Selected Results from the AASHTO Survey on Construction Cost Increases and Competition (March 31, 2006)

Responding Agencies (44 States, DC, Canadian Provinces of Alberta and Ontario)

AASHTO Survey on Construction Cost Increases and Competition

The need for this survey originated with a single-bid issue identified by the AASHTO Subcommittee on Construction at the August 2005 summer meeting.

In late 2005 / early 2006 the FHWA and AASHTO became aware of other price increase and competition related issues.

Therefore, AASHTO SOC members and the FHWA developed a joint national survey with responses due 3/31/2006.

44 States, the District of Columbia and two Canadian Provinces responded to the survey.
Importance of the Price / Competition Issues

- For individual States
  - Less buying power
  - Deferred projects
  - Public confidence - “Commitments Made are Commitments Kept” (Florida DOT initiative)

- On a national basis
  - SAFETEA-LU program increases will be diminished
  - As stewards of public funds, ensuring competition will always be our responsibility
  - Anti-trust issues cross state lines

Florida DOT held a One-Day Summit on Construction Prices on February 17, 2006,

The purpose of the meeting was to discuss potential strategies for addressing cost increase issues while continuing to deliver a quality highway program.
Competition

Q#1 - Have you experienced a decrease in the number of competitive bids per project over the past 2 to 3 years?

35 of the 46 responding agencies indicated that the number of competitive bids has decreased over the past two to three years.
Why has competition decreased?
(Q#5 - If competition has decreased in your state, to what do you attribute this situation?)

- Industry consolidation (contractors, quarries, etc.) (27 responses)
- Increased work with the same number of contractors (26 responses)
- Downsizing of workforce due to instability of transportation funding (6 responses)
- Regulatory restrictions, such as environmental permits for plants and quarries (6 responses)
- Increased technical requirements in contracts (7 responses)
- Bankruptcies (1 response)
- Hurricane-related issues increasing non-highway construction demand (2 responses – FL, LA)
- Other (10 responses)

This is a summary of the responses to survey question #5.
This is a summary of the average number of bids per project submitted by each contracting agency.

It is a simple average of the responses received (It was not adjusted for the total number of projects or size of contracts).

It confirms the general finding of an informal survey of the western states – competition has declined over the past three years.

*Question # 3 – responses received from 32 to 39 contracting agencies for 2001-2005*
Average Number of Bids / Project
Selected Results

Some states have not experienced a decline in competition and still enjoy a competitive market (average bids / project > 4)

Other states are in markets with limited competition (< 3 bids / project)
Q #7 - Have you experienced an increase in the number of single bids over the past 2 to 3 years?

This graph shows the number of states indicating an increase in the number of single bid contracts (27).
Occurrence of Single Bids by Type of Project
Asphalt Resurfacing Projects

Question #11 in the survey asked for data concerning the occurrence (%) of single bid contracts for various types of construction (Asphalt Resurfacing, Reconstruction, Major Projects, Major Bridge, Specialty Projects and Maintenance Projects)

This particular slide shows the occurrence of single bids in asphalt resurfacing projects.

The high percentage of contracts in some states may be an indicator of restricted markets or non-competitive acquisition that have already taken place.
2005 Overall Cost Increases
Q#18 - If your state experiencing significant cost increases . . . What is the percentage increase (2005 from 2004)?

![Map showing percentage cost increases for different states and provinces.]

Cost increase greater than 50%
Cost increase between 20%-50%
Cost increase between 10%-19%

Canadian Province
- Alberta: 6%
- Ontario:

Question #18 in the survey asked for overall cost increase information for an estimate of overall cost increases for a 2003 through 2005.

This chart shows the increases for 2005 from 2004.
Earthwork  Price Increases

Q #19 - If data are available, what construction bid items have experienced the most rapid cost increases in the past year?

Based on responding agencies:

<table>
<thead>
<tr>
<th>Low</th>
<th>High</th>
<th>Count</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0%</td>
<td>100.0%</td>
<td>32</td>
<td>27.7%</td>
</tr>
</tbody>
</table>

Cost increase greater than 50%
Cost increase between 20%-50%
Cost increase between 10%-19%

Question #19 asked for estimated cost increases for specific construction items (Earthwork, Asphalt, PCC, and Steel).

This chart shows the estimated cost increases for earthwork during the past year. Many believe that the high percentages in some states are attributable to the direct relationship between the high cost of fuel and earthwork equipment.
Question #14 in the survey asked **Does your state publish a bidders list for proposals or plans?**

The FHWA is concerned that the availability of internet plan-holders lists or bidders lists is detrimental when competition is already limited.

While some states say that must release such information as a “sunshine” or FOIA State policy, FHWA recommends that States reconsider such policies and if absolutely necessary limit publication a few days prior to bid opening.

**Note:**
- Do not publish: DC, MD, SC, TN
- FL - Bidders list is confidential 2-days prior to letting.
- VT - no prime list is published until there are four (4) or more pre-qualified contractors that have purchased proposals.
Most Effective Initiatives to Control Costs / Increase Competition

Q #26 - Of the above initiatives, which three have been the most effective (or which three does your state consider to be the most effective) in fostering competition and controlling costs?*

1. Rejecting non-competitive bids and re-advertising (17, 5,3)
2. Balancing work type in each letting (7,4,3)
3. Bundling projects (placing several smaller projects together) (2, 4, 5)
4. Updating construction cost estimate data (0, 5,4)
5. Splitting large projects into smaller projects (2, 5,1)
6. Reducing contractor's risk (3,1,3)
7. Deferring project lettings (1,3,1)

* 1st /2nd/3rd most effective responses

Self explanatory
Antitrust Division, US Department of Justice

- Currently working with five State DOTs in pursuing anti-trust matters
- Needs AASHTO cooperation in collecting ownership and other basic information for the aggregate, asphalt and concrete industries operating in your state
- Necessary for anti-trust prosecution

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Preliminary FHWA Recommendations - Continue to ensure competition

- Reject non-competitive bids
- Reconsider risk allocation – through project scoping, contract size, price adjustment clauses, bundling contracts, balancing lettings
- Perform market analysis for evidence of collusion / anti-trust issues
- Reconsider “bidders-list” publication policies
- Support the US DOJ’s Antitrust Division collection of data
- Support fraud detection, awareness and prevention activities

Emphasize that FHWA will continue to work with the states to ensure competition