



County of Fairfax, Virginia

MEMORANDUM

DATE: MAR 13 2018
TO: Board of Supervisors
FROM: Robert A. Stalzer *RA Stalzer*
Deputy County Executive
SUBJECT: Construction Cost Trends

Since spring/summer 2016, the Department of Public Works and Environmental Services (DPWES) has experienced a pattern of increasing construction costs for County building construction projects that have been competitively bid. During this time period, DPWES has separately bid ten building projects. The low bid for one project was below the final design cost estimate. The low bid for the other nine projects exceeded the final design cost estimate by between 6 and 33 percent, with the low bid being an average of approximately 17 percent above the final design cost estimate. In order to better understand this shift in building construction costs, DPWES' Building Design and Construction Division (BDCD) reached out to other local jurisdictions, recognized industry sources, and independent construction cost estimators with knowledge of the regional construction market. Of particular note, Prince William County chartered a committee of industry experts, and that committee issued a September 2017 report providing a comprehensive assessment of recent construction market cost escalation in the region.

BDCD's outreach to other local jurisdictions reflects that they have all had similar experiences with the rate of recent construction market cost escalation on building development projects, and that regional construction costs increased by as much as 10 percent to 20 percent beyond projections in many instances. The committee of regional experts chartered by Prince William County, included regional cost estimating experts, recognized regional architects, and representatives from Prince William County. That committee's report, published on September 15, 2017 and entitled, Construction Costs Market Conditions and Trends, is consistent with the other findings from BDCD's outreach and reflects the following findings:

- Spikes in regional bid pricing are occurring between 10 and 20 percent;
- A shortage of regional skilled labor exists;
- A reduced supply of general contractors locally has led to less competitive bidding, particularly at the subcontractor level;
- Recent hurricane damage and forest fire damage are pulling building construction materials, and in some cases labor, to the south and western parts of the country. The impacts of these natural disasters on the construction market are expected to last for several years, particularly impacting demand for steel, PVC, drywall, diesel and gasoline;

- Material pricing is on an upward trend specifically in unit masonry, concrete, and windows/glazing/storefront with substantial cost escalation;
- The salaries (wages) for experienced project managers and superintendents have experienced significant increases;
- There is an increase in mark-ups in the contract general conditions, including profit margins for all trades and general contractors, in part to compensate for lessor profits of the past;
- Substantial escalation in the mechanical and electrical subcontractor trades; and
- The regional market is reacting to the high volume of public and private sector work, and contractors are being more selective about the types of projects they will competitively bid.

This increase in the construction costs for building development projects is adversely impacting virtually all major BDCD building projects. This cost escalation is creating challenges in managing the scope of the projects within the previously established budgets. The projected costs for upcoming projects in the planning and design phases, as well as for future projects in the Capital Improvement Program (CIP) are increasing. BDCD staff is continuing to review the construction cost estimates and Total Project Estimates for projects to assure that the market escalation is accounted for, in addition to accounting for any impacts related to approved scope modifications and site acquisition costs. Funding is currently available to provide for several related public safety project adjustments, and funding reallocations are included in the *FY 2018 Third Quarter Review*. The CIP Bond Referendum Plan has been adjusted to account for this construction market escalation and county staff will continue to monitor the cost escalation in the regional construction market. BDCD continues to work aggressively during the design phase to control project costs and to explore value engineering opportunities to provide a quality design that meets all functional and operational requirements while also recognizing the importance of life cycle and durability.

We will advise the Board of any further developments of significance. If you have any questions regarding this contract award, please contact Carey F. Needham, Director, Building Design and Construction Division at 703-324-5800.

cc: Bryan J. Hill, County Executive
Joseph Mondoro, Chief Financial Officer, Department of Management and Budget
James W. Patteson, Director, Department of Public Works and Environmental Services (DPWES)
Ronald N. Kirkpatrick, Deputy Director, DPWES, Capital Facilities
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