

Design

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Project Title:
Industry Capacity and Cost
Escalation Study

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Industry Capacity and Cost Escalation Study

Impact of the Senate Bill 1 (SB-) funding on future Caltrans construction projects cost

WHAT WAS THE NEED?

Caltrans delivers a large construction program on an annual basis. With passage of Senate Bill 1 (SB-1) in 2017, the Caltrans program is expected to increase significantly with a similar increase in the program by local agencies. With the increased funding comes increased oversight and accountability. Caltrans needs to better understand the impact of this additional work on future construction costs in order to provide better cost estimates on projects.

WHAT WAS OUR GOAL?

The Caltrans needs a better understanding of the potential effects that additional work can have on future construction costs. The Department (Caltrans) asked HDR (Consultant) to investigate four primary questions to help it understand the market dynamics from SB 1 funding and implications for construction cost escalation:

1. What is the effect of SB 1 funding on contractor competition and the capacity of the contracting industry to bid the work anticipated over the next 10 years?
2. What is the effect of SB 1 funding on availability and pricing of materials, such as aggregates for asphalt concrete, portland cement concrete, aggregate base, aggregate subbase, and steel?
3. What is the effect of SB 1 funding on the construction labor workforce, including skilled labor and trucking services, in California?
4. If SB 1 funding impacts contractor competition and materials availability, how would this influence the escalation of construction costs on the Department's projects?



Caltrans provides a safe, sustainable, integrated and efficient transportation system to enhance California's economy and livability.

WHAT DID WE DO?

The consultant designed a study based on multiple sources of evidence to address each of these questions with the intent to produce actionable and transparent results. The study design incorporates five components:

- Financial and Business Analysis of SB 1 Fund Allocations and Awards.
- Stakeholder Input from Surveys and Focus Groups
- Analysis of Wage and Employment Trends in the Heavy and Civil Construction Industry in California.
- Literature Review.
- Modifying Construction Cost Escalation

WHAT WAS THE OUTCOME?

The consultant found that as of November 2019, the impact of SB 1 funding has been modest. This is partially due to the rollout of SB 1 funding being in a transitional phase with additional funding and construction still ramping up. Please refer final report posted at Division of Research and Innovation web page for further details.

With the Department committed to rolling out projects in a timely and cost-effective manner, HDR has the following suggestions as prospective next steps:

- Keep up internal hiring goals and training to have adequate and trained staff who can meet SB 1 demand.
- Partner with industry to keep pace with construction best practices such as materials composition, equipment improvements, paving processes, environmental impacts, sustainability, and staff recruiting and training
- Monitor changes in industry consolidation and firm composition to anticipate contractor capacity to bid

- Build and maintain a documented, accessible, electronic database of bid data to monitor the construction and materials market through changes in pricing and number of bidders per bid
- Provide regular progress reports to industry on SB 1 roll out and completions to help contractors and material suppliers forecast their capacity needs.

WHAT IS THE BENEFIT?

The benefit is better understanding on the impact of this additional work as a result of Senate Bill 1 additional funding in the Caltrans workflow on future construction costs in order to provide better cost estimates on projects.