



# Cost Increases and the Impacts

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Not a day goes by that the topic of cost increases and their impact on the FDOT Work Program does not come up for discussion. The last 18 months have seen a fairly dramatic rise in price for construction of any type. In our highway industry, prices nationwide went up about 8.5 percent in 2004 and appear headed towards a 13+ percent increase in 2005.

Construction price increases aren't just being seen inside Florida's borders, as this is happening all across the country and in all types of construction. Budget estimates have been blown apart; cost feasible projects 12 months ago are no longer viable. From my own personal experience a nine-month delay in starting construction of a new home cost me dearly.

All of us have been spoiled. Prices were fairly stable over the 15-year span of 1988 thru 2003. Raw material costs, energy costs and labor costs had remained fairly steady, as we all began to take these stable prices for granted. Estimating was fairly a routine process; you simply looked at a similar project from the year before. That is definitely not the case now. Estimates must be updated almost weekly. Long-term jobs carry big contingencies.

What happened? After years of stability, prices went up dramatically – to mention just a few – for labor, materials, fuel and insurance. In Florida, we are almost in a “perfect storm” scenario with regard to these increases. Both the public and private sector have been very busy; work is plentiful; and contractors are all in competition for labor, materials, and equipment.

Take a look at the price of real estate; if you own a home you have experienced the benefit of these increases. Values have skyrocketed beyond almost anyone's expectations. As a matter of fact, the dramatic increase in documentary stamp tax collections led to a great new funding source for transportation during the last legislative session.

It's ironic that this increase has also impacted construction cost estimates. With the price of land increasing, the costs for fill material are off the charts. Throw in the time and cost for obtaining borrow pit permits and it should be readily apparent that embankment prices must go up sharply. Suppliers of aggregate and base material face similar problems when buying land in an attempt to expand mines. Raw land costs suddenly have become a significant factor in the price of aggregates.

How about those hurricanes? No, I'm not talking about the outstanding U.M. football team – I'm talking about the 10 or so named storms that have pounded Florida in the last 18 months. We all have seen the effects of the storms. Highway construction is not immune to this, the added pressure on labor, materials, and trucking costs from the heavy demands of reconstruction are a big contributing factor. Insurance costs, always a big number in the construction business, have taken off. Like all others, these costs must be passed along.

There is not a contractor working in Florida who has not been hammered by the increased cost for gas and diesel fuel. Every facet of a contractor's business has been impacted. With the demand for oil

at an all-time high we may see prices fall slightly, but wherever they end up will be substantially higher than the levels of two years ago. It is a given that asphalt prices would be pushed much higher for the same reason. As an estimator it is only prudent that you assume the cost of oil will continue upward in the years to come.

The large demand for labor means that the overall workforce is probably not quite as experienced as a few years ago. A less experienced work force will most likely lead to less production. Where does less production lead? No doubt, to higher costs.

Not only have raw material prices increased, the cost to transport those materials to the job is greater. At the same time the reliability of the transportation is not the best. Many contractors function with day-to-day material deliveries. While material supplies in some areas are tight, they are generally available. The same cannot be said for transporting those materials to the job. Trucking companies are scrambling to find drivers; railroads are short on cars and, it seems, short on interest to move

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materials. This inability to plan on a consistent supply of material is another factor in decreased production. Decreased production means higher costs and longer completion times.

I have only scratched the surface of cost pressures; they are causing some projects in the work program to be moved out to later years or postponed indefinitely. We will be getting less road for the dollar. Not only are construction costs on the rise, just think about the cost of right of way. Some projects may be tossed out simply because FDOT cannot afford to purchase the needed right of way.

The bottom line to all of this is we must continue to look for new sources of revenue for transportation projects. The projects planned a year ago will need more funding in order to be built. Estimates for future projects must be redone and must be realistic. We must all look at how we are doing business and figure out ways to save money without sacrificing safety or quality.

Oh, by the way, we may also have cost impacts from a couple of items known as Contractor Quality Control and Value Added Pavement ...

