



Board Report

File #: 2024-0009, File Type: Informational Report

Agenda Number: 21.

REVISED
CONSTRUCTION COMMITTEE
MARCH 21, 2024

SUBJECT: 2023 CONSTRUCTION MARKET ANALYSIS

ACTION: RECEIVE AND FILE

RECOMMENDATION

- A. RECEIVE AND FILE status report on the 2023 Construction Market Analysis.
- B. MOTION by Director Krekorian that the Board direct the Chief Executive Officer to implement the goals contained in the Construction Market Analysis and to report back quarterly on how to make achieving the goals more successful as well as adopting meaningful measures to facilitate and expand certification of SBEs/DBEs and increase utilization by general contractors to achieve goals.

ISSUE

The construction market in the Southern California region continues to grow rapidly. Metro alone has a \$26.8 billion capital program currently underway, with additional projects in the pipeline. Other major construction programs in the region by Metrolink, Los Angeles World Airports (LAWA), Caltrans, the City of Los Angeles, Los Angeles County, and numerous private sector initiatives are also straining the regional construction market.

A construction market analysis was performed to understand better the factors influencing construction bid prices and Metro's ability to deliver the largest transportation construction program in the country. The report (Attachment A) describes the state of the construction market nationwide, regionally, and locally with insights directly from contractors. In addition, the report discusses the factors that affect Metro's ability to deliver its capital program, including perceptions of Metro as an owner, fluctuating material prices, and a lean labor supply.

BACKGROUND

Every two years, Metro prepares a construction market analysis to assess current economic conditions and the state of the construction industry. The 2023 Construction Market Analysis provides a view of the construction industry and how it may affect Metro's transit and capital program. It looks at market factors and trends within the national, state, and local economies related to construction

cost and bidding trends, the current and future amount of construction activities in the region, and macroeconomic employment trends and skilled labor availability. The 2023 Construction Market Analysis also presents contractor views of the market and Metro, as well as recommendations for the agency to consider as it continues its adaptive strategy to deliver projects successfully.

DISCUSSION

General report conclusions include the following:

- While federal monetary policy is helping to ease inflation, federal and state investment in infrastructure improvement projects is spurring construction activity and applying pressure on an already lean construction workforce.
- Material prices are leveling after experiencing extreme volatility over the past couple of years.
- Contractor feedback to Metro includes praise for the agency's move to collaborative delivery methods and engagement of the construction industry.
- Other themes that emerged from contractor feedback include:
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 - Some of the large contractors have made the decision to exit the market.
 - Contractors expressed concern with Metro's long and extended procurement times.
 - Contractors feel that Metro's DBE/SBE goals do not align with current market conditions and/or project scopes of work.
 - Contractors expressed concern with processes to resolve change orders.
- Metro is taking specific steps to be an owner of choice, such as establishing an early intervention team and advancing alternative delivery contract models to infuse opportunities to benefit from collaboration and innovation for its capital program.

A forecast of the projected demand for construction labor was prepared using the expected capital investment by public agencies and the private sector from 2023 through 2028. This demand was compared to the projected construction sector employment prepared by the Employment Development Department. The analysis indicated the total future demand for construction labor will significantly exceed projected employment levels, indicating a growing labor shortage in the greater Los Angeles region over the next five years.

Report Recommendations

The report identified three goals to help Metro fulfill its mission of delivering its capital program within this challenging construction market: Grow the resource pool, be an owner of choice, and estimate more predictable cost and schedule estimates. The following recommendations provide suggestions for how Metro can achieve these goals:

- Continue embracing collaborative delivery methods while engaging with and communicating with the construction industry and incorporating lessons learned as Metro's experience grows.
- Continue to evaluate potential updates to terms and conditions based on changing market conditions to reflect collaborative delivery methods and/or to capture best practices/innovative ideas and concepts for continuous improvement, including an industry input process for developing a more robust approach to risk sharing.

- Continue focused alignment of small/disadvantaged business enterprise requirements with a project's scope and the recently updated Disparity Study when setting goals.
- Continue to build a standard format for the transition from planning to program management and construction.
- Explore expanding the current informal liaison practice between Metro and contractors to resolve issues.
- Continue to work with the industry focusing on apprenticeship programs to grow capacity for current and future projects.
- Simplify procurements to reduce the administrative burden on bidders/proposers.

EQUITY PLATFORM

The analysis aims to highlight the factors influencing construction bid prices and Metro's ability to deliver the transportation construction program. As part of the original analysis, there was a review of the economic impacts, and found it has manifested differently across workers, businesses, and industries, with small businesses in nonessential industries experiencing the most economic distress and women and people of color being disproportionately affected. Metro's project labor agreement, construction careers, and local hiring policies are important to mitigate the impacts on marginalized communities, and support continued focused alignment of small/disadvantaged business enterprise requirements on a project as we work to grow our resource pool, be an owner of choice, and estimate more predictable cost and schedule estimates. These policies assist Equity Focus Communities and offer career opportunities through apprenticeships and pre-apprenticeships.

The 2023 Construction Market Analysis complements the *Measure M Five-Year Comprehensive Assessment and Equity Report* by giving Metro the information it needs to continue delivering and improving connectivity for LA County voters equitably and cost-effectively.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendations support Strategic Plan Goal #1, to expand the transportation network as responsibly and quickly as possible and to make infrastructure and services investments for those with the greatest mobility needs.

NEXT STEPS

Metro staff will evaluate and implement each of the recommendations, if appropriate. Staff will also continue to develop strategies to best address the factors affecting Metro's ability to successfully deliver projects on time and within budget. Metro will continue monitoring market conditions, construction trends, and bid results to help produce realistic project budgets and cost estimates that align with the construction industry.

ATTACHMENTS

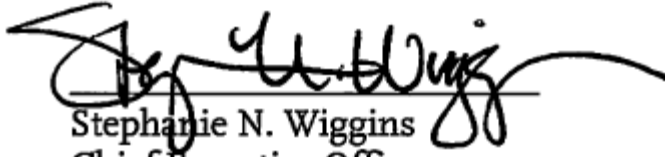
Attachment A - 2023 Construction Market Analysis

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Prepared by: Julie Owen, Senior Executive Officer, Project Management Oversight, (213) 922-7313

Reviewed by: Sharon Gookin, Deputy Chief Executive Officer (213) 418-3101



Stephanie N. Wiggins
Chief Executive Officer