

AGENDA
TOWN COUNCIL WORKSHOP
WEDNESDAY, OCTOBER 17, 2018
UPDATE ON THE PUBLIC SAFETY BUILDING – 6:15 P.M.
COUNCIL CHAMBERS

Item 1. Call to Order.

Item 2. Those Present.

Item 3. Update on the Public Safety Building.

Item 4. Adjournment.

Town of Scarborough Public Safety Building Project

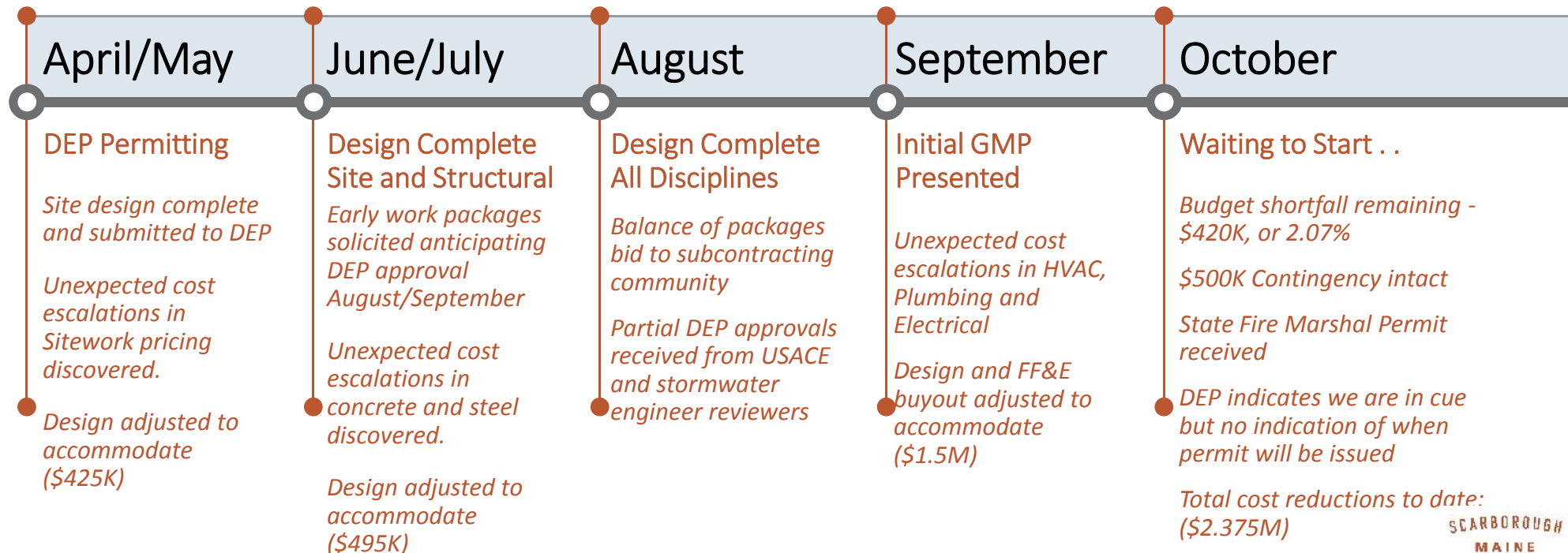
TOWN COUNCIL PRESENTATION

OCTOBER 17, 2018



Design Development and Bidding

Public Safety Building



Cost Escalation

Market Conditions

- Tariffs
 - Direct material cost escalations
 - Indirect/consequential mirrored escalations
- Labor
 - Overall labor shortage
 - Bull market for construction

Cost Reductions

Building Components

- Architectural Finishes: Flooring, wall material changes, millwork reductions, material grade reductions
- Façade: Alternate metals, masonry materials, roofing composition, reduce landscaping/plantings, reduce parking and paving
- MEPs: HVAC system type change, light fixture changes, materials changes
- FF&E: Reduce quantities of furniture, relocate existing equipment, defer purchase of equipment, reduce budget for IT

Path Forward

Budget Shortage

- Available means to close gap
 - Secure other revenue sources
 - Remove critical items from scope and programming
 - Reduce the size of the building by 2,300 SF
 - Dorm rooms, shower room, Maintenance/Wash Bay and Museum/Future expansion Bay

Construction Start

NEED DEP PERMIT

Town of Scarborough, Maine

U S R O U T E O N E , P O B O X 3 6 0
S C A R B O R O U G H , M A I N E • 0 4 0 7 0 - 0 3 6 0

To: Town Manager Hall & Town Council Members
From: Kevin Freeman, Chairperson Ad-Hoc Public Safety Building Committee
Date: October 12, 2018
RE: Workshop Request

Dear Tom & Town Councilors:

I am writing on behalf of the Ad-Hoc Public Safety Building Committee to request an opportunity to meet with the Town Council in workshop session so we can bring you up to speed on the committee's efforts to date on this important project. We have been working through some budget and timing challenges that are briefly described below that we want to brief you on and solicit your feedback.

One of the issues is the fact that we are now seven weeks behind our initial schedule for groundbreaking due to the fact that we have not received the Department of Environmental Protection (DEP) permit that we expected by September 1st. We applied for that permit in early April, and over six months later have not received it causing delays and substantial additional costs due to the need for winter concrete and other winter work conditions.

The second and more challenging issue is the project budget. The original project budget was determined by our architect, Jeff Shaw from Context Architecture over a year ago through the schematic design phase with input from a professional local cost estimator. An escalation factor was included in that budget to account for anticipated increases in material costs during the time necessary to complete the detailed design work and create the construction documents necessary for competitive bidding of the work. Over that time the construction market has become extremely volatile. The threat of tariffs has caused wide-spread increases in material costs that far exceeded the normal escalation we expected. Additionally contractors are experiencing a significant shortage of skilled tradesman to meet current demands for the many large projects in our area, further putting pressure on bid pricing.

As the various competitive bids came in at the end of the summer we experienced significantly higher costs than we had budgeted for in several key areas. Thankfully we chose the Construction Management at Risk model of delivery for this project which is allowing us to negotiate and develop cost reduction alternatives rather than just rejecting the bid. For the past nine weeks our team which includes Context Architecture, the Architect, Landry/French, the Construction Manager, and Tom Perkins, our Owner's Representative, has been collaboratively and productively working to bridge the budget gap. In fact, the efforts to date have yielded \$2.375 million in cost reductions and despite the fact that there were some tough choices, we are pleased to report that the integrity of the building has not been compromised. Despite these efforts, there remains an additional \$420,057 in reductions to bring the costs within budget. Although there is adequate contingency to cover these costs, we do not believe it be prudent to exhaust the contingency before the start of the project. In an effort to keep the contingency intact we have identified further reductions to close the gap, but these choices have consequences and we wish to solicit your input on the best way to proceed.

At the workshop we will be prepared to update you on the market conditions that led to this point. We will explain the extensive efforts to date that the team has undertaken to bridge the budget gap through bid concessions, value engineering options, cuts in furniture, fixtures, and equipment, and re-design of some building systems. We will also discuss options for your consideration to keep this very important community project moving forward in a positive direction.

The committee and I appreciate the opportunity to meet with you to deal with these unexpected circumstances.



October 12, 2018



Mr. Tom Perkins
Dirigo Architectural Engineering
7 Cobblestone Drive, Suite 2
Turner, ME 04282

Re: Town of Scarborough
New Public Safety Building
Budget

Dear Tom:

During the last several months, Landry/French Construction has spent a significant amount of time during the preconstruction process working with you, the Town of Scarborough, Context Architecture, mechanical and electrical engineers and others trying to align the project's budget with the building's program. This has been a very collaborative, thorough and extensive process where the teams have worked extremely hard trying to maximize the Town's dollars without sacrificing the scope of the project.

To provide context to the challenges we've encountered over the past several months, it's important to note that the original budget for the project was done in July of 2017, which was later approved by voters in November 2017. During the last year, the construction market nationally and in particular here in Maine has seen significant escalation in materials and construction costs. In a recent article by the Associated General Contractors of America (AGC), which we've attached, they cite a 7.4% increase in construction costs over the past year. The AGC of Maine also recently published an article that states "Price increases have accelerated for many construction materials in the last two years." A significant factor that has taken place since voters passed the bond is new tariffs that have been placed on steel and light gauge metal. Additionally, over the past 12 months we have read numerous articles about projects being significantly over budget here in Maine and the issues have been related to significant increases in materials and labor costs.

Through our efforts in preconstruction, we've been able to recognize a \$1.4 million reduction through cost-saving options. Again, it's important to note that we have not sacrificed any of the building's program or footprint. We're currently at just under 3% over the total project budget and given the current market conditions. We have been informed by a few material suppliers that we can expect additional increases in materials January 1, 2019. It will be imperative that we secure these materials to avoid additional costs.

I've included articles and other reference materials as backup that reinforces the challenging market we are currently in. Please let me know if there's any additional information you need.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Kevin French', written in a cursive style.

Kevin French, CEO
207.756.2828
kfrench@landryfrench.com



CONSTRUCTION MATERIAL COSTS INCREASE 7.4 PERCENT, AS CONTRACTORS CONTINUE TO BE SQUEEZED BY TARIFFS AND RISING FUEL PRICES

October 10, 2018

Fuel, Metal, and Asphalt Costs Increase by Double Digits As Labor Costs Continue to Rise, While Prices Contractors Charge to Build Projects Grow By Low Single Digits

The cost of many products used in construction climbed 7.4 percent over the past year due to double digit increases in commonly-used construction materials, according to an analysis by the Associated General Contractors of America of new Labor Department data. Association officials noted that the cost increases come as many construction firms are already grappling with shortages of skilled craftsmen essential for projects but have limited ability to increase prices for their services.

“The new construction materials cost data likely under-reports actual price increases, since federal officials collected most of their data in the first half of the month, before new tariffs affecting many construction materials started,” said the association’s chief economist, Ken Simonson. “Contractors are paying more for the materials they use and workers they employ but aren’t able to pass most of those new costs on to their clients.”

Simonson noted that the producer price index for inputs to construction industries—a weighted average of all goods and services used in construction—increased 0.2 percent from August to September and soared 6.2 percent since September 2017, while the index for goods except services rose at a faster pace of 7.4 percent. In contrast, an index that measures what contractors say they would charge to construct five types of nonresidential buildings rose just 3.5 percent over the year, indicating that contractors were absorbing more of the costs than they were passing on to owners.

Diesel fuel, steel pipe and tube, asphalt paving mixtures and aluminum products were among the diverse products that contributed to the large year-over-year cost increases, the economist said. He pointed out that from September 2017 to September 2018, there were producer price index increases of 29.3 percent for diesel fuel, 22.1 percent for steel pipe and tube, 11.7 percent for fabricated structural metal, 11.2 percent for asphalt paving mixtures and blocks and 10.7 percent for aluminum mill shapes. Additionally, the administration recently imposed an interim tariff of 10 percent on \$200 billion worth of Chinese imports, including goods([link is external](#)) important to the construction industry, and plans to increase the rate to 25 percent in the new year.

A survey the association released in August found that 80 percent of respondents reported difficulty filling hourly craft worker positions. As a result, sixty-two percent of firms report they are paying higher salaries to attract and retain workers. “The more firms get squeezed by higher materials and labor costs, the less likely they are to continue hiring and investing in new equipment,” said Stephen E. Sandherr, the association’s chief executive officer.

CONSTRUCTION COSTS ESCALATE IN FEBRUARY AS STEEL AND ALUMINUM PRICES JUMP;

TARIFF INCREASES THREATEN TO MAKE MANY PROJECTS UNAFFORDABLE

Association Officials Urge Trump Administration, Congress to Find a Way to Stimulate Demand for Domestic Steel and Aluminum that Won't Undermine Construction Demand, Impact Broader Economy

Construction costs escalated in February, driven by price increases for a wide range of building materials including steel and aluminum, according to an analysis by the Associated General Contractors of America of Labor Department data released today. Association officials warned that newly imposed tariffs on those metals will create steeper increases that will squeeze budgets for infrastructure, school districts and commercial projects.

"Price increases have accelerated for many construction materials in the last two years, with additional increases already announced, and others on the way as soon as tariffs on steel and aluminum take effect," said the association's chief economist, Ken Simonson. "Contractors will be forced to pass these cost increases along in bid prices, but that will mean fewer projects get built. And contractors that are already working on projects for which they have not bought some materials are at risk of absorbing large losses."

The producer price index for inputs to construction industries—a measure of all goods and services used in construction projects including items consumed by contractors, such as diesel fuel—rose 0.6 percent in February alone and 4.4 percent over 12 months. The index increased by 4.2 percent in 2017 and just 0.9 percent in 2016, the economist noted.

"Many materials contributed to the latest round of increases," Simonson observed. "Moreover, today's report only reflects prices charged as of mid-February. Since then, producers of steel and concrete have implemented or announced substantial additional increases, and the huge tariffs the President has imposed will make steel, aluminum and many products that incorporate those metals even more expensive."

From February 2016 to February 2017, the producer price index rose 11.6 percent for aluminum mill shapes, 4.8 percent for steel mill products and 10.0 percent for copper and brass mill shapes. Metal products that are used in construction include steel bars (rebar) to reinforce building and highway concrete; piles and beams (structural steel) in buildings; steel studs to support wallboard in houses and buildings; steel and copper pipe; and aluminum window frames, siding and architectural elements. Several other products that are important to construction also had large price increases over the past 12 months: diesel fuel, 38.5 percent; lumber and plywood, 13.2 percent; gypsum products, 8.0 percent; and plastic construction products, 4.9 percent.

Construction officials said the new tariffs will raise costs for firms, many of which are locked into fixed-price contracts with little ability to charge more for their services. They said funding the President's infrastructure plans would be a better way to foster demand for domestic steel and aluminum without harming contractors

"Tariffs may help a few producers but they harm contractors and anyone with a limited budget for construction," said Stephen E. Sandherr, the association's chief executive officer. "The best way to help the U.S. steel and aluminum sector is to continue pushing measures, like regulatory reform and new infrastructure funding, that will boost demand for their products as the economy expands."

[View](#) producer price indexes for construction.

AUGUST 22, 2018

Increased costs impact school construction projects across the state

BY STAFF

Increased costs and labor shortages are impacting the needs of Maine school districts that have plans for new construction in the works.

[Maine Public](#) reported that some project costs have increased by 30% or more. Yarmouth Superintendent Andrew Dolloff told Maine Public his district planned for about \$35 million for expansion of three schools, but estimates came in over \$60 million. Associated General Contractors of Maine CEO Matt Marks said rising costs are due in part to rising materials costs and to competing projects from organizations like Colby College and Maine Medical Center.

[Colby College](#) has made a \$50 million investment in downtown Waterville, including buying and renovating four buildings and constructing a 150,000-square-foot mixed use building slated to open in August.

[Maine Medical Center](#) this year began a multi-phase \$512 million modernization project at its Portland campus.

There's also competition from growing demand in residential construction. In Yarmouth, Economic Development Director Scott LaFlamme told [Mainebiz](#) in April that residential construction demand is expected to continue to increase, especially with an expected "tidal wave" of infill projects. Rising materials costs and a labor shortage is also affecting that industry.

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JULY 3, 2018

What to Expect for Construction Costs in 2018



WRITTEN BY

Carolina Cavalcante

ORIGINALLY PUBLISHED

December 5, 2017

CURRENTLY READING

FORECASTS AND MARKET INTEL CONSTRUCTION COSTS

Earlier this year, we gave an [industry consensus of the cost of materials](#) and looked at the pace of growth for architectural and engineering services, labor, and other factors that influence the construction industry.

To get ahead of the market in 2018, we've decided to examine the cost of materials and give an industry consensus forecast for the upcoming year.

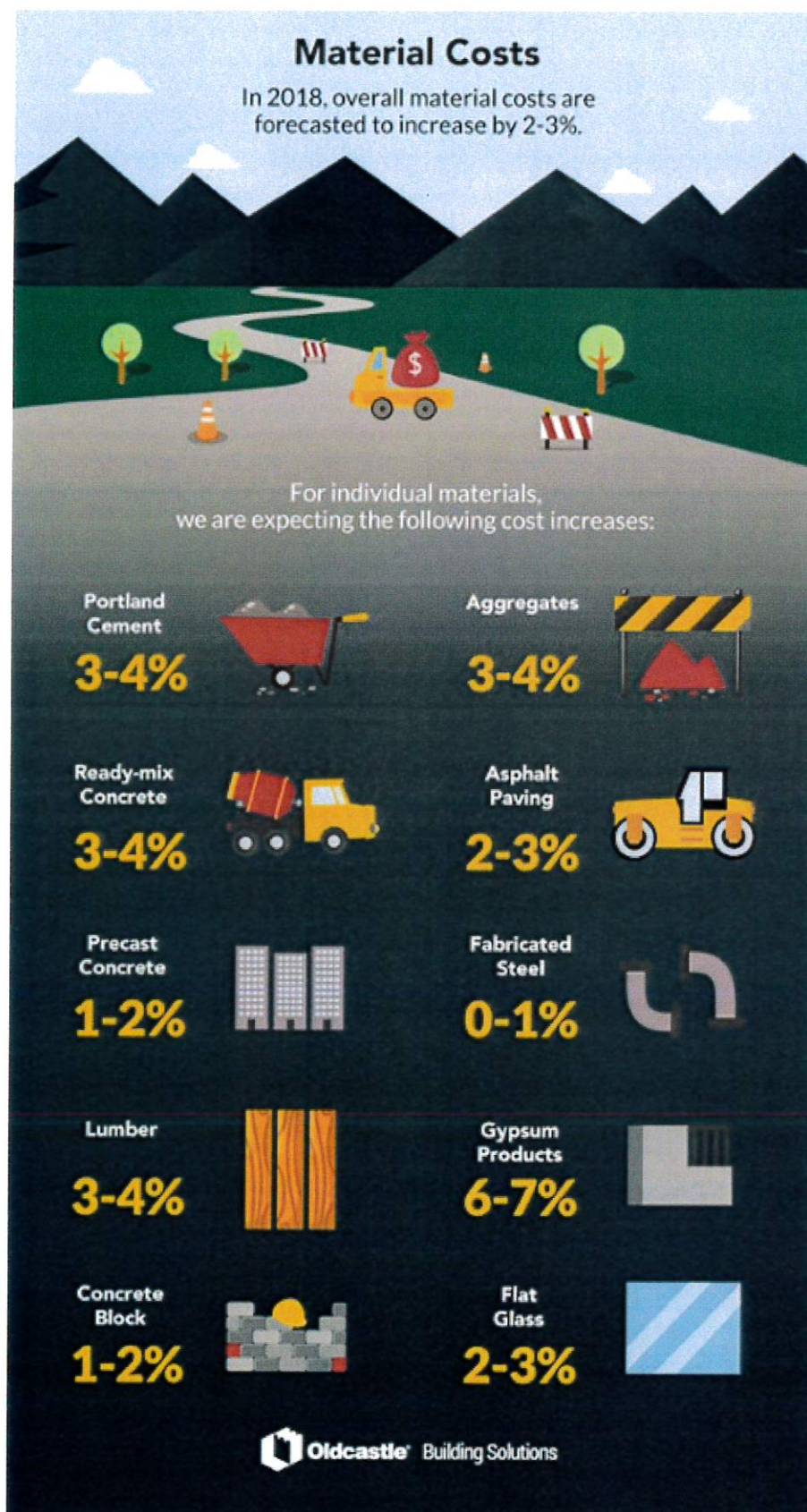
Overall Construction Costs in 2018

Overall construction costs are forecasted to increase an additional 2-3% in 2018, and that's after what we're expecting to be a 3% increase in 2017. Construction labor costs will lead these increases, which are forecasted to be in the 3-4% range in 2018. However, [labor shortages continue to be a challenge](#) for the industry due to a lack of skilled labor, stricter government policies around immigration, and the inability to recruit the younger generation.

"Expectations for future increases [of subcontractor rates] reached a five-year high; tightening labor market conditions combined with an uptick in activity are driving expectations of future rate increases," said [IHS Markit](#) Principal Economist Emily Crowley. "Currently the U.S. South and West are having the most trouble finding workers leading to stronger wage escalation."

2018 Material Cost Increase Expectations

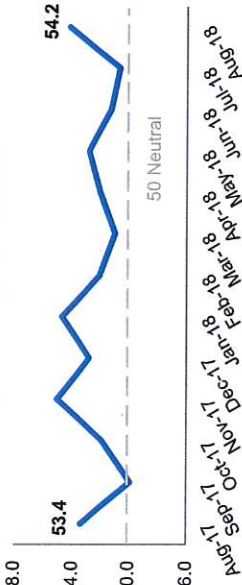
Overall, material costs are forecasted to increase in the 2-3% range in 2018. Below, I've broken down the individual materials and what we expect for their cost increases to look like.



Besides labor and materials, crude oil is another important input to construction. Thus far in 2017, the cost of it has increased 12% reaching almost \$50 per barrel (well below the 2010-2014 average price per barrel of \$100). In 2018, we expect it to stabilize around \$50 per barrel.

HIGHLIGHTS

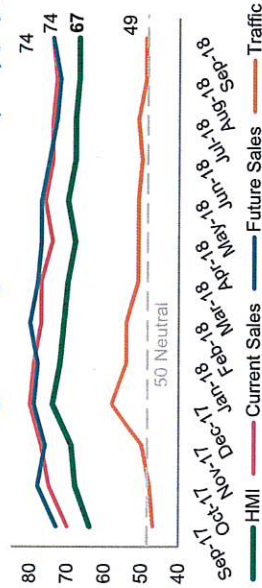
Architecture Billings Index (August 2018)



- The Architecture Billings Index (ABI) remained above 50 (neutral) in August 2018 at 54.2, after 50.7 in July
- The design contracts component of the index decreased 4.2 points to 49.6, and new project inquiries index fell by 2.5 points to 58.0 from July
- Region index scores were mixed with South (57.0), West (54.2), Midwest (52.5), and Northeast (46.9)
- Sector index breakdown: multi-family residential (55.6), commercial/industrial (53.6), institutional (52.3), and mixed practice (51.7)

*Any score above 50 (neutral mark) indicates an increase in billings and reflects 9-12 month lead time to construction spending
Source: AIA August 2018, September 19, 2018 Release

NAHB/Wells Fargo Housing Market Index (HMI) (Sept'18)

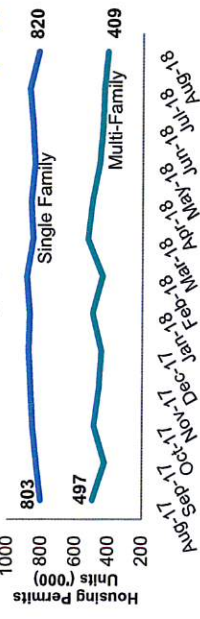


- Builder confidence for new single-family homes stayed at 67 in September 2018 from 67 in Aug. 2018
- In September, the Current and future sales stayed at 74 points with the Traffic component stabilizing at 49 points
- Regionally, HMI scores were mixed with the Northeast seeing a jump of 15 points to 61, Midwest falling by 2 points to 56 and South falling by 3 points to 69 with West stable at 73 from their revised August score

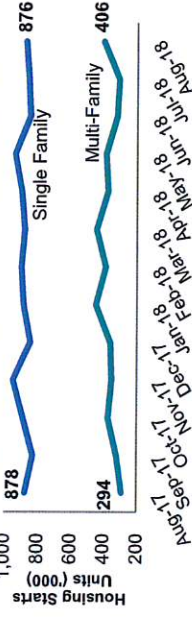
Source: NAHB September 19, 2018 Release

CONSTRUCTION UPDATE

Housing Permits & Starts (August 2018, seasonally adj.)



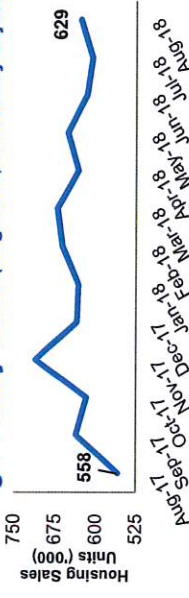
- Total housing permits authorized in August 2018 were 1,229K (seasonally adjusted), 0.7% below July 2018, and 5.5% below its year-ago rate
- Single Family permits were 820K, up 2.1% in the year
- Multi-Family fell 17.7% to 409K from August 2017



- Total housing starts in August 2018 were 1,282K (seasonally adjusted), 9.2% above July 2018 and 9.4% above the year-ago rate
- Single Family starts were 876K, -0.2% in the year
- Multi-Family starts were 406K, 38.1% annual increase from August 2017

Source: Census June 2018, September 19, 2018, Release

New Single Family Sales (Aug. 2018, seasonally adjusted)



- Sales of new Single Family houses in August 2018 totaled to 629K, 3.5% above the July 2018 revised rate of 608K, and 12.7% above the year-ago rate
- The median sales price of new houses was \$320,200
- The average sales price declined to \$388,400
- There were 318K new houses for sale at the end of the period, representing 6.1 months of supply at the current sales rate

Source: Census Bureau August 2018, September 26, 2018 Release

ECONOMIC UPDATE

ABC's Construction Backlog Indicator (CBI) (Q2 2018)

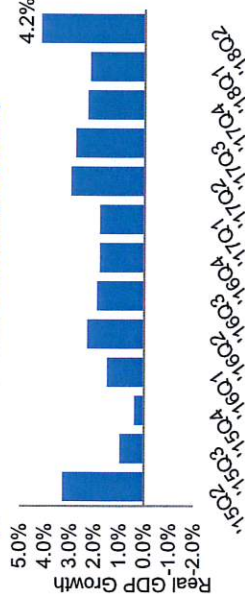
Overall	Months of Backlog	% Change from Q1 2018	Change from Q2 2017
Overall	9.9	12.2%	1.3 months
Region			
Northeast	10.4	9.1%	0.7 months
South	11.2	10.5%	2.2 months
Middle States	7.2	-0.7%	-0.7 months
West	10.7	28.3%	3.9 months
Industry			
Commercial / Institutional	10.1	10.1%	1.7 months
Heavy Industrial	7.8	33.0%	2.3 months
Infrastructure	10.0	0.5%	-1.6 months

- The Associated Builders and Contractors (ABC) released its 2018 Q2 results for their Construction Backlog Indicator (CBI) index; which showed an overall increase of 12.2% to 9.9 months from Q1 2018
- Over the year, CBI increased by 1.3 months or 14%
- The Northeast, South, and West regions saw a rise, while the Middle states region saw decrease this quarter

- By Industry, Commercial / Institutional and Heavy Industrial segments saw increases, while Infrastructure showed a slight decrease

Source: ABC CBI Q2 2018, September 17, 2018, Release

GDP (Q2 2018 3rd Estimate, seasonally adjusted)

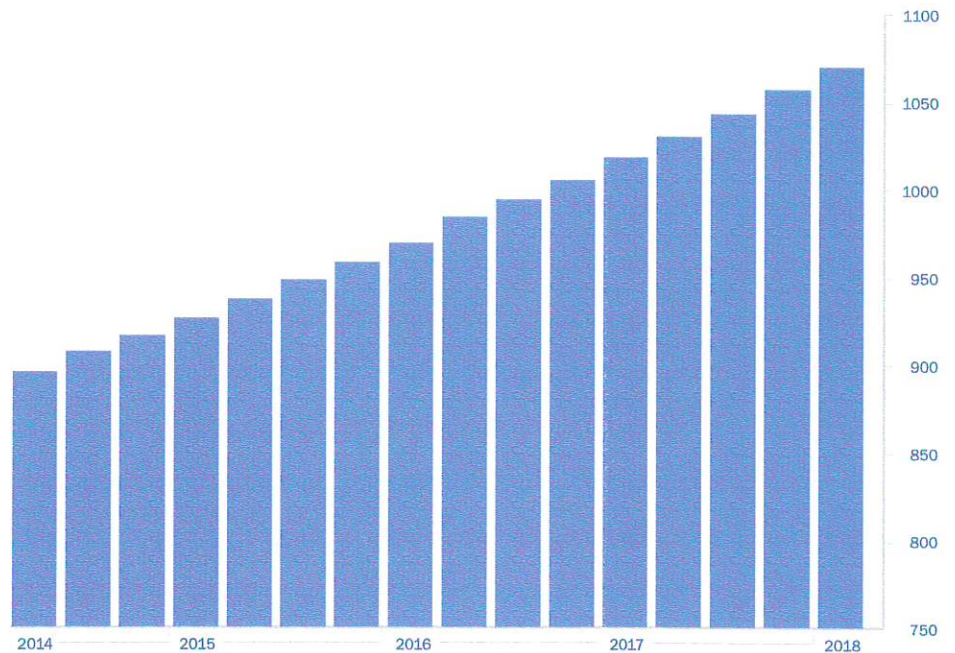


- The third estimate for real GDP growth in Q2 2018 was 4.2% same as the second estimate
- The increase in real GDP in the second quarter reflected positive contributions from PCE, nonresidential, fixed investment, exports, federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment and residential fixed investment

Source: BEA GDP Q2 2018 (3rd Estimate), September 27, 2018 Release

“In a construction market that continues to show high levels of activity, the first quarter saw modest growth in raw material prices. Additionally, we are seeing a surge in steel driven by rising demand and limited offshore supply.”

Attilio Rivetti
Vice President



John R. Oishei Children's Hospital
Buffalo, New York

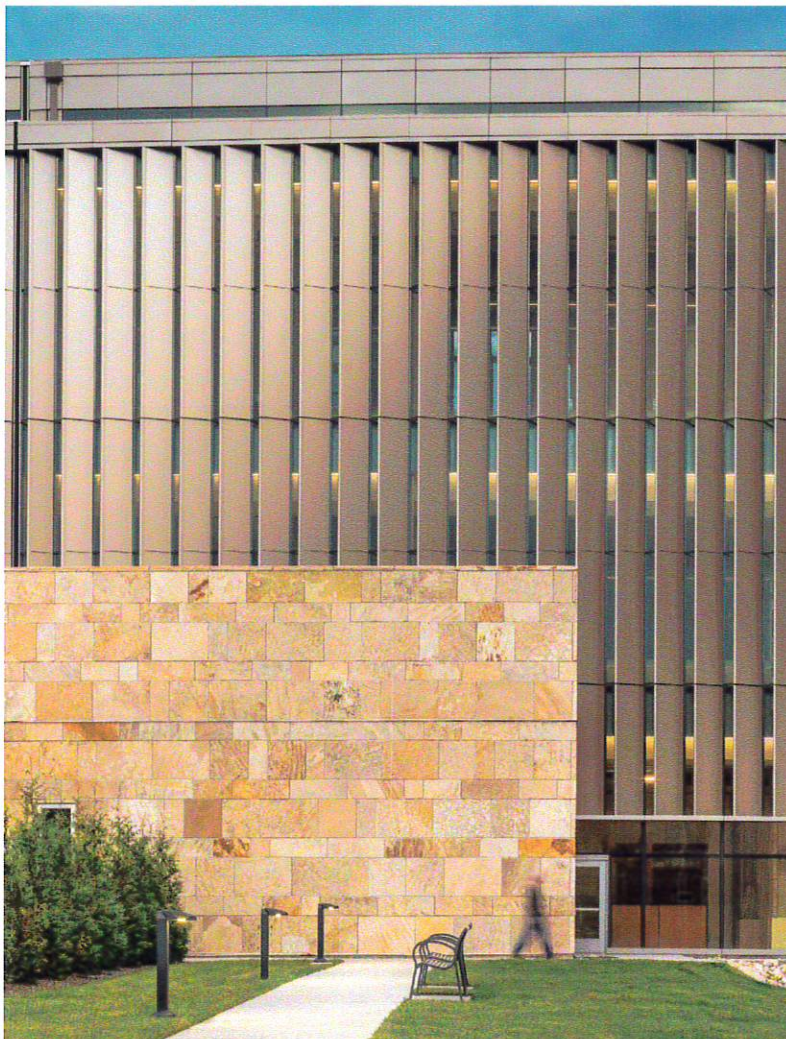
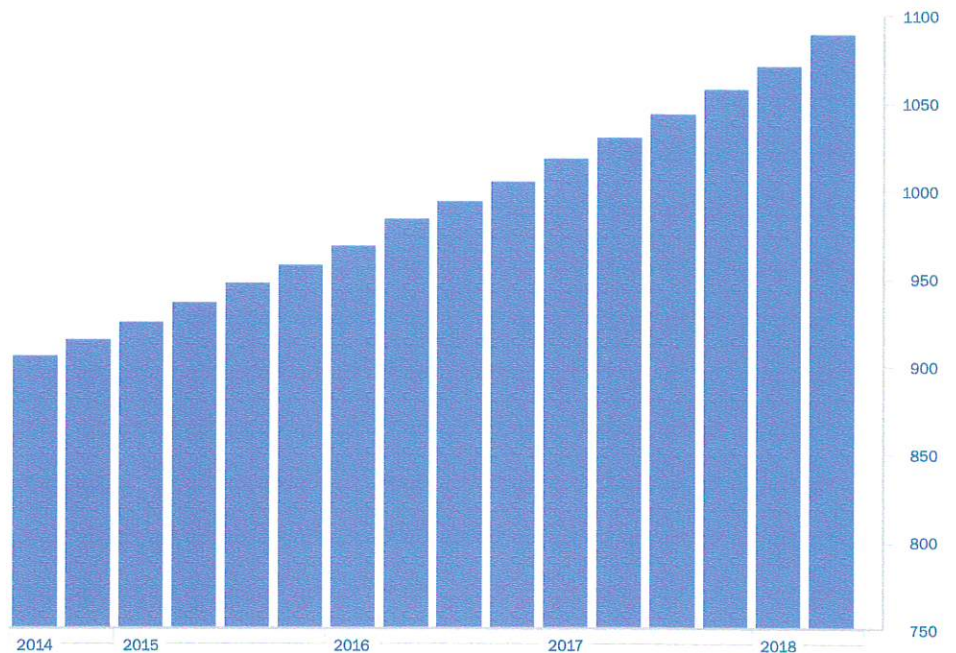
Quarter	Index	Δ%
1st Quarter 2018	1071	1.23
4th Quarter 2017	1058	1.34
3rd Quarter 2017	1044	1.26
2nd Quarter 2017	1031	1.18

Year	Average Index	Δ%
2017	1038	5.0
2016	989	4.7
2015	943	4.5
2014	902	4.4
2013	864	4.1
2012	830	2.1
2011	812	1.6
2010	799	-4.0
2009	832	-8.4
2008	908	6.3
2007	854	7.7
2006	793	10.6
2005	717	9.5

The Turner Building Cost Index is determined by the following factors considered on a nationwide basis: labor rates and productivity, material prices and the competitive condition of the marketplace.

“The busy construction market in every region of the country has continued into the second quarter.”

Attilio Rivetti
Vice President



Rocky Mountain Regional Veterans Affairs Medical Center
Aurora, Colorado

Quarter	Index	Δ%
2nd Quarter 2018	1089	1.68
1st Quarter 2018	1071	1.23
4th Quarter 2017	1058	1.34
3rd Quarter 2017	1044	1.26

Year	Average Index	Δ%
2017	1038	5.0
2016	989	4.7
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