



## Board Report

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### CONSTRUCTION COMMITTEE MAY 17, 2018

**SUBJECT: 2018 LOS ANGELES CONSTRUCTION MARKET ANALYSIS**

**ACTION: RECEIVE AND FILE**

#### **RECOMMENDATION**

RECEIVE AND FILE the 2018 Los Angeles Construction Market Analysis report.

#### **ISSUE**

The construction market in the Southern California region has been growing rapidly. Metro alone has a \$16.8 billion (and growing) capital program underway. Other major construction initiatives are being done by Los Angeles World Airports (LAWA), Caltrans, the City of Los Angeles, Los Angeles County, the 2028 Olympics, Metropolitan Water District and numerous private sector initiatives.

To better understand the factors influencing construction bid prices and Metro's ability to deliver the largest transportation construction program in the country, a construction market analysis was conducted. Current and future market conditions were assessed to identify factors influencing construction bidding activities and our ability to deliver Metro's capital program, including projects approved as part of Measure M and the 28 by 2028 initiative.

#### **DISCUSSION**

The 2018 Los Angeles Construction Market Analysis report was a comprehensive analysis of the construction market factors and trends since the last report that was completed and presented to the Board in September 2015. The construction market analysis objectives were to gather information to evaluate the global, national, regional, and local economy as it relates to construction cost and bidding trends, the current and future amount of construction activities in the region and measure its impact on the proposed work in the region, the macroeconomic employment trends and skilled labor availability, the current trends in bid prices versus engineer's estimates, the number of bidders in the region, and gather feedback from contractors in regards to Metro specific contracts, processes, and procedures that may influence construction bid prices.

The desired outcome of the report is to continue our understanding of the factors influencing construction costs in the Los Angeles market, develop pricing projections for future forecasts, and determine potential solutions to mitigate rising bid prices to better ensure our ability to deliver Metro's

capital projects within existing project budgets. Also, the Report conducts a review of other peer transit agencies and their approaches to construction contracting and recommends how Metro can become an “Owner of Choice” in the region.

### Results of the Analysis

KKCS/Triunity Joint Venture, in association with subconsultant CH2M, performed the Los Angeles Construction Market Analysis and completed the report in May 2018. The report discussed factors that would influence future construction bid prices at Metro and how they would impact our ability to deliver Metro’s capital program on-time and within budget.

- The market indicators in the construction industry forecasts a construction labor shortage, low unemployment, and large amount of on-going and planned work in the region.
- The inflation projection shows a rise in construction costs. The budget development for multiyear projects must adequately account for escalation, increasing wages, materials, and rising margins.
- The number of mega projects bidding within a short time will reduce competition which will cause an upward trend in the prices.
- As market demand increases, contractors will be increasingly selective in deciding which projects to pursue, dependent on the owner, and the amount of risk an owner places on the contractor.
- Metro and other agencies will compete for qualified contractors, subcontractors, and skilled workers in the robust construction marketplace.
- The projected construction market demand will impact the availability of qualified DBE/SBE firms.

### Report Recommendations

The 2018 Los Angeles Construction Market Analysis report included the following recommendations:

- Reduce time and cost to propose on Metro’s projects
- Reduce and standardize contract templates to avoid ambiguity
- Evaluate contract language that might result in a less attractive bidding climate
- Open the bidding process to more firms/teams through less prescriptive proposer evaluation requirements
- Reduce processing time required to resolve changes by delegating more authority at the project manager level
- Develop a joint committee to develop skillsets relevant to the construction market
- 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
- 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
- Maintain competitive posture to attract limited available resources, including onboarding qualified candidates before the actual need arises

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

### **NEXT STEPS**

Metro staff will implement the recommendations summarized in Attachment A as applicable. Staff will also continue to develop strategies how to best address the factors impacting Metro's ability to successfully deliver projects on-time and within budget.

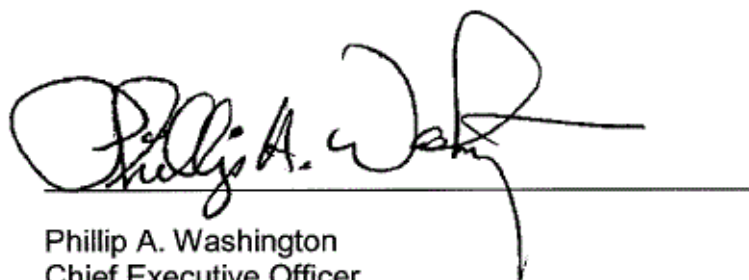
### **ATTACHMENTS**

Attachment A - 2018 LA Construction Market Analysis Presentation

Attachment B - 2018 LA Construction Market Analysis Executive Summary

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