



CURRENT BID CLIMATE REPORT

BUYER BEWARE

Another Red Shoe Alert April 2009

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The current Public Project's Bid Climate has many owners jumping for joy at the unbelievable low prices that recent bid results are showing. Thus many previously shelved projects are being revived in hopes of taking advantage of this miraculous bid climate. It looks like bidders are desperate for work and have really sharpened their pencils. They have to be extremely competitive to get awarded a job in this bid climate. New contractors are coming out of the woodwork. The average number of plan holders on any given project is 20! The average number of actual bidders is 9! Compare this to 2 summers ago when many projects had no bids at all. Why is this happening? Why are the bids so low? Is it really as good of a deal as it appears? What does that mean to public projects?

WHAT HAPPENED?

As a result of the national housing crisis – the residential contractors no longer have the previous volume of work so they have no choice except to bid on public projects if they are to financially survive.

WHY ARE PRICES SO LOW?

1. **0% Profit:** In order for the seasoned public project bidders to compete with these “new boys”, they have to completely cut out all profit from the bid in hopes of just keeping the crew busy and paying the bills. This is happening on the sub-bid level as well as the General Contractor level – thus compounding the savings to the owner.
2. **Inexperience:** These previously residential contractors are not familiar with the amount of administration and documentation required by public projects – so they bid low out of inexperience.
3. **Fraud:** – there are 2 great articles in the DJC discussing Contractor fraud and the fact that it is on the rise: DJC March 20th, 2009 “Construction Fraud Rises as U.S. Economy Drops, by Benjamin Minnick – and - DJC March 25th, 2009 “Probe Finds Abuse in SBA HUBZone Program”, by Hope Yen.

We – Matson Carlson - did an in-house bid study, looking at the Bid Climate trend using the published Bid Data from the DJC. The study showed that during the 1st quarter of 2009 - 350+ public projects were out for bid in Washington, Oregon & Alaska. Of these 350+ public projects – 85% of them were civil projects – such as roads, bridges, waterways, utilities, tunnels, sidewalks, landscaping, fencing & earthwork. The remaining 15% were buildings. Out of that 15% - 1/3 were public building projects over \$1,000,000 – with 2/3 being under \$1,000,000. Thus - pretty slim pickings for building contractors.

Of those building projects over \$1million - the study showed that the engineers estimates are consistently about 20% above the low bid. This is mostly due to profits being cut by subs & generals.

IS IT REALLY SUCH A GOOD DEAL?

Yes – Initially the costs are great for the buyer. But when construction begins, there are more problems with managing the project:

1. Increased Change Order quantities and amounts
2. Increased Delay Claims
3. Increased Claims against the owner
4. Subs failing/bailing
5. Potential litigation
6. Increased Request for Substitutions
7. And Increased Fraud Alert
8. All of this means added admin/CM costs for owner & Architect

RECOMMENDATION

Bid away! This climate won't last forever. But be very careful. Contractors are getting very creative finding ways of recouping profits. Be diligent. Vet your contractors carefully (make sure of experience, bond, insurance)