



Board Report

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**CONSTRUCTION COMMITTEE
SEPTEMBER 17, 2015**

SUBJECT: LOS ANGELES CONSTRUCTION MARKET ANALYSIS UPDATE

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the **Los Angeles Construction Market Analysis Update August 2015 report.**

ISSUE

To better understand the factors influencing construction bid prices and Metro's ability to deliver the Measure R and other projects within the existing budgets, a construction market analysis was performed in 2013. A study was recently conducted to update the initial construction market analysis to today's current conditions to identify factors influencing bid prices and develop mitigation strategies (see Attachment A).

DISCUSSION

Scope of the Analysis

The construction market analysis primary objectives were to gather information to evaluate the international/national/regional/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 study 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 the Measure R and other projects within existing project budgets. Because the majority of the Metro bids received in the current survey period come in under engineer's estimates, the focus of this update is to investigate possible trends for 2015 to 2018 and develop risk mitigation strategies for potential future price increases.

Results of the Analysis

Leland Saylor Associates (Saylor) performed the Los Angeles Construction Market Analysis Update and completed a report in August 2015. In summary, the market analysis indicates the four (4) key factors that may influence potential future construction bid prices at Metro are as follows:

1) Recovering Los Angeles Construction Market

Data indicates that the Los Angeles region is in a strong growth mode. A review of recent bids in 2015 indicate most bids are coming in closer to the engineer's estimate, and there are few bidders per project in the first half of 2015 compared to 2013 and 2014. While the market is balanced currently, continued growth could result in fewer bidders and higher prices. Labor and material costs are expected to rise between 3 -3.5% in 2015-2016 while increases in bid pricing may exceed that growth, depending on constraints in labor. The increases are a result of lower productivity due to newer workers entering the market, coupled with both contractor and subcontractor margin increase due to a reduction in competition.

2) Size and Pace of the Metro Program

Continued growth of the Los Angeles region, coupled with the size and pace of the Metro Measure R projects, may cause shortages in labor and subcontractor capacity in 2016. With Metro's three mega transit projects underway (Crenshaw/LAX, Regional Connector, Westside Purple Line Extension Section 1), the civil employment and subcontractor capacity may be absorbed by 2016, potentially impacting bids in the 2016 window. This effect may be exacerbated by the growing housing market competing for available resources. There is a possibility that Metro may experience increases in bid prices in excess of labor and materials increases in 2015-2017 that are similar to the 2004-2006 economy.

3) Complex Interagency Approvals Process and Metro Specific Requirements, Processes, and Procedures

Most contractor interviews indicate Metro projects generally contain more risk than industry standard, and this could be a contributory factor in higher prices at Metro should the market become more constrained. The current greatest risk that the contractors perceived was the complex and diffuse approvals process among Metro, City and County of Los Angeles, and Caltrans. Concerns noted the unforeseen conditions, delays in third party approvals, and not being compensated for those delays.

Other Metro specific requirements, processes, and procedures that the contractors expressed concerns relate to the weight of extensive previous Metro experience on proposer qualification requirement, reliability of solicitation documents and specifications, and delays in change order processing procedures. Also, Metro is viewed as having higher administrative burdens than the general infrastructure community, including the Project Labor Agreement (PLA) and higher Disadvantaged Business Enterprise (DBE) goal requirements than the industry standard.

4) Mega Project Risk

Although Metro mega projects bid between 2013 and first quarter of 2015 came in under the engineer's estimate, records of mega projects over \$600 million in the infrastructure industry

generally have a long history of exceeding their budgets. The risks inherent in construction are magnified in large, complex, multi-year programs, and the possibility could exist that contractors are more sensitive to these risks than agencies and engineers, and price the risk premium into their bids.

Report Recommendations

Saylor's report included the following recommendations:

- Establish more robust cooperative agreements and partnerships between Caltrans, City and County of Los Angeles to reduce delays in approvals
- Review change order procedures to reduce delays in processing
- Review PLA and DBE program to ensure that resources match requirements
- Focus on recruiting and retaining skilled staff to accommodate size of Measure R program
- Actively recruit new bidders to ensure competitive bidding

NEXT STEPS

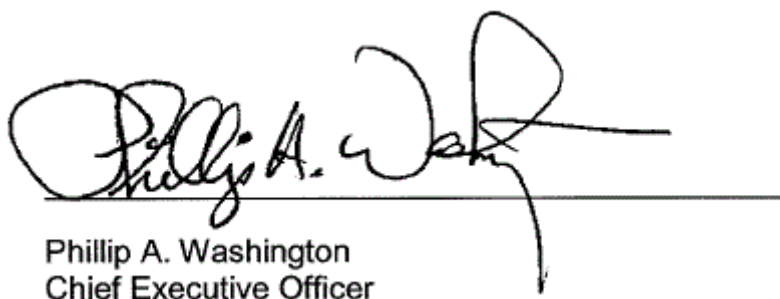
Metro staff will review the report's findings and recommendations and develop mitigation strategies to address the factors influencing bid prices on Metro construction projects. Staff will return to the Board in January 2016 and status our progress in response to Saylor's recommendations.

ATTACHMENTS

Attachment A - Los Angeles Construction Market Analysis August 2015 Update, Executive Summary

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