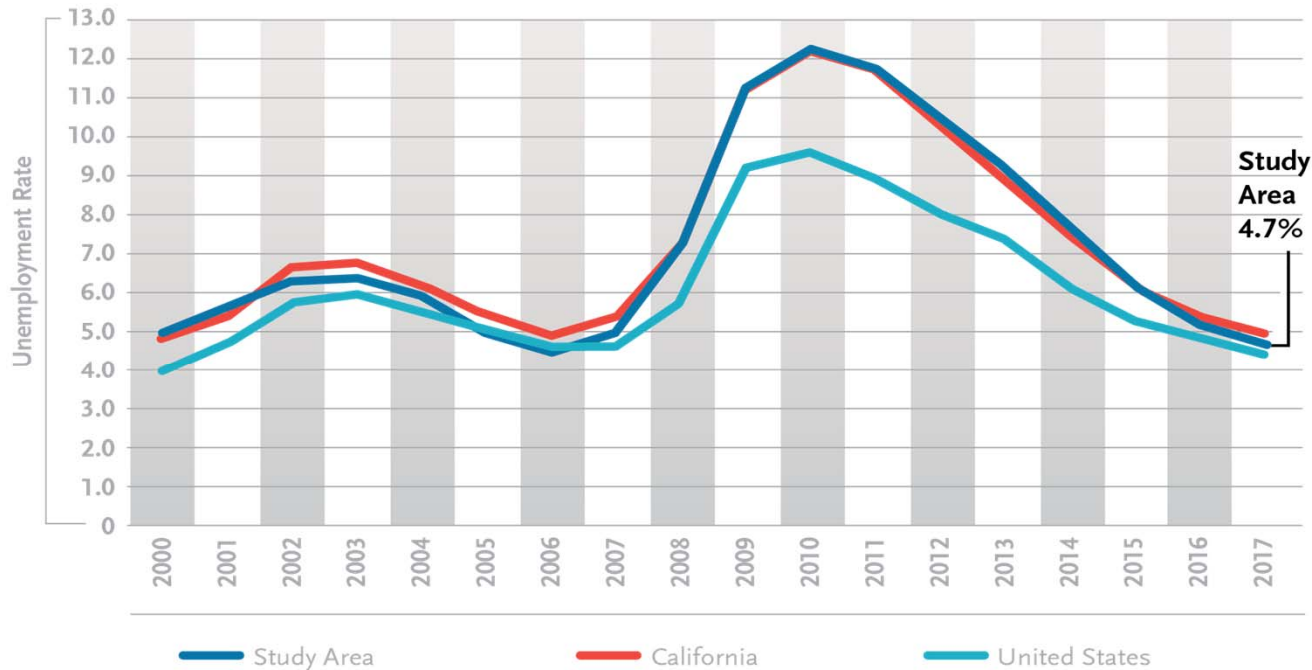
National Construction Spending

National construction spending has been steadily increasing since the lows of 2009-2010.



Employment Outlook

The regional unemployment rate has decreased from 9.5% in 2010 to 4.5% in January 2018, with state and national averages showing even greater improvement.

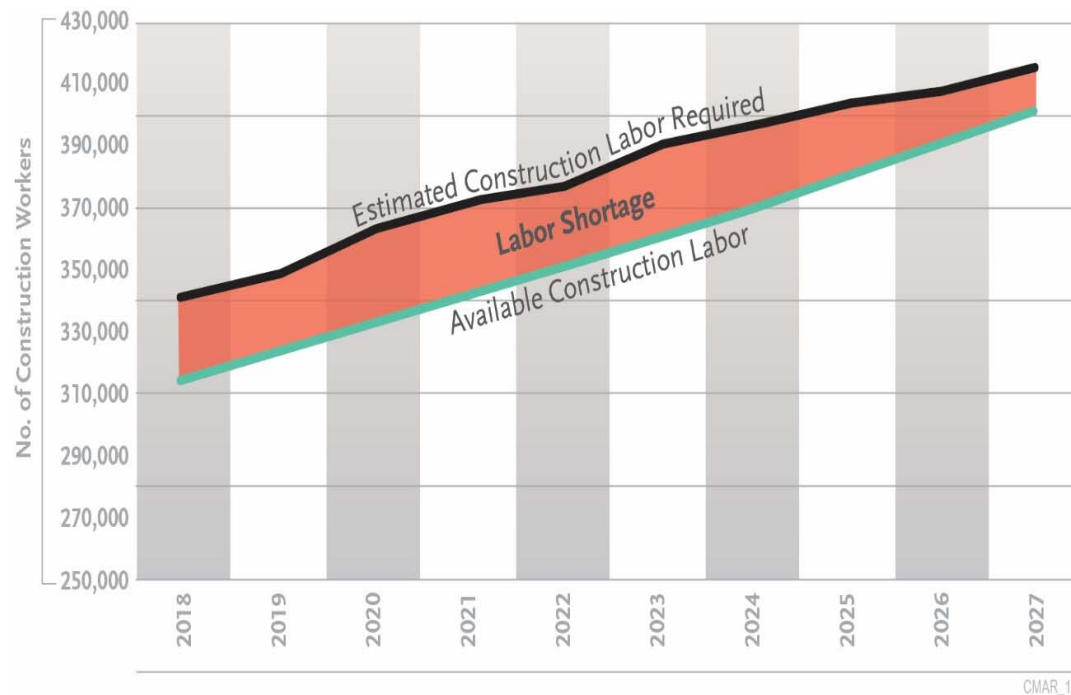


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Regional Construction Labor Projections

Analysis shows a projected labor shortage through the next decade that is required to support the level of construction activity in the region.



Data Points

- Economic Data
- Dodge Construction Data
- State of California EDD
- Contractor Interviews

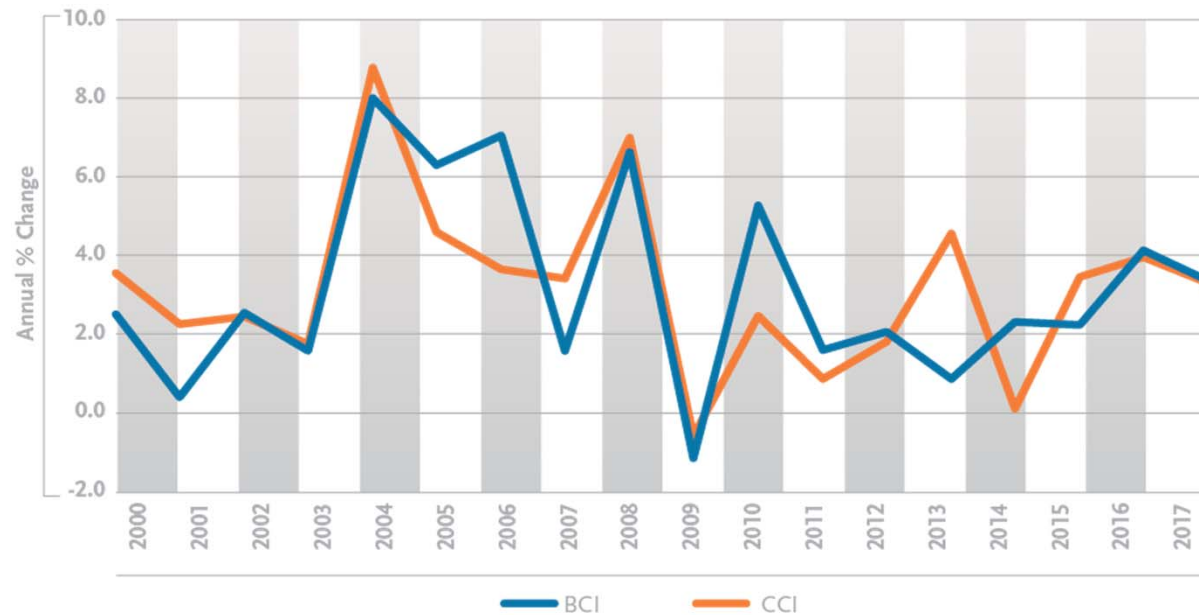
Factors to Consider

- Fluctuation in Spending/Pricing
- Economic Volatility
- Unforeseen Events



Construction Cost Trends

- Construction Cost Index (CCI) and Building Cost Index (BCI) annual growth rate averaged 3.2% between 2000 to 2017
- Recent rise in prices for fuel oil, steel, and aluminum; higher interest rates; plus a historically low unemployment rate
- These increases may be reflected in the contract bids on future projects



Contractors Surveys

- In depth one-on-one contractor interviews with 24 of ENR's top 100 design-build contractors
- Online survey to the Associated General Contractors of America (AGC) membership
- Metro Construction Industry Forum Survey completed by 144 respondents that represented small, medium, and large construction firms
- Surveys and interviews focused on three topics:
 - Construction market conditions
 - Areas of improvement, for those currently working with Metro
 - Barriers that impede participation, for those not working with Metro



Contractors Insight

- 88%-100% anticipate there will be issues in the next 5 years with labor market and resource availability
- 75% perceive Metro's allotted window for proposal submission is too short
- 72% perceive Metro's provisions to be unclear and ambiguous
- 71% believe the change order and claims processes require improvement
- 64% anticipate increased escalation over the next several years
- 55%-80% anticipate inadequate DBE/SBE local resources to achieve participation requirements



Contractors Insight

Contractors noted additional areas requiring improvements:

- Risk sharing
- Partnering with construction management consultant team
- Timely document processing
- Short-listing of contractors through a qualification process
- Additional contractor outreach

Top issues listed by smaller firms hindering them from pursuing work at Metro are:

- Cash flow
- Bonding capacity
- Bid sizes



Best Practices from Peer Transit Agencies

- Conducting one-on-one discussions with contractors during design build procurements
- Evaluating each project to determine the best delivery method
- Sizing projects appropriately to draw in contractors to the market
- Utilizing Construction Manager/General Contractor (CM/GC) as a delivery method
- Streamlining and modifying contract provisions
- Conducting direct monthly discussions with contractors
- Focusing staff on solving problems raised by contractors fairly and consistently
- Instituting a robust Lessons Learned program
- Implementing an ombudsman to meet with contractors and resolve issues



Recommendations (1 of 3)

- Reduce time/cost to propose on Metro projects by:
 - Standardizing bid forms (Agree, Efforts Underway)
 - Allowing e-submissions of forms, certificates, and licenses (Further Assess Feasibility)
 - Only requiring submission of the cost proposal once short listed firms have been selected (Further Assess Feasibility)
 - Limiting the number of short listed firms to three (Further Assess Feasibility)
- Reduce and standardize contract templates to avoid ambiguity (Agree, To Implement)
- Evaluate contract language that might result in a less attractive bidding climate (Agree, To Implement)
- Open the bidding process to more firms/teams through less prescriptive proposer evaluation requirements (Agree, To Implement)



Recommendations (2 of 3)

- Reduce processing time required to resolve changes by delegating more authority at the project manager level (Agree, Efforts Underway)
- Develop a joint committee to develop curriculum promoting skillsets relevant to the construction market (Agree, To Implement)
- Develop a joint committee to innovate and create affordable housing to temporarily attract labor from outside region and to house unemployed local labor who have the capability for job retraining (Agree, To Implement)
- Identify projects that could utilize the design-bid-build delivery method to increase bidding competition by smaller and certified firms and to increase DBE/SBE participation (Agree, Efforts Underway)
- Maintain competitive posture to attract limited available resources, including onboarding qualified candidates before the actual need arises (Further Assess Feasibility)



Recommendations (3 of 3)

- Develop estimates that are consistent with the current market trends (Agree, Efforts Underway)
- Develop contract language to allow for addressing cost increases for projects to limit the risk to both Metro and contractors (Agree, To Implement)
- Institute active engagement with contracting community, including one-on-one meetings with potential bidders, to jointly identify balanced risk sharing (Agree, To Implement)
- Conduct regular discussions with contractors on lessons learned (Agree, Efforts Underway)
- Institute an ombudsman to interface with contractors (Agree, To Implement)
- Assess methodologies to objectively and accurately evaluate contractors' performance and capabilities (Agree, To Implement)



Action Plan

- Continue increased efforts to manage contractors to deliver projects on-time and within budgets
- Address recent trends involving complex related schedule issues
- Establish a program-wide contingency fund to address adjustments to project budgets due to current market trends

