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DATE: May 3, 2023
TO: Carole Triem, Chair Assembly Finance Committee
THROUGH: Katie Koester, Director Engineering and Public Works
FROM: Jeanne Rynne, Chief Architect
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SUBJECT: Current Bid Climate

Executive Summary

Following some bids that came in significantly over the professional estimate, CBJ Engineering reached out to the contractor community to gain a better understanding of the current construction climate and to ascertain what CBJ may be able to do to improve bid results and to attract bidders to CBJ projects. Challenges in the Juneau market continue to include material escalation and long lead times for equipment and labor scarcity. Additionally, the business of the private sector, with more flexible procurement methods, makes bidding public work less attractive.

Background

On February 23, 2023, CBJ Purchasing opened two bids: the Eagle Valley Center (EVC) Energy Efficiency Upgrades and Outer Drive Pump Station. There were two bidders for the EVC project; the low bidder was 1.7 times the professional estimate and the high bidder 1.8 times the estimate. There were two bidders for Outer Drive, the low bidder was 1.5 times the estimate and the high bidder 1.6 times the estimate. The bidding climate has forced CBJ to make difficult decisions and prioritize critical infrastructure: for example, the Assembly transferred funds to complete the lift station whereas the EVC project is being rebid at a reduced scope.

Other recent bid results include

- BRH Administration Building Exterior Rehab, opened 3/8/23, had one bidder at 1.8 times the estimate.
- ZGYC Boiler, opened 4/11/23, had one bidder at "only" 1.26 times the estimate.
- Treadwell Roof Rebid, opened 7/26/22, had four bidders ranging from 1.4-1.7 times the estimate.

As the high bids have tended to be related to vertical construction, CBJ Engineering contacted the seven general contractors that have historically bid on CBJ vertical projects. Four of the seven contractors responded to our request for feedback on the current bid climate. Feedback from contractors is summarized on the attached document.

Conclusion

CBJ can work to control costs by normalizing the use of alternative procurement and changes to project labor agreements to accommodate the current labor shortage. However, the reality is we are still in a volatile bid climate and will likely continue to see bids coming in above estimates. This will force CBJ to prioritize critical projects, put others on hold, and/or be able to appropriate additional funds to accomplish the projects we have planned.

Enc:

Chart: Percentage of Low Bid Award Above Estimate (2018-2023)
Summary of Contractor Feedback on Cost Escalation

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Material Pricing, Projected Escalation

- Prices are dropping on wood products and metals.
- Concrete prices may be going up in Juneau.
- Forecasting 5%-6% escalation this coming year compared to 8-9% this past year.
- Roofing suppliers are reluctant to lock in prices, particularly on petroleum based products.

Estimating

- Professional estimators are coming in low.
- Less consultant outreach to local contractors when estimating than in the past.
- Contractors having difficulty generating good "square foot" estimates in today's market.
- Anchorage estimators are not taking into account freight to Juneau.
- Have observed professional estimates (Anchorage based) coming in low for other parts out of Alaska as well.
- Estimators are behind on material pricing.
- Estimating rule of thumb used to be 50% materials/50% labor; now more common to see 60%-70% materials/40%-30% labor.
- Estimators are missing the compounding of mark-ups with multiple tiers of subcontractors.
- Design clarity: projects with fewer uncertainties will get more attention.

Labor

- Labor is scarce, both in the trades and project management.
- Labor issue is exacerbated on projects requiring PLA.
- Local Carpenter Union Hall in Juneau has closed, contractors having to import workers from Anchorage or out of state.
- Aging workforce, not many new workers going into the trades, young people coming into trades expecting high starting wages with lower ambition.
- High turnover for new hires.
- Having to pay more for less skilled and less available labor
- Latest prevailing wage rate schedule from DOL (April 2023) is significantly higher than the last one (September 2022) ranging between 7%-10% increase depending on the trade.

Subcontractor Interest

- Difficult to get interest/bids from Mechanical Subcontractors.
- Number of local flooring subcontractors is limited.
- Business of market limits General Contractor's ability to be competitive at the subcontractor level.
- Juneau subcontractor market is limited; hard to be competitive if solicit subcontractor bids outside of Juneau.

Market/Competition

- Private sector is very busy.
- Market in general is flooded with work.
- Have experienced subcontractors not wanting to bid the full scope of work associated with their trade.
- Private sector more attractive to bid –
 - more flexibility with schedule in terms of long lead items and weather windows.
 - more flexibility with procurement methods (not limited to competitive bid, design-bid-build procurement).
 - less paperwork.

- more streamlined decision making.
- flexibility to select subcontractors based on qualifications and past working history v. low bid.
- Lump sum has gone away in the Private Sector

Schedule

- Like to see roof bids advertise in the fall for upcoming season.
- Still seeing long lead times for major equipment.

Procurement

- Like the Term Contract option.
- Lump sum bidding still has a place, keeps pencils sharp.
- Lump sum bidding appropriate for the \$3M-\$5M range.
- Expand options to do Alternative Public Works.
- Alternative Public Works/collaborative delivery promote the ability to find solutions within budget.
- Luke warm about the idea of CBJ purchasing long lead items in advance to mitigate extended schedules; workable if equipment is not on the critical path. Could work if equipment already procured at time of bid.
- Consider a fair way to share risk. Owners who expect the Contractor to bear all risk are seeing higher costs.

Recommendations/Follow-up:

- Issue an RFP for Estimators, requiring a focus on the Juneau market, hired directly by CBJ v. subconsultant to A/E team.
- Expand ability to use alternative public works procurement such as Construction Manager At Risk (CMAR)
- Consider implementing Value Engineering and Constructability Review. Value Engineering is budget driven. Constructability evaluates "buildability" of construction documents, which also drives the cost.
- Consider building flexibility in procurement code to allow advance purchase of long lead items by CBJ prior to bidding balance of work.
- Revisit the efficacy of the PLA. Is it accomplishing what the Assembly intended? We have evidence that it adds costs to projects.

Changes that CBJ has made that have improved things:

- Contractors appreciate "Draft Bid" schedule that notifies them of upcoming projects not yet advertised.
- Appreciate shortening of days required to hold bids from 120 to 60 or 45. Helpful since suppliers don't want to hold pricing for extended periods.
- Appreciate building in extended schedules to allow for long lead times.