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Is it payback time for school districts?

• ***Districts should be vigilant about the quality of work on projects, as well as the financial health of their contractors.***

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Image courtesy of NAC|Architecture

Snohomish School District received 16 bids last month for Riverview Elementary School. The lowest was 8.46 percent below the estimate.

In 2006, I wrote an article for the DJC called "Schools losing out as construction costs soar" that chronicled a construction market that was hot and getting hotter. In part, the article was in response to national estimating indices that were showing a degree of construction escalation that was not as significant as we were experiencing on our projects.

The article showed how the cost of elementary schools in Snohomish, King and Pierce counties had escalated almost 68 percent from 2001 to 2006, and nearly 31 percent from 2005 to 2006 alone.

Public school construction was suffering from private sector competition. In addition, commodity escalation caused by robust construction in China, and significant local competition from public projects ranging from transportation to higher education, also affected school construction costs. The article explained that commercial and private projects were much more attractive to contractors since they represented less risk, less red tape and higher rewards.

As we embark on a new year with very different conditions, I thought it would be interesting to see how the trends we saw in 2006 have been affected by the new economic realities we are all feeling.

My data is taken from the Office of the Superintendant of Public Instruction Web site and from other estimating sources; and represents the base bid with alternates and 7 percent state sales tax for new elementary school projects from 2001 through 2009. Middle schools, junior highs and high schools show similar trends but I am focusing on elementary schools because the data set is larger.

Back to 2005

New Elementary Schools in Western Washington
Average cost per square foot

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Cost/SF	$151	$153	$155	$185	$194	$255	$308	$272	$240
Since 2001	0%	1.3%	2.6%	22.5%	28.5%	68.9%	104%	80.1%	58.9%
Yr -Yr Change	0%	1.3%	1.3%	19.3%	4.9%	31.4%	20.8%	-11.7%	-11.8%

Source: Office of the Superintendant of Public Instruction

The average cost to build an elementary school in Western Washington is down about 22 percent over the past two years.

Prices have been dropping for the last two years and in 2009 have reverted to 2005–06 levels. We have seen double-digit reductions in costs for both 2008 and 2009.

These statistics show that schools are indeed on sale compared to just a few short years ago. Commodities continue to fluctuate primarily due to demand in China, but this volatility is more than compensated for by the tremendous contractor competition that currently exists. Interest in school projects in the contracting community is at an all-time high.

Recently, our office bid two new elementary school projects about two weeks apart. The first project received 16 bids, all substantially under the estimate. The second received 14 bids, some from out of state, again all substantially under estimate. This compares to what the industry experienced in 2006 and 2007 when many projects had one bid, or two if they were lucky, and bids nearly always exceeded estimates.

This downward trend in costs is good news for owners since they are able to save money while accepting bid alternates on their projects. The other side of the coin however, is that there are implications when competition is so cutthroat that profit margins are virtually gone, with some contractors and subs cutting their bids beyond profits.

The risks generated by these competitive conditions include the likelihood that contractors and subs will fight for every possible change on public projects, making for a trying construction experience for all participants. There will also be a tendency to cut corners and interpret contract requirements in the most creative ways in order to save costs.

One apparent paradox in the current situation was pointed out to me by Kirk Robinson of the Robinson Co., a Seattle-based cost estimating and program management firm. Robinson said: “Many general contractors and subcontractors have reduced their forces so that only their best and most experienced personnel remain. This means the productivity and quality of the work should increase. General contractors and subcontractors have to bet on that outcome in order to be competitive.”

Experienced supervisors however do not mean that contractors will be bashful about asking for extras. In addition, the quality and experience of subcontractors may be in question.

“With the evaporation of new private work, many subcontractors and general contractors are coming into the public arena,” Robinson said. “This influx of typically non-public bid contractors can result in lower numbers but can also result in more administrative time by the owner, architect, engineers and consultants due to the inexperience the new contractors have relative to the formality and paperwork required for public bid projects.”

These possible contractor actions will, in turn, require the design team to expend more effort during the construction phase to inspect the work and advocate on the owner's behalf for the requirements of the contract.

Good attitudes count

Many owners will have little sympathy for contractors in this market, remembering the sting of high bids from just 24 months ago. Their attitude might be: “I was gouged before so this is payback time.”

This is not the right attitude, even from a self-interested point of view since problems created by current economic conditions may come back to haunt owners. The biggest risk in this sense is that contractors or their subs will go bankrupt during the course of a project. Bankruptcy could have dire consequences for project schedules, cause litigation, and in general cost the owner time and money in legal and other fees.

So what attitude should owners take in these times?

I think owners should understand the advantages and challenges of current pricing. They should be vigilant about the quality of work on projects and even more so about the financial health of their contractors. They should bond major subcontractors in addition to the general contractor to protect their own interests. When considering change requests they should remain vigilant, but carefully judge the consequences of their evaluations of contractor proposals.

The current market is just as abnormal as the overheated market of 2006–07. Predictions of economic recovery include a slow and steady recovery rather than another swing of the pendulum. Stability is in everyone's interest in that it allows predictability in advanced planning and makes for a healthier design and construction economy.

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