Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

JANUARY/FEBRUARY 2022

THE BIG PICTURE:
Can Pittsburgh Grow?

MBA

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Contents 2022

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BreakingGround™ is published by Tall Timber Group for the Master Builders' Association of Western Pennsylvania, 412-922-3912 or www.mbawpa.org

Archive copies of BreakingGround™ can be viewed at www.mbawpa.org

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On the cover: The Pittsburgh skyline at dusk. Photo by Carson Publishing Inc.

PUBLISHER'S NOTE

Two recent news items suggest that there may be some big changes in the role of the community in real estate development in the City of Pittsburgh. Councilman Ricky Burgess has proposed legislation that would allow any council member to declare a project of "significant community concern," potentially submitting that project to more rigorous review by the council itself. Earlier this fall, Walnut Capital brought the planning and zoning issues that need to be decided about its landmark Oakland Portal project directly to city government, bypassing the established community development organization.

The two situations are very different but are linked by the politics of community input and city governance.

In the case of the Oakland Portal, Walnut Capital is attempting to drive a market-driven project to its fruition without the interference of a community group that has earned a reputation for obstruction. Oakland Planning and Development Corporation (OPDC) has a vision for Oakland that seems out of touch with what most of its residents (and nearly all its businesses) want. In the recent cases of Walnut Capital's Innovation Research Tower and Wexford Science + Technology's life science tower at 3440 Forbes Avenue, OPDC made demands about height and density that seemed inconsequential and faded away once significant financial aid was offered to OPDC. Disputing the Oakland Portal project similarly, in particular the portrayal of South Oakland as anything but an absentee landlord's province, is not changing that perception.

Burgess's proposal seems entirely political, a shot across the bow of the mayor's office to wrest power away from the executive. Local community development groups have decried the proposed legislation, as has the city's Planning Commission. Even if passed in a watered-down state, such legislation is unlikely to survive a court challenge. That fact is less concerning than the fact that a governing council would entertain the idea that it has a role in development.

There is an interesting political climate for development in Western PA. Private developers generally rely upon government for subsidies that make real estate projects – especially urban projects – financially viable (or desirable). That puts them squarely in the crosshairs for government intervention. It's tough to decry the tyranny of government regulation when you're asking the same government for a $2 million RACP grant. At the same time, government in PA regularly overplays its hand. Enabling commercial development is not the same as creating demand. It feels like the recent administrations of the City of Pittsburgh have confused good fortune with good policy.

A string of good fortune – none of which was the direct result of policies or leadership of any one administration – raised Pittsburgh's profile and ushered in an era of prosperity and redevelopment. Pittsburgh's city government seems to have misinterpreted this. Well intentioned or not, Pittsburgh's regulations on environment, parking, or affordable housing made investing and developing more difficult. Market demand is currently hiding that fact.

It makes sense for communities and community advocacy groups to take advantage of high market demand to negotiate benefits for the community. Asking a developer for a parklet or inclusion of the local community in the workforce of the development are reasonable and relevant requests. Demanding substantive changes to the developer's plans that have no distinct benefit to the community is obstruction, especially when there is a planning and zoning function that is designed to protect the community's interests. Community groups that ask developers for financial contributions defy justification.

OPDC is not the only group obstructing development. The city's highest profile development, the former Civic Arena site, was held up for a decade while rival Hill District voices jockeyed for a position of influence. On the North Side, two Mexican War streets residents bogged down Trek Development's Federal-North redevelopment because they feared the proposed height blocked their views of Downtown. Uptown Partners recently nominated two decidedly unremarkable old houses for historic designation after discovering that an out-of-town developer plans an apartment project on the adjacent parcels. If you know a developer, I'm certain you will be able to hear about other such incidents.

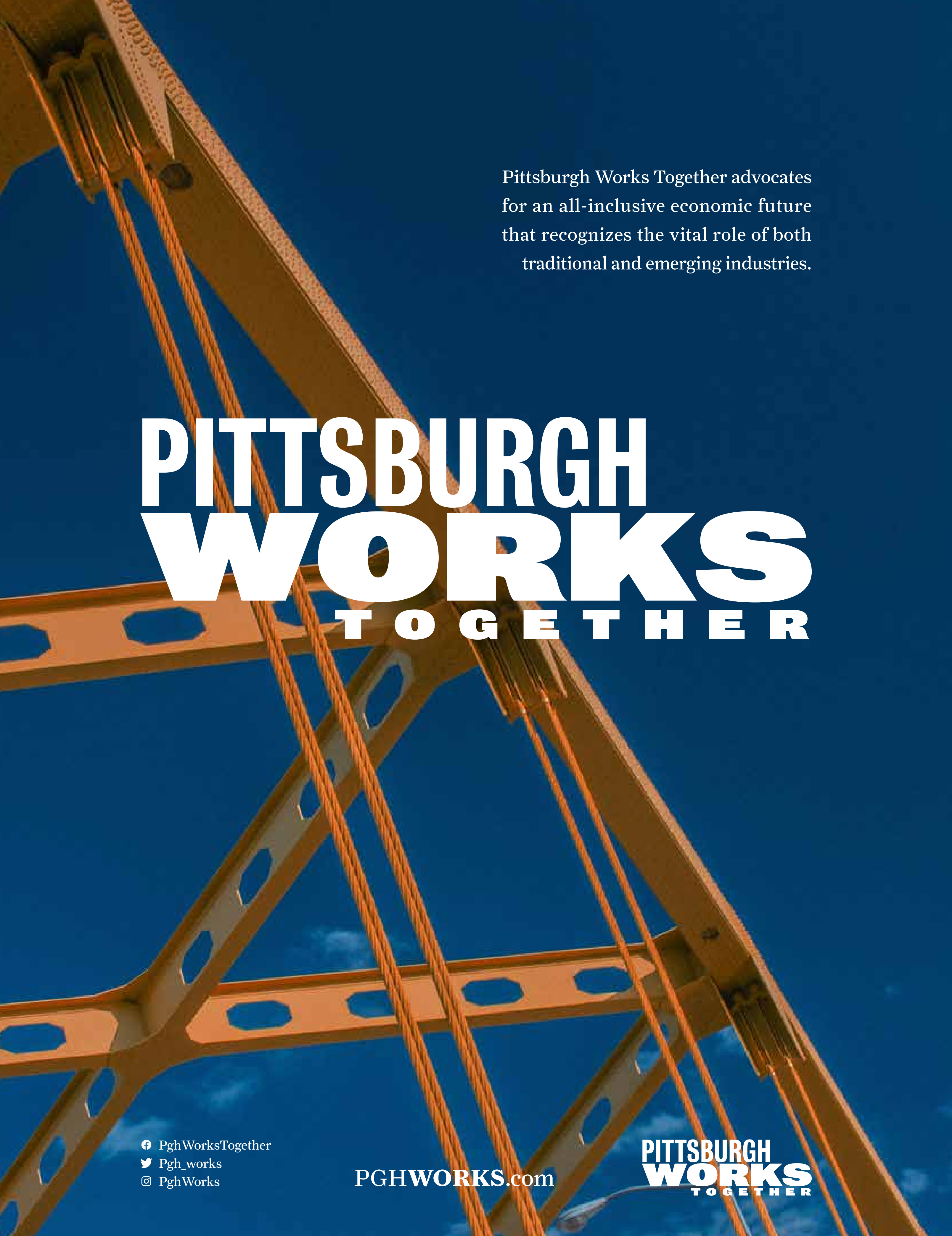
If I were a civic leader in Pittsburgh, I would be worried about missing out. While we who live in Western PA are certain of the advantages of locating here, most others are not. In a clear-eyed analysis of the benefits of locating a business or relocating a person to Pittsburgh, there are quite a few salient obstacles. It seems the height of foolishness to add to the list of "cons" about the region by making development more uncertain.

Walnut Capital is not planning a small thing and its success is not guaranteed. The Oakland Portal proposal hardly pillages the community. The mere fact that Walnut Capital has been able to accumulate a significant portfolio of single-family properties to redevelop underscores its position that it is not scraping a traditional neighborhood. The project has the backing of the business community in Oakland and the universities, in addition to the politicians relevant to the neighborhood.

There will be public meetings at the relevant city departments. Concerned residents, including OPDC, can voice objections and attempt to persuade those charged with deciding on compliance. OPDC's assertion that developers should "wait their turn" is the kind of attitude that will lead to Pittsburgh missing out on opportunities. The research going on in Oakland is groundbreaking, but it is not exclusive to Pittsburgh. Developers are willing to risk speculative projects in Oakland because the time is ripe. If private investors are made to "wait their turn," there is no reason to expect they won't look elsewhere. That's how big projects end up in Boston, Nashville, or St. Louis. The mayor appears to be set on making sure that doesn't happen.

Walnut Capital is not doing benevolent work in Oakland. They expect to make a handsome return on their rather large investment. Community residents have the right to govern their community, but that right exists for all property owners in the community. It is not great municipal policy to use commercial development to right the perceived wrongs in a community. It is terrible economic policy to do so. Commercial development in Oakland should not need public subsidy to make it viable. It also does not need public obstruction.

Jeff Burd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REGIONAL MARKET UPDATE

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Most regional economic news through mid-December reflects a growing employment recovery and a strong construction market. While the news on unemployment, housing starts, and construction spending is increasingly upbeat, data underlines a weaker labor force to meet post-pandemic demand in Pittsburgh, and a construction market in which activity is not distributed equally.

The December 1 report on county-level unemployment showed a 50-basis point decline from September to October in Allegheny County, bringing the unemployment rate to 4.9 percent. Unemployment for the seven-county Pittsburgh metropolitan area declined slightly to 5.9 percent.

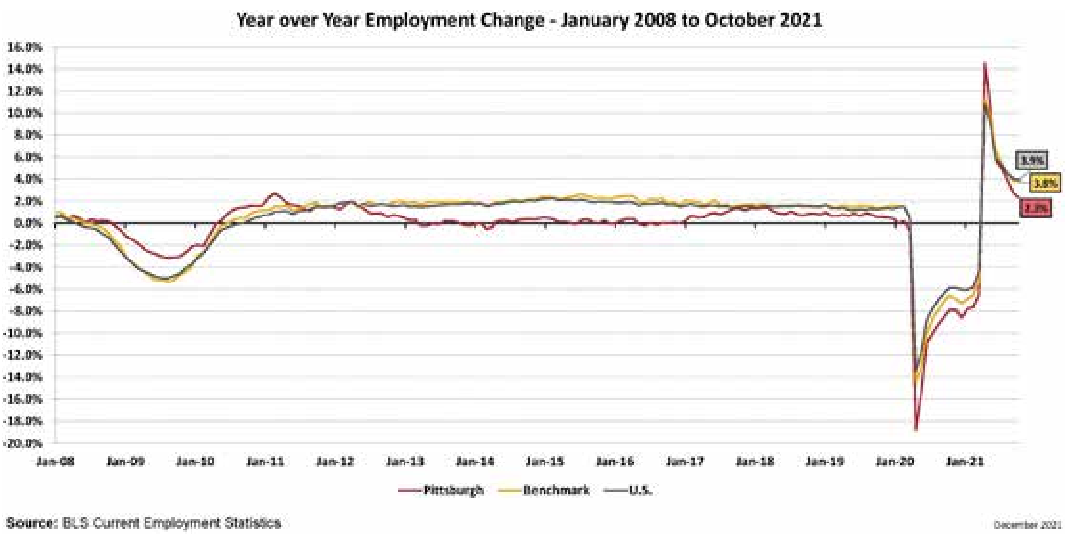
The data from the state's Center for Workforce Information and Analysis revealed that a small number of new hires, some 9,000 more in October, had less of an impact than the ongoing decline in the workforce. Pittsburgh's labor force was at 1,164,000 in October. That is 2,500 fewer than one year ago and 52,000 fewer than prior to the pandemic.

Compared to national data on the rate of retirement in 2021, the decline seems likely to be primarily the result of Pittsburgh's older workers retiring. There is speculation that older workers may be willing to return after the threat of pandemic recedes, or that the more contagious COVID-19 variants have chased hospitality workers and those needing childcare from the workforce. While the latter assumptions may prove to be true, evidence at the national and regional level suggests that older workers have retired earlier than expected. If that is the case in Western PA, the reduced workforce will be a factor impacting the economy after COVID-19 fades to endemic status.

The reduced workforce is a major contributing factor to the region's lower levels of employment compared to February 2020. According to the Pennsylvania Economy League of Greater Pittsburgh's Pittsburgh Region Employment Update issued December 3, employment has recovered only to 94 percent of the February 2020 level. Employment has been stagnant at that level for five months. The report on October's employment found that leisure and hospitality jobs had surprisingly recovered to the pre-pandemic level as bar, restaurant, and cultural activity resumed to near normal volumes. Construction also outperformed all other sectors, growing by 8.6 percent year-over-year. Construction jobs grew by 2.3 percent for the total U.S. Mining and logging (down 5.1 percent), warehousing (down 4.6), and wholesale trade (down 6.7) all lagged the February 2020 levels.

Whatever concerns may exist about the pace of economic recovery in Western PA are not limiting demand for construction. Preliminary data from the Tall Timber Group has nonresidential/commercial construction contracting volume (including construction put in place at the Shell Franklin project) at $4.96 billion for 2021. That is significantly higher than forecasted at the beginning of the year and $1.1 billion more than in 2020.

A closer look at the details of the volume reveals a market that is dramatically stronger than was expected six months ago, and one that is up year-over-year by virtually every measure. The total nonresidential/commercial volume is 24.2 percent higher than in 2020. Residential spending is up slightly more at



Employment increased by 2.3 percent year-over-year in October in the Pittsburgh metro area, lagging the U.S. and benchmark city rates. Source: Pennsylvania Economy League of Greater Pittsburgh.

Pittsburgh Market	2020	2021f	Variance
Total Nonresidential/commercial $	$3.92B	$4.97B	24.2%
Total Residential $	$1.13B	$1.41B	24.8%
Total Housing Starts	4,481	5,780	29.9%
Healthcare	$225.7M	$239.6M	6.2%
Higher Ed	$76.6M	$414.9M	441.6%
Industrial	$424.6M	$493.7.4M	16.3%
K-12	$189.7M	$179.3M	-5.5%
Multi-family	$285.1M	$472.9M	65.9%
Office	$439.4M	$647.8M	47.7%
Retail	$132.8M	$166.6M	25.5%

Source: Tall Timber Group.

24.8 percent year-over-year. Housing starts are up 30 percent over 2020, primarily as a result of an additional 900 apartment units underway.

Within the major property categories, only K-12 construction is down. Spending on public schools was 5.5 percent higher in 2020 but the category is a relatively small portion of the market. The largest year-over-year jump was in higher education. With University of Pittsburgh starting the first of numerous major capital projects and Carnegie Mellon getting the Forbes Beeler Residences, Scaife Hall, and Skibo Hall expansion underway, higher education volume was $415 million, an increase of five times over 2020. Multi-family construction was 65.9 percent higher. Office construction was 47.7 percent higher. Even the industrial market, which boomed in 2020, saw a 16.3 percent increase from last year.

Just as impactful to the market is the growing pace of projects in the pipeline for 2022 and 2023, many of which are major projects that were moved from the back burner during the second half of 2021.

In Oakland, where a handful of cranes already dot the skyline, University of Pittsburgh and Carnegie Mellon University are each moving forward with a project that was much further off in the institutional master plan 12 months earlier. Pitt has taken proposals from design/build teams for a $120 million, 800-bed residence hall complex to replace the Bouquet Gardens residences built in the 1990s. At the Forbes-Craig intersection, Carnegie Mellon is finalizing programming for its new $200 million science building, for which it will receive architectural and construction management proposals in late winter, with the intention of starting construction in early 2023. These projects are in addition to the roughly $240 million in major capital projects underway at Carnegie Mellon and $450 million underway or about to start at Pitt.

The outlook for public higher education construction remains poor. The December 8 report of the finances for the PA State System of Higher Education (PASSHE) showed that enrollment continues to decline at most PASSHE universities, which created a shortfall in revenues over expenses of $31.6 million in fiscal year 2021.

PASSHE's report noted that the entire state system had seen enrollment decline by 25 percent since 2010. Among PASSHE schools, only West Chester University saw enrollment grow over the past five years, with Slippery Rock University maintaining the same level of enrollment as in 2016. The three schools being merged into the Pennsylvania Western University — California, Clarion and Edinboro — saw full-time enrollment drop 22.1 percent since 2016; the schools being merged into the Pennsylvania Eastern University — Bloomsburg, Lock Haven and Mansfield — experienced a decline of 20.7 percent in the same period.

Capital investment in the two merged entities is expected once the operating costs of the merged universities are consolidated and the facilities can be assessed. The resultant construction is unlikely to occur before 2024.

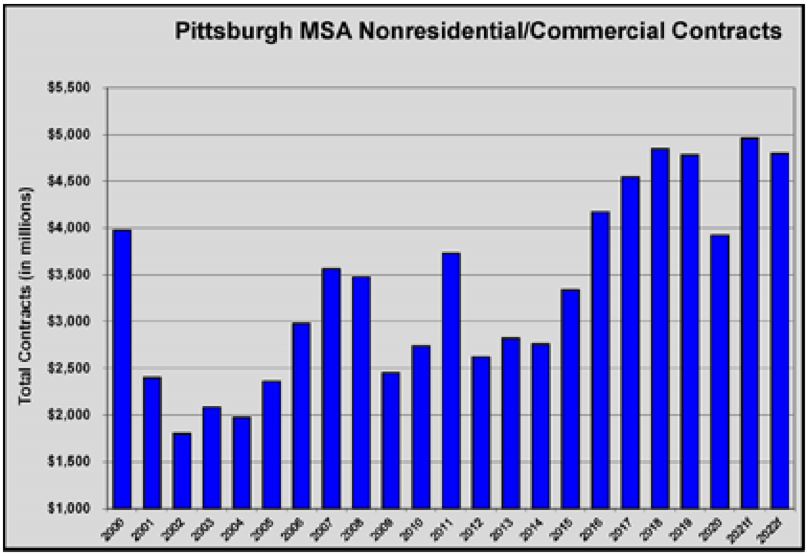
Commercial real estate's prospects for the coming year are diverging starkly along property type lines. Little has changed thus far with respect to return to work, creating uncertainty about the office market that will mute demand in 2022, even as office employment growth continues. Bright spots exist. Demand for space in the Strip District is strong and suburban office is recovering. The prospects for multi-family and industrial are much better.

Among the new industrial projects expected to start in early 2022 are the massive Amazon distribution center in Churchill, a second 150,000 spec building at Hempfield Commerce Park in Westmoreland County, several new buildings totaling 300,000 square feet at Starpointe Business Park in Washington County, and a million-square-foot distribution center proposed by Suncap Property Group in New Stanton. Strong demand from both industrial users and capital investors should push industrial construction higher again in 2022.

The conditions supporting the steady demand for apartments remain in place going into 2022. The inventory of homes for sale is at an all-time low. New construction, while steadily higher in the past few years, remains well below a level that would offset the shrinking inventory of existing homes for sale. The region's demographics are also supportive as the two cohorts that create the most demand for multi-family - empty nesters and young adults - are the largest segments of the population. Finally, although development costs are higher than they have been during the past 10 years, low borrowing costs and demand from fixed-income investors create a climate ripe for new projects.

Roughly 3,200 new units of multi-family are in the active pipeline in December 2021, with two-thirds expected to get underway in the coming year. While the largest share of these units is planned for the city, there will be new apartment development in the suburbs, including some that have not seen much new construction in decades.

The higher construction volume in 2021 was the result of

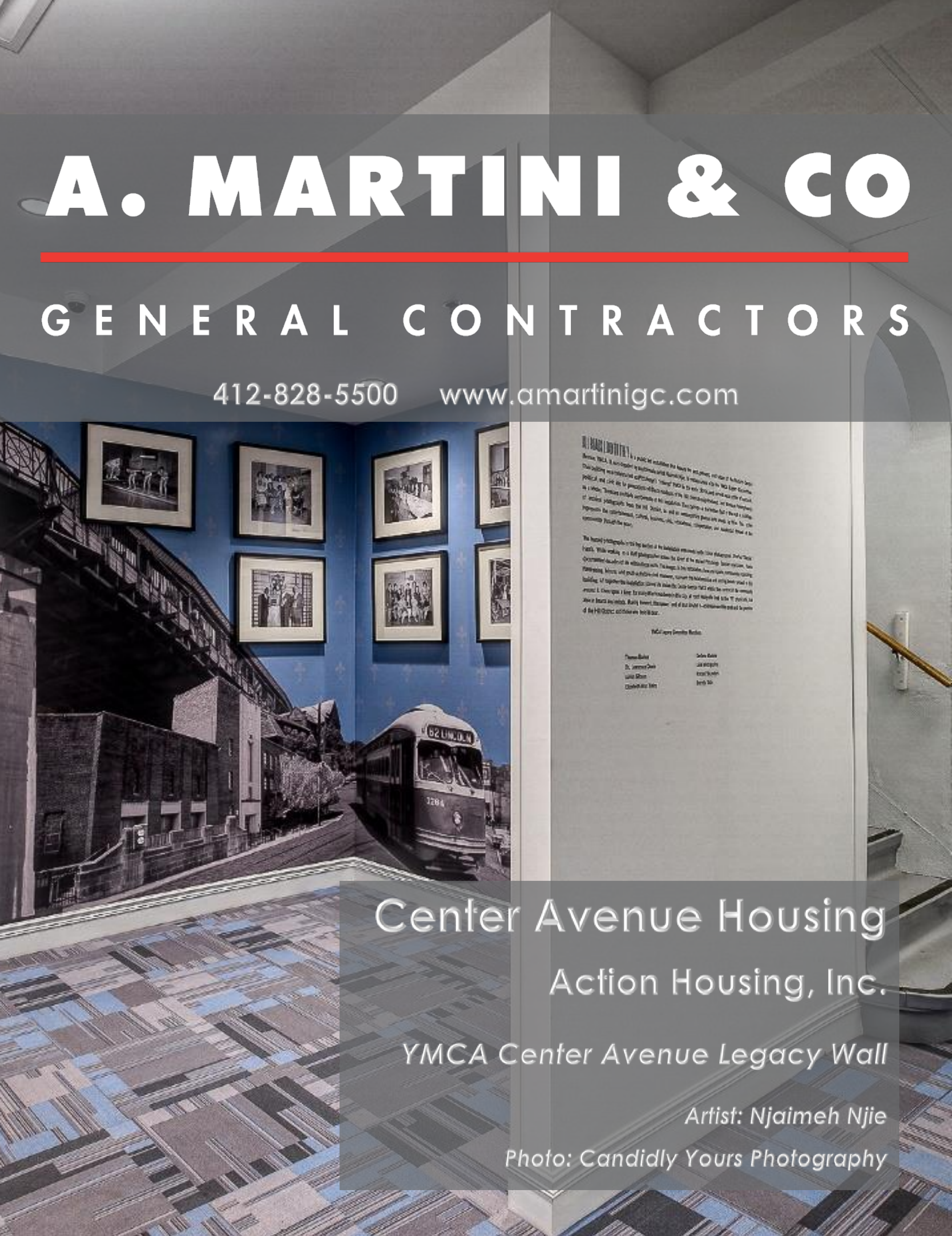


Source: Tall Timber Group.

surprising strength in two areas: major projects and owner-occupied buildings. Major projects moved forward in spite of higher construction costs. Owner-occupied projects were driven by the surprising health of small businesses, which saw stronger results than expected in 2020 and benefitted from the forgiven Paycheck Protection Program loans from the CARES Act. Both types of projects were aided by low borrowing costs and surprisingly strong demand from both consumers and businesses.

With the backlog of mega projects mostly baked into the 2022 market, contracting volume (including the final year of construction put-in-place at Shell Franklin) should be roughly the same as the work started in 2021. It is unlikely that the owner-occupied segment will be as strong, but an uptick in most other categories should offset that decline. And if one or two factors break favorably, volume in 2022 could top $5 billion.

Contractors have mostly ridden these market conditions to build strong backlogs coming into 2022. There are some blank spots in the market, however, that have left some contractors with fewer opportunities. Firms that served the office or public construction markets have seen fewer opportunities than since the Great Recession. Smaller contractors, or those without relationships with private sector repeat customers, have had less to bid. Assuming 2022 unfolds as expected, however, companies with lighter backlogs should see more opportunities before the first quarter ends. BG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NATIONAL MARKET UPDATE

On November 3, the Federal Open Market Committee (FOMC) of the Federal Reserve Bank announced that it would begin tapering the purchase of Treasury securities and mortgage-backed securities by $10 billion and $5 billion respectively. The tapering began in November, slightly ahead of the market's expectations. Although the $15 billion reduction in liquidity had almost no impact on the markets, the decision to pare back (which ultimately will lead to the end of bond buying by June 2022) telegraphed the end game of the accommodative policies that had been adopted at the start of the pandemic in March 2020.

One reason the tapering was uneventful in the short term was that the markets were already pricing in the bet that the Fed would begin pulling back by the end of 2021. While that market action may seem disconnected from construction, bear in mind that the actions of the bond market directly impact borrowing rates. The fact that the markets expected such a decision means that the current accommodative interest rate environment will not be disrupted. Bond investors expect a premium in rate to account for inflation. Having certainty about the end of the Fed's bond purchasing should ease fears that inflation would cause rates to jump unexpectedly. In fact, the late October runup in rates implies that the bond market expects the FOMC will begin hiking rates before 2022 ends, a policy change that the Fed has not espoused. Based upon the playbook used after the Great Recession, most observers expect the Fed Funds rate will remain at 0.25 percent for another year.

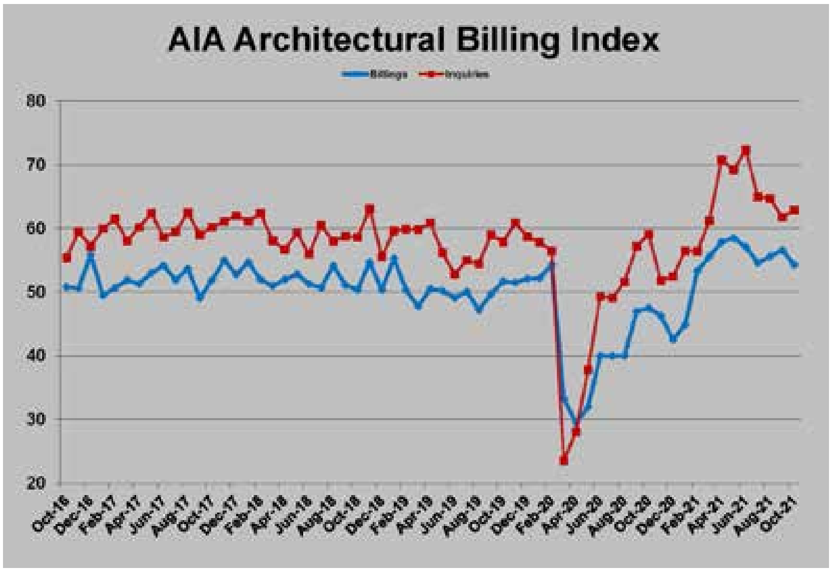
Conditions at the end of 2021 were somewhat different than the same time in 2014, when the Fed was about a year from raising interest rates. The primary worry seven years ago was the stability of the economy in the face of higher rates. Today, the concern is inflation, but the Fed's discipline about tying rate increases to full employment suggests that rates will remain low through 2022, regardless of whether supply chain issues fade and inflation eases. A rate hike ahead of the current expectations would come in an economic environment that is much more robust than in 2014 or 2015. Demand is near pre-pandemic levels and capital reserves are much higher than they were 18 months ago.

For commercial real estate and institutional construction, the extended period of low rates makes going ahead with projects easier, even if inflation is increasing the costs of construction. Low borrowing costs also stimulate business investment that often leads to new construction. The effect of the accommodative rates is seen in the consistently high level of construction put in place across the U.S.

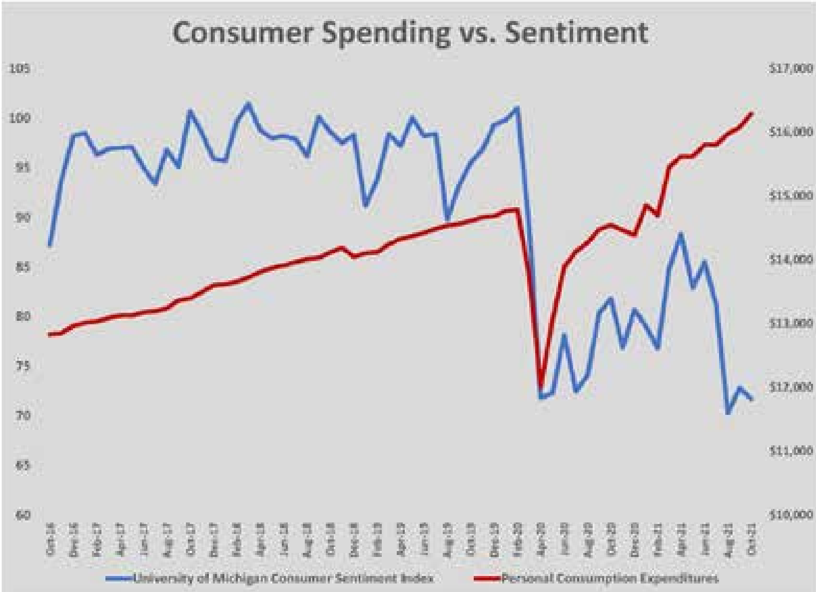
Construction spending remained well above the $1.5 trillion level as the year ended. The narrative about construction put-in-place focused on the lack of growth throughout the latter half of 2021, but activity remained at record levels within a narrow range of $25 billion between $1.55 trillion and $1.6 trillion from April on. October's $1.598 trillion was the highest seasonally-adjusted spending level on record.

October's Employment Situation Summary helped ease some worries about the labor market. The number of jobs created – 531,000 – was higher than expected, and the upward revision of 235,000 jobs for September and August added to the relief. November's report disappointed, however, with employers adding 210,000 jobs, bringing the unemployment rate down to 4.2 percent. September and October job numbers were both revised upward by a total of 82,000 jobs. Those looking for a trend based upon the November report might look to the revised September job creation total of 379,000, which is almost double the original estimate of 194,000 published in the Employment Situation Summary at the time. While there is no guarantee that the trend of significant upward revisions will continue into 2022, November's job report is unlikely to remain the same. For the first 11 months of 2021, the average number of jobs created monthly was 547,000.

Going forward in 2022, employment growth should be less volatile month to month, and the data on workforce participation, which increased to 61.8 percent in November, may become more important. At the end of 2021, roughly



Both architectural billings and inquiries remain elevated compared to pre-pandemic highs.



Consumers have been spending at increasingly higher rates, even as they express economic concerns. Source: U.S. Census Bureau, Federal Reserve Bank of St. Louis.

three million fewer people were in the civilian workforce than in February 2020. A recent study by the Federal Reserve Bank of St. Louis found that nearly 19.4 percent of the U.S. population had retired by the end of 2021, in contrast to the Baby Boomer trend line that projected that 18.7 percent of Americans would be retired. That's a difference of three million more retirees. In August, the Schwartz Center for Economic Policy Analysis estimated that more than two million people retired early because of the pandemic and the opportunities that arose from it.

There are additional explanations for the lower workforce participation rate. Employment in education is still 10 percent lower than in February 2020 and employment in childcare is five percent lower, which may be why 1.5 million fewer women are in the workforce as 2021 ends. The October Employment Situation Summary reported that six million people were unemployed but not looking for work. That is double the number from two years earlier. While the data still suggests that enhanced unemployment compensation was not driving workforce participation lower, the additional benefits and direct payments to consumers helped drive savings much higher. An October report by BNP Paribas concluded that people in the bottom 50th percentile of income had accumulated four months of excess cash. For those in the middle-income percentiles, excess cash reached seven months' supply. That data suggests that workers sitting on the sidelines will rejoin the workforce after the holidays. With unfilled openings still above 10 million, those returning workers should drive strong, steady job growth through the first half of 2022.

	2020				2021				2022				2020*	2021	2022	2023
	I Q*	II Q*	III Q*	IV Q*	I Q*	II Q*	III Q	IV Q	I Q	II Q	III Q	IV Q				
Real GDP	5.1	31.2	33.8	4.5	6.3	6.7	2.0	5.0	2.6	3.5	3.2	3.0	3.4	5.5	3.5	2.9
Real Disposable Income	3.1	48.5	16.6	8.3	54.7	30.2	5.6	0.0	1.0	1.5	1.0	1.0	6.2	2.0	2.3	1.0
Real Consumer Spending	6.9	33.4	41.4	3.4	11.4	12.0	1.6	3.5	2.4	3.3	2.7	2.2	3.8	7.9	3.3	2.7
Residential Investment	20.3	30.8	60.0	34.4	13.3	11.7	7.7	1.0	2.0	3.0	2.5	2.0	6.8	9.1	0.1	1.5
Nonresidential Investment	8.1	30.3	18.7	12.5	12.9	9.2	1.8	4.6	5.0	5.2	4.8	4.9	5.3	7.5	4.8	4.4
Inventory Change (bln chn '12$)	30.0	253.0	25.0	89.0	88.0	169.0	78.0	25.0	50.0	60.0	70.0	80.0	42.0	77.0	65.0	40.0
Total Gov't Spending	3.7	3.9	2.1	0.5	4.2	2.0	0.8	2.0	2.5	3.0	3.8	4.1	2.5	0.8	2.3	4.2
Exports	16.3	59.9	54.5	22.5	2.9	7.6	2.5	2.0	2.0	6.1	5.1	4.0	13.6	3.7	3.0	4.4
Imports	13.1	53.1	89.2	31.3	9.3	7.1	6.1	5.0	6.0	6.0	5.0	4.0	8.9	13.4	5.7	4.1
Unemployment Rate (%)	3.8	13.1	8.8	6.8	6.2	5.9	5.1	4.5	4.2	4.1	3.9	3.7	8.1	5.4	4.0	3.5
PCE Inflation (%Y/Y)	1.7	0.6	1.2	1.2	1.8	3.9	4.3	4.5	4.0	3.2	2.8	2.5	1.2	3.6	3.1	2.0
Core PCE Inflation (%Y/Y)	1.8	1.0	1.5	1.4	1.7	3.4	3.6	3.9	3.7	2.8	2.8	2.4	1.4	3.1	2.9	1.8

*Actual data

Source: The Conference Board

Another set of metrics that continue to diverge are those attempting to measure consumer behavior. The most objective measures of consumer attitudes about the economy, personal savings and spending, have helped drive gross domestic product (GDP) growth in 2021. Savings spiked to $4.8 trillion following the lockdowns and cash distribution from the CARES Act last spring, and again after the disbursements from the American Recovery Plan in January 2021. Personal savings have fallen throughout 2021, fueling consumer spending. Personal consumption has roared back since June 2020, exceeding the long-term trend in August and reaching the $16.3 trillion annual pace in October 2021.

During the same 18-month period, however, consumer sentiment remained mostly negative. October's reading from the University of Michigan/Thompson Reuters Consumer Sentiment Index was 71.7, one-tenth of a point lower than in April 2020. Sentiment barely topped 88 in April 2021, when the rollout of vaccines boosted confidence about the end of the pandemic. That reading was still 13 points lower than February 2020. No data exists to explain the disconnection between consumer sentiment and consumer actions; however, the nature of social and mainstream media is likely influencing an environment where consumers express fears about the economy that are not self-fulfilling. A comparison of results and polling in elections during the past five years also suggests that the reliability of surveys may be slipping.

This divergence between expressed sentiment and behavior is not particularly relevant to the economy but it does degrade the value of consumer confidence as a predictive metric.

Growth in the U.S. economy has certainly not reflected lower consumer sentiment. The surge in infections that followed the arrival of the Delta variant of the COVID-19 virus during the summer months slowed the recovery of the service sectors of the economy but did not result in a contraction in the economy. The second estimate of GDP growth during the third quarter came in at 2.1 percent, one-third the growth rate of the first and second quarters. Economists expect that consumer and business activity at the end of the third quarter will continue through the fourth quarter, boosting GDP growth for the full year above five percent.

There is less consensus in the outlook for economic output in 2022. While most economists expect the impact of the virus to fade in 2022, there is disagreement as to the impact of inflation and the disrupted supply chain.

The results from the National Association of Business Economists' (NABE) Business Conditions Survey for October reflected the general downgrade in expectations about 2022 from earlier this year. Two respondents in three anticipate an increase in real GDP of between 3.0 and 5.9 percent in the coming four quarters, while only 28 percent expect an increase below two percent. Concerns about lower consumer spending as a result of another virus surge in the winter months and persistent inflation led NABE economists to moderate their forecast compared to those in July. Expectations for business conditions remained strong. Of the respondents, 65 percent indicated increased sales in the fourth quarter, with only six percent seeing declines. More businesses reported increasing prices in the third quarter. No firms reported cutting prices in the third quarter or expected to lower them during the final quarter of 2021.

Global business think tank The Conference Board also reported lowered expectations for 2022 and 2023, although the forecasted growth is still well above the secular trend and population growth rate. Predicting a 5.5 percent GDP growth rate in 2021, the Conference Board lowered its 2022 forecast to 3.5 percent growth, primarily because of concerns that consumer spending will slow with a fourth surge in COVID-19 infections in the winter months and that improvements in hiring and unexpected levels of inflation will force the Fed to raise rates sooner than previously indicated.

For the construction industry, conditions leading into 2022 should support a year of robust activity. While residential remodeling spending should begin to slow, the market for new construction remains positive. Existing home inventories have increased but remain severely limited by historic standards. Demand for nonresidential construction has been somewhat pent up since the start of the pandemic. Capital reserves remain at all-time highs and interest rates, even if expected hikes occur, will still favor borrowing. By the third quarter, the government spending driven by the infrastructure bill should begin to boost non-building construction as well.

The downside risks to the economy – rising prices and wages, unreliable supply chain, continued drags on spending from the lingering pandemic – have mostly been baked into expectations. Unless one of these factors worsens significantly, the factors favorable to construction should push construction spending higher. BG

WHAT'S IT **COST?**

The report on producer price inflation for October ratcheted up anxiety about the potential for an extended round of higher costs. While the producer price index (PPI) for most goods did not depart significantly from the prevailing pandemic-era trends, the October report saw a dramatic departure from the trend for construction.

"After being battered by unprecedented price increases for many materials, contractors are finally passing along more of their costs," said Ken Simonson, chief economist for the Associated General Contractors (AGC). "Meanwhile, supply-chain bottlenecks and labor shortages continue to impede contractors' ability to finish projects."

The producer price index for new nonresidential construction jumped 7.1 percent from September to October and 12.6 percent over the past 12 months. An index of input prices—the prices that goods producers and service providers such as distributors and transportation firms charged for inputs for nonresidential construction—climbed a surprising 21.1 percent compared to October 2020. The AGC news release following the report detailed the primary causes of the steep jump:

> *Many products, as well as trucking services, contributed to the extreme runup in construction costs, Simonson observed. The price index for steel mill products more than doubled, soaring nearly 142 percent since October 2020. The indexes for both aluminum mill shapes and copper and brass mill shapes jumped more than 37 percent over 12 months, while the index for plastic construction products rose more than 30 percent. The index for gypsum products such as wallboard climbed 25 percent and insulation costs increased 17 percent. Trucking costs climbed 16.3 percent. The index for diesel fuel, which contractors buy directly for their own vehicles and off-road equipment and also indirectly through surcharges on deliveries of materials and equipment, doubled over the year.*

Inflation continued to rise in November, even with improvements in the supply chain since late September. Continued reduction in the number of backlogged shipping containers, both in port and offloaded, will begin to ease the imbalance between rising demand and supply. In the best of circumstances, however, that will take until spring 2022.

Inflation remains an area of concern for the Federal Reserve Bank and the Biden administration, which has targeted bottlenecks in ports and overland distribution to increase access to suppliers for consumers and businesses. Several Fed governors have made comments indicating an openness to hiking interest rates in 2022; however, the Fed's policy thus far precludes rate hikes until 2023. Investors in Treasury bonds remain confident that inflation will return to its long-term two-to-three percent trajectory by that time. As of mid-December, the yield on the 10-year Treasury was less than 1.5 percent.

Even if the bond market is correct about the eventual path of inflation over the next ten years, prices for commodities currently under heightened pressure will not fall until supply grows significantly in 2022. BG

PERCENTAGE CHANGES IN COSTS	Nov 2021 compared to		
Consumer, Producer & Construction Prices	1 mo.	3 mo.	1 yr.
Consumer price index (CPI-U)	0.5	1.6	6.8
Producer price index (PPI) for final demand	0.5	1.8	9.6
PPI for final demand construction	0.3	0.7	12.3
PPI for new nonresidential buildings	0.3	7.2	12.4
Costs by Construction Types/Subcontractors			
New warehouse construction	(0.3)	12.7	20.3
New school construction	0.1	5.9	9.7
New office construction	0.2	6.1	12.4
New industrial building construction	0.8	9.6	14.6
New health care building construction	0.5	5.8	10.9
Concrete contractors, nonresidential	(0.3)	11.1	16.8
Roofing contractors, nonresidential	0.5	3.2	9.6
Electrical contractors, nonresidential	0.7	5.8	9.5
Plumbing contractors, nonresidential	1.0	3.6	8.5
Construction wages and benefits	N/A	0.4	3.0
Architectural services	0.3	0.8	2.4
Costs for Specific Construction Inputs			
#2 diesel fuel	(2.9)	13.0	81.0
Asphalt paving mixtures and blocks	(0.5)	0.2	6.2
Cement	0.0	0.3	4.8
Concrete products	0.7	1.4	8.4
Brick and structural clay tile	0.0	2.4	6.0
Plastic construction products	1.5	5.8	32.5
Flat glass	0.3	2.2	8.4
Gypsum products	0.0	1.8	20.9
Lumber and plywood	3.5	1.0	12.2
Architectural coatings	0.6	1.9	12.4
Steel mill products	2.4	11.7	141.6
Copper and brass mill shapes	1.5	0.9	37.8
Aluminum mill shapes	2.3	9.3	41.1
Fabricated structural metal	1.7	3.7	44.7
Iron and steel scrap	10.7	5.2	78.1

Source Bureau of Labor Statistics, Updated December 14, 2021
Compiled by Ken Simonson, AGC Chief Economist

The Big Picture:

Can Pittsburgh Grow?

When Pittsburgh Mayor Richard Caligiuri spoke of the challenge facing Western PA in the face of the loss of 100,000 or more jobs in the mid-1980s, he cautioned that recovery – if it were to occur – would take a generation or more.

Time has proven the mayor correct. Pittsburgh has seen three mini-waves of employment growth that presaged growth in the intervening 30 years. Each has ebbed and waned, but the slow steady focus on enabling a more diverse economy has resulted in a transformation in the region and an overall improvement in the quality of life.

The 2020 census may have been the validation of the perseverance demonstrated by regional leaders. For the first time since 1960, Allegheny County – the region's center – saw its population increase. At the same time, last year's census confirms that the population lost over four decades is not returning. The 2020 census also revealed that there are national trends that will make even incremental increases in population more difficult. The birth rate has fallen to 1.7, well below the replacement rate. Mobility – the number of people relocating from one city to another – has fallen from 18 percent to 10 percent. Immigration fell for the fourth consecutive year in 2020. Against those headwinds, Pittsburgh's leaders will try to be an outlier.

Source: Allegheny Conference on Community Development

The Allegheny Conference on Community Development identified three key areas to chart success for the 10-county Pittsburgh region by 2030 in its "Next is Now" vision in 2019. First among those was "Thriving People." With a goal of increasing the standard of living for all Pittsburgh people by 25 percent by 2030, the Allegheny Conference focused on population growth as the highest priority opportunity for the region.

There are practical reasons for lifting population growth as a top priority. To businesses evaluating Pittsburgh, the lack of population growth – let alone decline – suggests that finding skilled workers will be difficult. The recent history of declining population has resulted in a weaker tax base. If the population growth (and job growth) had been in line with the national average since 1970, Pittsburgh regional government would have four times more tax revenue than it does in 2021.

Looking forward, the forecast for the region's economy is growth of three percent by 2030. By comparison, Pennsylvania's economy is projected to grow by six percent, the nation by 10 percent, and competitive benchmark cities by seven percent. If the rate of growth in Pittsburgh were to match the Commonwealth's six percent rate, it would mean an additional 75,000 jobs in Southwestern PA. That creates $5 billion in personal income and many times that in economic impact.

Growth is increasingly a "not in my backyard" topic. Virtually everyone advocating for growth also cautions against too much of it, or the wrong type of growth. Growth is also a chicken or egg concept. More people attract more employers, and more jobs attract more people. Up to now, Pittsburgh has not seen significant growth in either for decades. With the 2020 census indicating that Pittsburgh's population did grow during the last decade, the stage is set for building upon even a small gain to attain real growth, or risk falling back into the decline that our demographics have predicted.

Growing the Population

In the chicken-or-egg question of which comes first, people or jobs, Mark Anthony Thomas, president of the Pittsburgh Regional Alliance, comes down on the people side of the argument.

"For all the noise you hear from communities not wanting to see growth in their immediate area, almost everyone wants growth overall. They want more people, more businesses. They want the small businesses in their community to have more customers," says Thomas. "How we can grow is by being a place that people first want to live and second being a place where they can be successful. That attitude was already shifting but COVID has made the livability of a region more important than being a place where you can work."

Job growth is a key factor in supporting the growth of working population. While population growth follows employment for the most part, increased employee mobility, tight labor, and remote work are changing the equation. History has shown that Pittsburgh is more attractive when there are more job opportunities in the region, but a younger generation of workers – perhaps influenced by the pandemic – seems to be choosing place over job.

For cities like Pittsburgh, which has seen little population growth after a dramatic decline, there are opportunities for consideration that did not exist prior to March 2020.

The pandemic has shifted the evaluation of the workforce considering relocation, according to the fifth annual Talent Wars report by DCI. The report surveyed 1,000 people who relocated at least 100 miles during 2021. The results are not earth-shattering. For all the talk about quality of life, 90 percent of respondents cited higher salary as the reason for relocation; however, only 21 percent cited a job requiring relocation as the reason for the move. Four other factors – better quality of life, living closer to family, access to larger living space, and lower cost of living – rated higher.

DCI's research concluded that the forced remote work conditions of 2020 altered the priorities of the workforce somewhat, providing a tipping point of sorts. For the first time in the brief history of Talent Wars, the location of the job moved into the top three reasons why people relocated.

"I think we're moving from a world of corporate relocations to one of employee relocations; therefore, we need to stress the quality of life and how great it is here in Pittsburgh," says Bill Hunt, CEO of the Elmhurst Group.

"So much of what we hear from employers is, 'Can our employees work here? Can we recruit here? Can we find partners here?' We hear so often about concerns that employees can have fun living in Pittsburgh," says Thomas. "The question we're left with is can they build a business here with employees who want to be here."

That attitude shift alone does not ensure that workers will open their eyes to the many lifestyle advantages of Pittsburgh. Most major U.S. cities offer lifestyle advantages of some sort, and Pittsburgh still suffers from less than favorable public perceptions – no matter how many "Top 10" lists the region makes. Why the elevation of job location can matter to Pittsburgh is that Carnegie Mellon University and University of Pittsburgh have become major talent hubs. That gives Pittsburgh four years or so to audition as an attractive place to stay. Given that less than half of the region's 40,000 or so college graduates remain in Western PA, there is plenty of upside potential in talent retention to be tapped.

"We have some low hanging fruit with the thousands of kids that come here for college. Half of the graduates still leave and the ones that leave have said that they didn't really know what the region offered. There's an opportunity for us to change that," notes Thomas.

The Allegheny Conference began an outreach to students in 2019, called Pittsburgh Passport, which aims to close the gap in awareness about opportunities for a future in Pittsburgh. The Passport program broadens student awareness of the cultural and career attractions of Pittsburgh and works to expand local internship opportunities, networking, and chances for minority students to envision themselves living in Western PA, despite the current lack of diversity.

Participation has increased, particularly from companies and colleges, but the number of students involved is less than five percent of the enrolled population in the region.

Even without tapping into that upside potential of retaining college graduates, it is likely that metro Pittsburgh has gained significantly with that demographic group over the

2020 Census: Pittsburgh MSA Population Change by County				
	2001	2020	Change	% Change
Allegheny	1,223,348	1,250,578	27,230	2.2%
Armstrong	68,941	65,558	(3,383)	-4.9%
Beaver	170,539	168,215	(2,324)	-1.4%
Butler	183,862	193,763	9,901	5.4%
Fayette	136,606	128,804	(7,802)	-5.7%
Washington	207,820	209,349	1,529	0.7%
Westmoreland	365,169	354,663	(10,506)	-2.9%
Total Pittsburgh MSA	**2,356,285**	**2,370,930**	**14,645**	**0.6%**

past decade. The 2020 census was a pleasant surprise for the region. The census showed the seven-county area gained people, with Allegheny County showing the biggest jump.

Rich Fitzgerald, Allegheny County executive, says he ran for office in the late 1990s to see if he could help stem the exodus of young people from Western PA that began in the mid-1980s. As you can imagine, he was gratified to read the results from the 2020 census in September.

"For a century we exported steel and for almost half a century we exported young people. It's a real validation that we turned the corner as a region," Fitzgerald says. "When you look into the numbers you seen we've grown the population of Asian-American, Latin-American, and mixed-race populations significantly. When you look at the growth of 25-to-34-year-olds, the nation grew at 11 percent and Allegheny County grew by 20 percent. Not only are we keeping our young people in larger numbers, but we're bringing in more people from that age group."

There are, of course, negative aspects of the 2020 census. Four of the seven counties in the region lost population. The region continued its trend in natural decline of population (more deaths than births). Domestic migration – those relocating from one part of the U.S. to another – remained negative in Pittsburgh. But even these negative factors had something of a silver lining. Despite the deaths of more than 275,000 people from 2010-2019, population in the Pittsburgh MSA grew by 14,645 during the decade. In Allegheny County population grew by 27,230, despite more than 137,000 deaths. And negative domestic migration was half as great in Pittsburgh as in its peer cities; in fact, domestic migration was negative in 187 of the 383 U.S. metropolitan areas.

"Our natural population change is pretty extreme compared to almost all other metro areas. I used to point out that we were the only large metro region with a natural population decline but Tampa snuck in there, and now there are a couple of others, Cleveland and, I believe, Providence," says Chris Briem, regional economist at University of Pittsburgh Center for Social and Urban Research. "But Pittsburgh is still an extreme outlier, and some of our counties are very extreme."

Population matters to those outside the region who are considering locating in Pittsburgh but population growth in Western PA is more urgently needed to maintain the workforce. The Allegheny Conference's Inflection Point report in 2016 warned that there would be a shortage of 80,000 workers by 2025 without an increase in the workforce. Recent data on employment and labor force suggests that the decline in Pittsburgh's workforce is coincidental to COVID-19, that it is retirements that have created the drop. That is a conclusion that is supported by a larger trend.

According to EMSI/Burning Glass (which also researched Inflection Point) more than three million Baby Boomers retired during 2020. That comes to 1.875 percent of the 160 million or so in the civilian workforce in March 2020. In its e-book called, Demographic Drought, EMSI cautions against viewing the workforce shortage as a COVID-19 phenomenon. EMSI emphasizes the degree to which the Baby Boom generation was a tide that lifted all economic boats and has become an anchor on the workforce. Recent Census Bureau data on the civilian labor force found that participation rate among those over 65 without disabilities was 10 percent lower than in February 2020, suggesting that one older worker in 10 has retired.

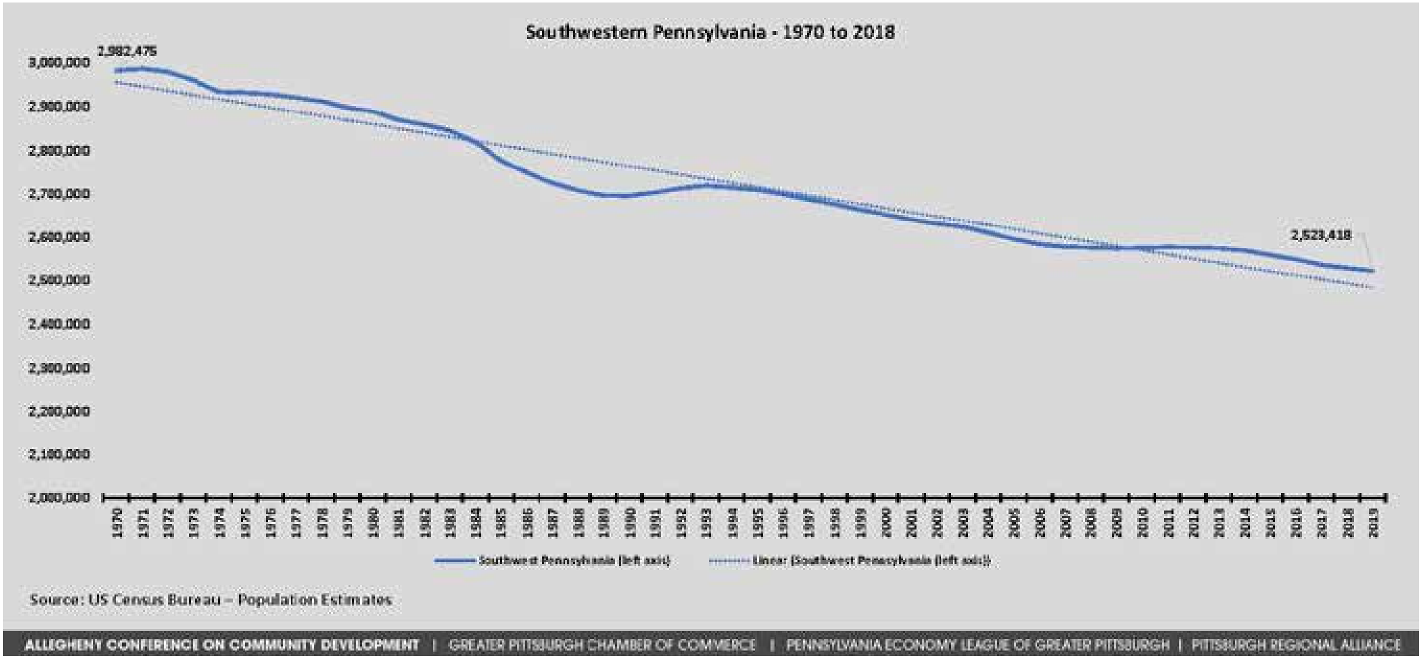
What does that mean for Pittsburgh? During the period from March 2020 through September 2021, the size of the civilian workforce declined by 37,000 in the seven-county Pittsburgh metropolitan area (MSA). Assuming EMSI's survey applies to Pittsburgh, then 22,760 people retired from the workforce during the same period. But Pittsburgh's demographics skew older than the U.S. in general. The median age of an American is 38.1 years; in Allegheny County, the median age is 42.9 years. That is a significant gap, one that likely resulted in thousands more retirees leaving the workforce in Western PA than in the average city.

"There is growing national research showing that the pandemic didn't [reduce the workforce] as much as early retirement," says Briem. "To the degree that we have an older work force here, relative to other regions, it would probably impact Pittsburgh more. My own belief is that those are relatively permanent shifts."

Virtually all the drags on population growth in Pittsburgh – declining birth rate, more deaths, outmigration – are also problems occurring in most major cities. During the 2010s those factors became less of a drag on Pittsburgh's demographics. What will it take to move the dial on growth by two or three points in the coming decade?

"We are an authentic city with 90 different neighborhoods. We have incredible park systems and green spaces. These are the kinds of things that the younger generation of workers say they want," says Hunt. I think we need a campaign to promote how great it is here for 20- to 30-year-olds specifically and I would have that campaign overseen by 20- to 30-year-old Pittsburghers. We don't need people my age to go about it."

"The branding was important so that we would have a unified message about the things that we know people care about. We successfully launch that for business," notes Thomas. "The message around why you should live here, that it is an



exciting place, that we have great neighborhoods and great restaurants, new blood adding life to the region, is not widely communicated. That's something we have to take a leadership role in doing. We have to make sure the Pittsburgh message is in the places where young people get their information about places that are exciting, diverse, and booming."

One of the region's technology industry leaders sees the recent development of "unicorn" companies as a boon to that messaging.

"We had four IPOs in 2021. That's the first time ever for that," says Audrey Russo, president and CEO of the Pittsburgh Technology Council. "That will attract new people, but at the same time will give those companies a lot of flexibility to attract new workers. The whole world is competing for high skill talent. It's not just us."

Growing Jobs

Population growth and equitable economic opportunities both rely on the growth of employment. For regional leaders, the task of stimulating or accommodating job growth is a tricky balancing act that requires feeding healthy industries without starving those that may grow in the future. Our regional history reveals why that is critical.

Chris Briem wrote an editorial, published in the Pittsburgh Post-Gazette on June 6, 2021, which explains how the dominance of the steel industry made recovery from steel's decline that much more difficult. He noted that a fortuitous combination of discovery and natural forces – primarily that the coal from Western PA was uniquely suited for coke production – made Pittsburgh the epicenter of steel manufacturing worldwide. That dominance, magnified by the soaring demand of the first half of the 20th century, attracted such a preponderance of industries that served the steel industry to Western PA that all other industries were effectively starved of assets. When electric arc mini mills became the disruptive technology of the steel industry, legacy manufacturing assets, like those that lined the riverfronts of Western PA, became obsolete. Absent a diversified roster of employers, Pittsburgh's economy had to recover the estimated 100,000 jobs lost from the ground up.

The playbook for that recovery was the "Mehrabian Report" issued in 1994. Nearly 30 years later, the five industry clusters identified as durable industries of the future remain largely the most important for Pittsburgh's economy. More important than the prescience of the Mehrabian Report about what sectors would endure is the fact that the civic leaders of the time recognized that a prosperous future required developing a diversified economic base, rather than adopting a strategy of swinging for the fences to replace the steel industry.

As would be expected, the Mehrabian Report has become obsolete as a strategic plan after 27 years; however, the overarching strategy of diversification remains the correct one. That reality is worth remembering when evaluating the potential for a new industry or technology to become the "next big thing." It took less than a decade to learn that lesson about natural gas. Those lessons should be applied to the economic development strategies that will be used to foster robotics, artificial intelligence, and life sciences in the coming decade.

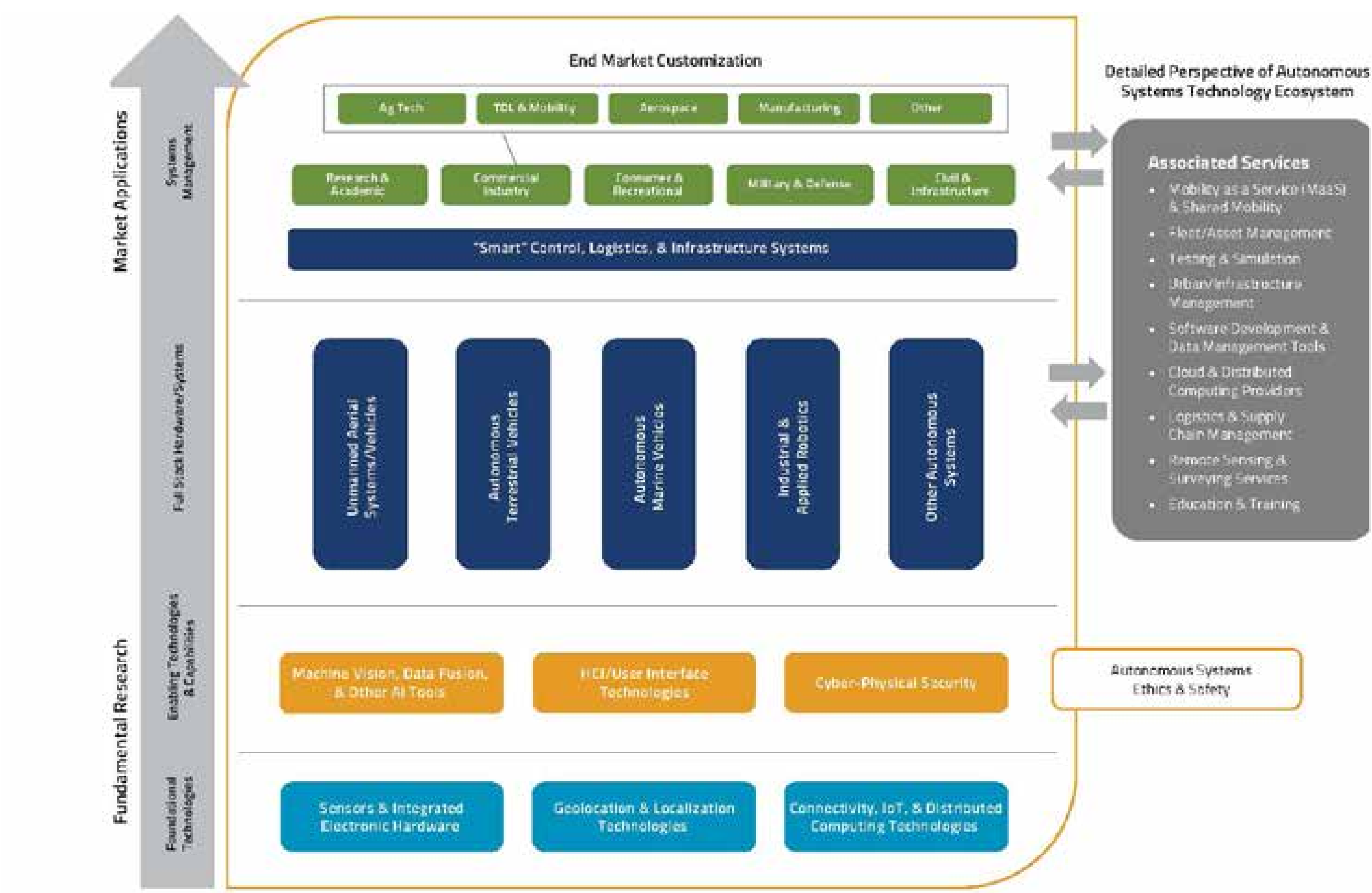
It is easier to talk about developing growth strategies than planning and executing them. For one thing, sustainable growth must come from the private sector. Government is ill-equipped to judge where demand will lead and under-resourced to support it. For another, the nature of a diversified economy means that there are many constituencies for political leaders to consider, which will lead to decisions that are meant to create votes instead of jobs. At least one private sector leader notes that it was easier to do economic development in a one-industry region.

"All the institutions in the region understood it was about steelmaking," says Don Smith, president of RIDC of Southwestern PA. "That had the effect of focusing regional leadership. All decisions supported the steel industry, and everyone understood that."

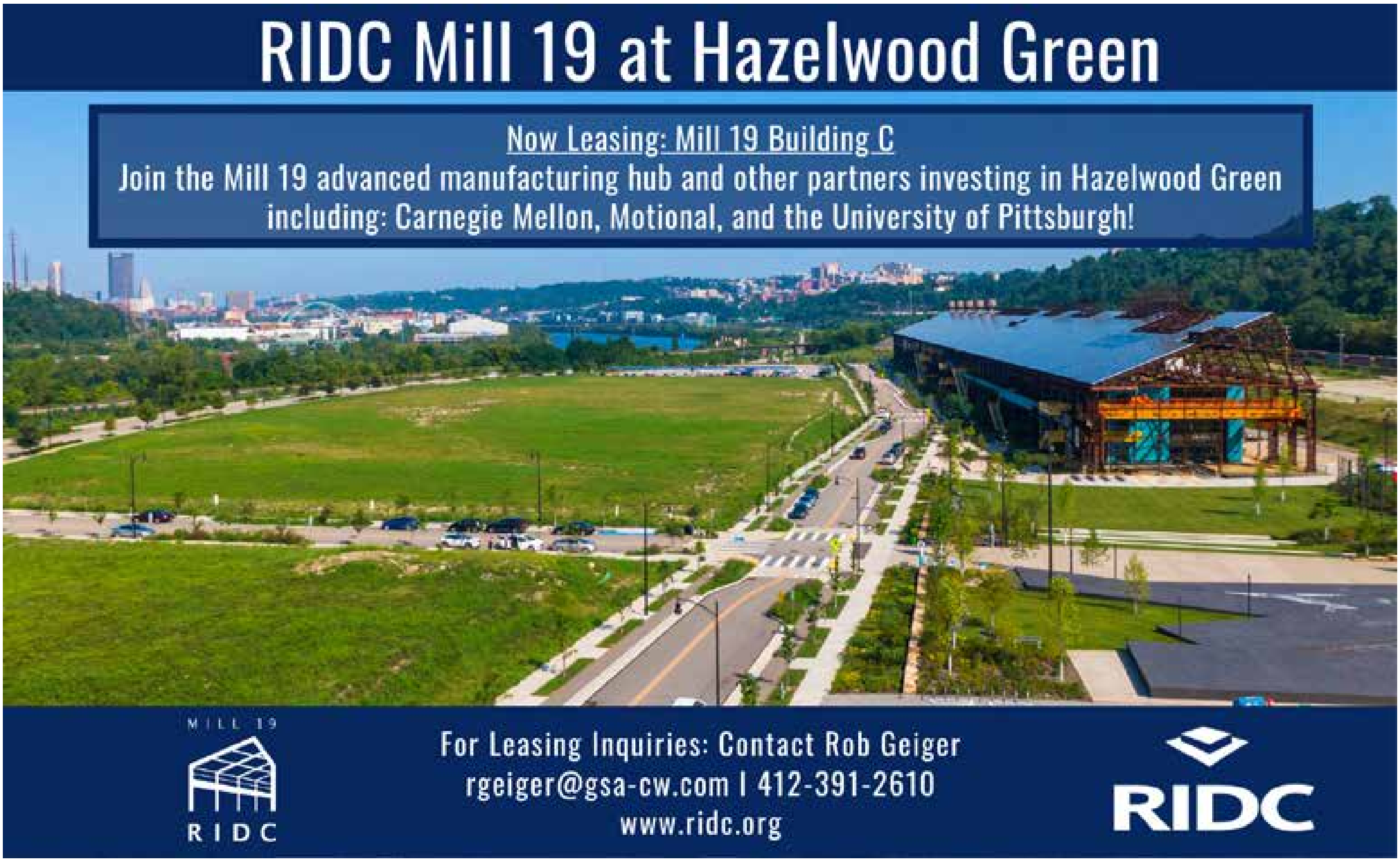
Smith, of course, is an advocate for a diversified economy, but he expresses concerns that in the deeply divided political climate leaders will be unable to come together to support a common economic agenda. That could be a critical concern because the spate of public offerings for Pittsburgh-based companies in 2021 showed that Pittsburgh is not likely to be a one-industry region again.

"If you look at each one of those companies that went public this year, they are in different domains. You have Cognitive Therapeutics, which is pharmacology working on Alzheimer's disease. Duolingo is a language translation app. Aurora is autonomous vehicles. Stronghold Digital Mining is bitcoin mining," explains Russo. "That's business-to-business, business-to-consumer, pharma and fintech. That's very indicative of our region. That is very positive because it isn't all coming out of one particular domain."

The timing of the initial public offerings is fortuitous for Pittsburgh. After almost two years of a disrupted workplace, the nation's established tech hubs are facing increasing pressure on talent recruitment and growth because of the high costs of living in those cities. In its annual Scoring Tech Talent report, CBRE noted that minorities and women – which are underrepresented in the tech industry – made up a larger share of the tech workforce in Pittsburgh, among others. CBRE also reported that the pace of job creation had quickened in Pittsburgh. Whereas the region ranked 26th out of 30 top markets in 2017 (with 1.6 percent job growth), Pittsburgh had a 10.1 percent growth rate of high-tech software and services jobs in 2019-2020, ranking it 12th out of 30.



Source: TEConomy Partners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For now, almost all the emerging technologies driving global growth are being researched and developed in Pittsburgh. The confluence of computer science research and life science research being conducted at Pitt and Carnegie Mellon ensures that Pittsburgh will play a leading role in tech research for the foreseeable future. That does not ensure that the economic benefits of that groundbreaking research will end up in Western PA. While there are some competitive advantages in other regions that cannot be overcome – better weather or direct access to ocean ports – there are some disadvantages that can be avoided. Pennsylvania's tax environment ranks highest among those.

"The state legislation that has been proposed to lower the corporate net income tax (CNI) is so obviously necessary. We will be going from the 49th worst tax to the middle of the pack," says Hunt. "We don't need to be the lowest, but we need to be competitive. There's so much business being lost, and we would make that up quickly to offset the loss in the tax rates. I feel that's a huge opportunity lost here every day."

Don Smith is among those who would prefer the corporate tax rate was more competitive than middle of the pack.

"I am encouraged that Josh Shapiro is proposing that we eliminate the corporate net income tax in Pennsylvania. He says it's a $1.2 billion problem that we have to fix, but then he suggests that the companies that would move here or entrepreneurs that would start a company here if there were no income tax would make up those tax receipts in short order," Smith says. "For years that has been so far out of the realm of discussion. To have a Democratic candidate for governor say it, maybe Josh Shapiro needs to be the one to eliminate CNI."

Smith would like to see leadership look beyond lower taxes and less regulation.

"When you think about the Pittsburgh story, and the story of places like Pittsburgh, it's about leadership and vision. It is about people who saw the possible rather than the constraints," Smith says. "I think of [former Carnegie Mellon president] Dick Cyert and Carnegie Mellon's decision to change its focus to computer science and all of the things that followed that decision. Carnegie Mellon put most of its eggs into computer science first and then robotics. It became number one in the world in what is arguably the most important discipline of the 21st century and a top 20 global university. Carnegie Mellon knew that they couldn't compete otherwise. They chose to do what they could do excellently, rather than taking a watered-down approach."

Smith gives a nod to the R. K. Mellon Foundation for reshaping the role of philanthropy in Western PA with its recent grants, noting that those are the kinds of big bets that have to be made to support emerging industries.

Within the past six months the R. K. Mellon Foundation placed two of the biggest bets of all time on the region's future. In November the foundation announced a $100 million grant to University of Pittsburgh for a life sciences research and manufacturing facility in Hazelwood Green, dubbed the BioForge. In July, R. K. Mellon committed $150 million to Carnegie Mellon, pledging $75 million for a robotics research center at Hazelwood Green and $75 million to help fund the construction of a new science building at Forbes and Craig.

Programming for a robotics center had been underway for some time (CMU had an option on land for several years), but the Mellon grant accelerated the planning. Bob Reppe, senior director of planning and design for Carnegie Mellon, explains that the facility will be intentionally part of the efforts to commercialize research rather than an expansion of campus.

"What we're looking at in Hazelwood Green is really focused on new ideas that need space that we cannot provide in the core campus. We are not going to be doing undergraduate or graduate education down at Hazelwood Green," Reppe says. "What Hazelwood Green is going to be is similar to what we have been doing at NREC [National Robotics Engineering Center] for the last 25 years. It will be about manufacturing and focused on robotic research that will be the civilian version of NREC and how we can partner with companies to bring new ideas to market. The best analogy I can think of is, robotics row in the Strip District. Those are offshoots of NREC and Hazelwood Green will be the next generation of that."

One thriving offshoot of NREC is the autonomous mobile systems industry. Consultant TEConomy Partners LLC studied the autonomy marketplace and published a report in September 2021 that attempted to identify and quantify the economic potential of that technology advancement for Pittsburgh. The report concluded that Pittsburgh's current leadership role in the industry should lead to 5,000 more jobs (the various autonomy industries currently employ around 7,000 in Pittsburgh) as it matures during this decade. The report, Forefront: Securing Pittsburgh's Break-Out Position in Autonomous Mobile Systems, lays out the case for regional investment that can assure that those jobs are created. It also identifies potential lost opportunities that result from insufficient support.

The prescription outlined in Forefront calls for regulatory guidance to support the industry and government investment in infrastructure, marketing, and entrepreneurial capital. Forefront recommends regional leadership in attracting industry trade shows and conferences, public/private infrastructure, financing, and coordinating collaboration between autonomy and other emerging technologies to share information that enhances all participants. The report cites the need for attracting talent, autonomous mobile system supply chain companies, and developing a greater regional focus on the industry.

By its nature, the Forefront report calls for a focus of resources that may not be practical politically, or otherwise. But, at the highest level, there is low-hanging fruit that would require almost no resources and could provide significant support to autonomous mobile systems. For example, Audrey Russo points out that the industry has a growing presence in Miami, FL, where the state of Florida has welcomed widespread road testing of vehicles. The opposite is true in Pennsylvania.

"I think there is significant potential for the kind of growth we haven't had in 50 years. But it is far from a foregone conclusion that it will happen," says Smith. "Autonomy has enormous potential, and it is going to happen somewhere. The question is whether Pittsburgh is going to benefit from it disproportionately or not."

Growing Sustainably

As the leaders of the Pittsburgh region try to claw back the population lost since the 1970s, there are gains that occurred during the past four decades that could be lost if those efforts succeed. The ecology of Western PA has dramatically improved since heavy industry shut down. The three rivers support life again. The air quality, while still subject to debate, has improved visibly and measurably. Infrastructure has been upgraded and commuting to Downtown is measurably shorter. A period of robust growth could threaten the gains in quality of life that were accrued in post-industrial Pittsburgh.

There is no reason growth must be accompanied by increased pollution or stress, but more people in the same geographic space tends to do so. You only need to look at what happened when most of the world shut down in spring 2020. Less normal human activity was a good thing for the Earth. There are reasons to be cautious about how and why growth occurs.

"Is the water too pure? Is the air too fresh? Are medical services too underutilized? Are student-teacher ratios too low? Is the wait at the Squirrel Hill Tunnel too short? What is it that we are hoping to fix with growth?" asks John Rohe, vice president of the Colcom Foundation. "There could be valid reasons to grow, but should we grow perpetually? Obviously not. A finite planet cannot sustain perpetual growth. Let's start from the perspective of Edward Abbey, who said that growth for the sake of growth is the ideology of a cancer cell."

Colcom Foundation, a private foundation focused on balancing humankind withing a fragile yet resilient ecosystem, advocates the position that constraints on growth are ignored at our peril.

While it is difficult to accurately attribute how much of Pittsburgh's polluted past was a result of population density, compared to the intensely pollutive industrial activity, adding more people to the same infrastructure would certainly create challenges for the environment.

"I don't think it's a question of whether growth is good or bad. Growth is just a fact of life but it's how you grow that is important. The most efficient way to house people is in cities. There's recognition that cities are fundamentally important to human development and human quality of life," says Christine Cieslak, vice president of program strategy and impact at Green Building Alliance. "The question is how does growth happen in a way that keeps people top of mind. At the end of the day, you're not building a city just to build a city; you're building it to support people that need a place to live, work, learn, and play."

Rohe acknowledges that Pittsburgh has problems for which the solution is more population. He suggests that population growth is not a one-size-fits-all solution.

"Pittsburgh has about one-third of its prior population. A certain volume of population growth could better support the existing infrastructure and fill vacant homes," Rohe says. "That's not growth for the sake of growth. That's growth for a specific valid objective. And when the objective is satisfied, we should turn our attention to sustainability."

"Our role here is to ensure that we weave into every development the pillars of climate change, human health, social equity, and a thriving economy. That is difficult to do if faced with rapid growth," continues Cieslak. "The things that get sacrificed tend to be equity, health, or the climate. If you grow too quickly and don't think about it, you're going to stress the roads, the treatment plants, and indoor air quality. You're going to stress public transportation, which is going to lead to congestion and pollution that affects human health. Those things exacerbate all the problems that existed before the rapid growth. It could leave you with a less resilient, more brittle community."

Of course, population growth and business attraction are not as easily controlled as water from a tap. People tend to move to a city because of the news or perception of better opportunities. That is a word-of-mouth or branding phenomenon that tends to ebb only after more people move than there is human infrastructure to support them. Businesses tend to follow other businesses and success stories. The trick is to prepare for growth and continue to strive for improvement ahead of the growth. Ultimately that means investing in regional assets before demand peaks.

The latter is something of a feat of political strength in the current environment, although reaching a consensus on public investment has come easier to Western PA leaders than those at the state or federal levels. Staying a step ahead of accelerated growth will require investing in facilities that serve the public – like broadband networks, highways, transit, and workforce – before they may be on a paying basis.

"We need an ethos of growth. We need to make some investments and I don't mean small investments. I don't mean we have to invest in companies, but we have to go after all the money that we can on this infrastructure bill and align it with growth opportunities," Smith asserts. "If we get 10 awards they can't be isolated in silos. They need to be aligned with other investments so that the grants are a multiple of their sum. Making choices is what leadership is about. By definition that means there will be things we cannot do. Often we have chosen not to choose."

Choices will have a bigger impact on the path forward for Western PA over the next decade or so because the impact of demographics will be fading. Fitzgerald predicts that by 2030, the young people who moved here beginning in 2010 will be having families, which reverse the long-standing trend of more deaths than births. Good choices will produce a region that will support those families and create prosperity. Mark Anthony Thomas, who is charged with attracting more employers to Pittsburgh, thinks that task will be made easier if Pittsburgh is a place where people want to remain.

"What keeps me up at night are the missed opportunities. Urban Land Institute ranked Pittsburgh 59 out of 70 major cities for real estate prospects. There is an embedded assumption that we can do better," Thomas says. "The fact that the county turned the corner on growth is a big deal. It allows us to show that there are people moving here and investing here. It's not just industry; it is individuals. When you think of the places like Austin or Nashville that are growing and seem exciting, it is a people movement". BG

Photo by Wick Photography.

Photo by Rombout Photography

PROJECT PROFILE

LITHIA VOLKSWAGEN ADDITION AND ALTERATIONS

Dave Hengelsberg likes building car dealerships. Hengelsberg, vice president of sales for Uhl Construction, has been the project manager for roughly a dozen dealership projects over the past decade. Although Uhl Construction had dealership projects in its portfolio for 50 years, the recent changes in the way the auto industry has evolved fit the general contractor's way of doing business like a glove.

Car and truck manufacturers get to market through a network of dealers. As the economy and buying habits of consumers have changed through the years, the independence and influence of the dealers has waxed and waned. Manufacturers have consolidated and have become increasingly focused on their brands. Since the late 1990s, that has translated into regular renovations to the dealership networks to keep up with new branding or corporate mergers and acquisitions. Those renovations have been imposed upon the dealers, even during economic downturns. Well-capitalized dealers have been able to acquire competitors and add brands. In recent years, that trend has accelerated, with large corporate entities acquiring dealers in cities across the nation. This latest trend brought Lithia Motors to Western PA, acquiring Baierl Auto Group and Day Automotive Group in 2017 and 2018.

Uhl Construction had developed a relationship with Baierl Auto Group and Lee Baierl that established the contractor as an expert in the auto dealership niche. When Baierl was acquired by Lithia in May 2017, Hengelsberg presumed that the working relationship might end. Instead, the acquisition led to more work immediately and the chance to develop a new customer in Lithia Motors.

"We went from thinking we would never hear from them again to getting a call out of the blue, saying that there were three projects lined up for us. Lithia retained Lee after the sale and for that first wave of three projects they turned us loose to get them moving," Hengelsberg says. "That was the reconditioning center in Moon, renovating the Kia into Acura, and the additions and renovations to Toyota in Wexford."

At the time of the Baierl and Day acquisitions, Lithia Motors was in the process of growing from less than 10 dealerships to more than 100 nationwide. Lithia was building an internal construction management department and a team of consultants to handle the re-branding and new construction in markets across the U.S. By the beginning of 2020, their approach had changed.

"When we moved to working strictly with the Lithia group from Oregon, they got competitive numbers from 50 percent drawings

The former Day Apollo Volkswagen before renovations.

for South Hills Subaru and the Volkswagen project," Hendelsberg recalls.

Although Lithia asked for competitive proposals, the projects were not decided strictly on a low-bid basis. Lithia analyzed the contractors' approaches and interviewed key personnel. Anne Breck, senior project manager with Lithia Motors, explains that her company values relationships as much as price.

"We are a company based in Medford, Oregon. Pittsburgh is three time zones away. We needed to develop trusting relationships with contractors," says Breck. "Uhl had a long-standing relationship with Baierl. When we acquire dealerships, our goal is to grow relationships, not sever them. I was starting a couple of large projects in the Pittsburgh market. Uhl had successfully completed several smaller renovations during the transition. We had them hard bid Subaru and Moon Township but, as we tell all contractors, lowest price does not always win. So, like any good negotiator I asked Dave what kind of deal he would give me on Moon Township Volkswagen if we gave him South Hills Subaru."

The negotiating approach worked.

"We got South Hills Subaru and the Volkswagen job within one day of each other," Hengelsberg laughs.

While work started in early 2020 on the Subaru dealership expansion in Peters Township, the decision-making process about the Volkswagen project put the project on hold for a while. The dealership

had not been a high-volume operation for Day Automotive, and the investment in renovating and re-branding a facility built in 1972 was pushing the limits of what was financially sound. After several months of evaluation that coincided with the onset of the COVID-19 pandemic, Lithia chose to move forward with the project. That did not end the tough decisions about construction.

The program for the project involved renovating 30,000 square feet of service and administrative space and adding 8,500 square feet of showroom, after demolishing the existing showroom. There was a litany of legacy problems associated with the buildings, however, and an unusual level of renovation needed for the shop. Both contractor and construction team could see the advantage of demolishing the dealership and starting from scratch.

"We are run by auto dealers, not construction professionals. After they buy buildings, they have the hardest time wrapping their heads around why you would tear something down," says Breck. "In their minds that was a perfectly good building, but we basically rebuilt the dealership. We took the showroom off the front of the building and built a new one."

The latter part of the program was the simplest part of the scope of work, of course. Two major problems drove the scope and sequencing of the project. First was correcting the sins of the past, particularly regarding the site and service building. The second was the necessity to keep both sales and service operations functioning fully.

"Part of the challenge was the site. One of the big issues was learning how to mitigate all the runoff," says Breck. "Prior to starting the design of that Pittsburgh received this unusual rainstorm of six or eight inches of rain in a very short period of time. The mud from the top of the hill flowed into the building and there was six inches of mud throughout the building."

"We ended up completely redoing the storm water system. From a topographic standpoint, if you were building this building brand new, you would build the finish floor two inches higher. We talked about possibly raising the floor in the showroom, but it didn't make any sense," says Hengelsberg. "The engineer designed a large swale at the top of the hill to slow water coming down and we added larger catch basins. We regraded and recontoured all the asphalt. They said they got water in every door during heavy rains. We've

An addition replaced the showroom of the existing dealership. Photo by Rombout Photography.

had a number of those kind of storms since and it seems to have eliminated that issue."

The service department bore the brunt of the rain and mud infiltration, but that was hardly the only legacy problem associated with the existing building.

"The standing seam roof was beyond its useful life. The exterior walls were some sort of exterior panel that had EIFS directly applied to OSB that was screwed to the existing walls," says Hengelsberg. "The other challenge was that any time they added anything to that shop, whether it was water lines, lighting, air lines, or electrical, they just screwed it to the sheathing. There were also three generations of lights in the shop. We had to go through piece by piece to determine what was still needed and what we could demolish."

"We suggested doing a roof-over system, which is basically running hat channel, standing seam clips, and a standing seam roof over the existing so that we did not have to shut down the service department. We also put a new skin on the exterior of the building," he continues.

Uhl Construction also suggested adding a second full bathroom in the service area so that female and male technicians did not have to share a bathroom. The contractor also agreed to a major change to the sequence of the project to minimize disruption to the sales and service operations. After relocating parts storage from behind the existing showroom, Uhl then constructed the service drive, which is the enclosed area into which service customers bring their cars to the facility. Because the service drive sat outside the footprint of the building, temporary barriers at both ends could serve as exterior walls and the interior could be finished to serve as an interim sales showroom during the time that the new showroom was demolished and rebuilt. The solution utilized a portion of the new construction to avoid the expense of renting sales trailers, which was a less desirable option.

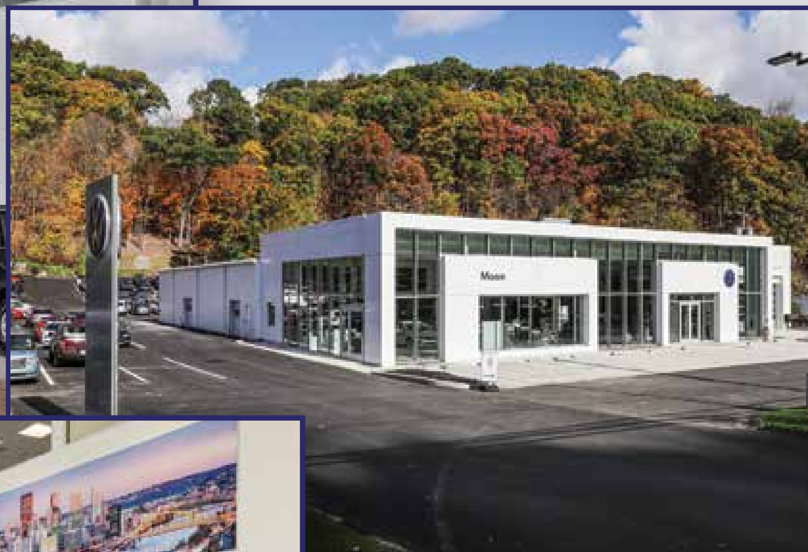
"In hindsight, we should have brought temporary trailers in to give us a head start on that area. I'm not sure we would do that again," says Hengelsberg. "It was a great idea for the owner. It saved them a lot of money compared to the trailer and saved us space. From a time standpoint, it set us back. Moving around of the sales department added the two months."

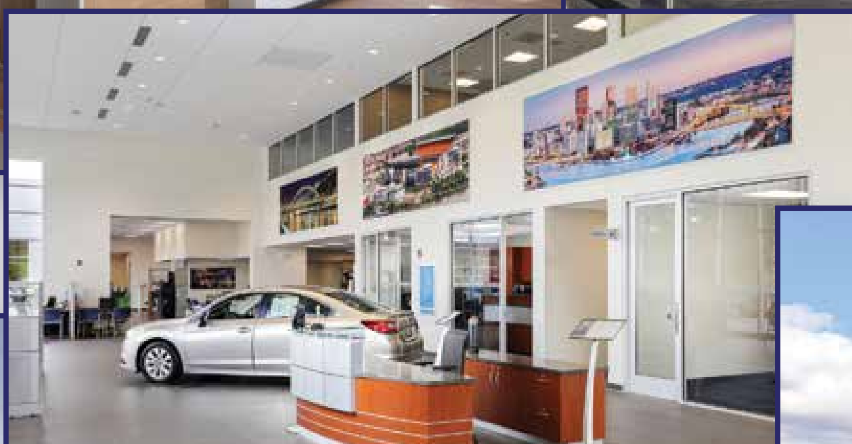
After the delays in spring and summer 2020, the project got underway in September 2020, wrapping up 12 months later. Breck notes that the project was like two projects in one, with the new construction going much more smoothly than the renovations, which produced unforeseen issues almost weekly.

"We hardly heard a peep from Dave when he was building the showroom. We ran into a lot of deferred maintenance issues on this project because the building was in pretty rough shape when we took it on," Breck says. "Overall, the store team is incredibly happy. The manufacturer, Volkswagen, is very pleased with the results of the project. We feel like we delivered a building that both our customers and the community can be proud of now."

Hengelsberg credits the relationships forged during the construction of multiple dealership projects for success of Lithia Volkswagen. The design intent documents done by Carlson Veit Junge Architects are meant to be project specific, but there is ample room for interpretation and for recommendations from the local project team. The mechanical and electrical systems were done design-build. Likewise, most of the specialties – like lift equipment and signage – were manufactured and installed by firms that Uhl has worked with on other dealerships.

Building lasting quality on a foundation of lasting values





SINCE 1920

Uhl Construction

Building Lasting Value

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Photos by Rombout Photography.

Hengelsberg believes that gave them an advantage that helped save time and headaches.

"We've done enough dealerships that now we know the players. We know who they buy lifts from. We know who they buy the signage from," he says. "Signage used to be a big issue because the owner would never tell us up front where they were getting the signage. One day someone would just show up from a signage company and start cutting holes in the exterior walls to install the signage, which was not the best way to go about it. It's no different than any other industry, where you have to really start getting into the niche before you start running into the same people.

"It's such a relief to be viewed as a partner instead of being in a fight every week. The design documents are intended to be used on every dealership but there is room to recommend products or equipment that either work better or save the dealer money."

Lithia seems to embrace the approach as well, hiring Uhl Construction to re-face several Honda dealerships in the region, renovate two dealerships in West Virginia, and build a new Jeep dealership in Morgantown.

"I like working with Dave and his team at Uhl. They are extremely detail-oriented," says Breck. "We can go toe-to-toe on issues, like any contractor and owner, but in the end, I know we are both working for what is in the best interests of the project. If I had another project in the Pittsburgh area, I would not go out to bid. I wouldn't hesitate to call Dave and work together through preconstruction and build the project open book."

"Overall, the Moon Volkswagen turned out great. The before and after view of the building is night and day," says Hengelsberg. "The project blossomed from doing the show room to keep Volkswagen happy to taking the time to really do it right." BG

PROJECT TEAM

Uhl Construction Co. Inc.	General Contractor
Lithia Motors	Owner
Carlson Veit Junge Architects P.C.	Architect
Keystone Engineering	Structural Engineer
KU Resources	Civil Engineer
McGervey Electric Inc.	Electrical
Reno Brothers Inc.	HVAC, Plumbing
Etzel Masonry	Masonry
Aries Sprinkler	Fire Protection
A. Folino Construction	Asphalt Paving, Concrete
Albert Tarr Excavating Inc.	Demolition, Excavation
J. J. Morris & Sons Inc.	Drywall, Interiors, EIFS
A. J. Vater & Sons	Painting
Burns & Scalo Inc.	Roofing, ACM Panels
Paracca Interiors Inc.	Flooring
Don's Glass & Mirrors Inc.	Glazing
Overhead Door of Greater Pittsburgh	Overhead Doors

The NAIOP Pittsburgh - RMU Summer CRE Program

will introduce minority students to career possibilities in commercial real estate (CRE), helping to advance greater social equity while building a pipeline of talent in Pittsburgh CRE.

NAIOP Pittsburgh and **Robert Morris University** present a unique learning experience that will immerse 25 rising sophomores, rising juniors and rising seniors in the world of CRE. **Through the camp in June 2022, students will:**

- Explore a potential career path.
- Examine placemaking and the built environment.
- Begin to grow their professional networks.
- Build lasting relationships with fellow program participants.
- Students receive a free laptop.
- Small stipend upon completion of program.

ACCELERATING CHANGE IN PITTSBURGH CRE

Attracting diverse professionals to CRE enriches the talent pool with new voices and enables the industry to better represent the communities that CRE serves. By developing a camp focused on broadening students' horizons to possible CRE careers, the **NAIOP Pittsburgh - RMU Summer CRE Program** endeavors to accelerate greater representation in CRE for minority groups.

ABOUT THE PROGRAM

CRE instruction over five days will provide a balance of academic theory and practitioner instruction. The experience will end with a capstone case-study project. Planning is underway for this inaugural program as a hybrid format combining online coursework with in-person extracurricular activities as current pandemic conditions allow. There is no cost to attend.

NAIOP Pittsburgh welcomes support from corporate, civic and nonprofit organizations that share our objectives of expanding opportunity and educating the future talent of CRE.

For additional information, visit naioppittsburgh.com or contact Brandon Mendoza, NAIOP Pittsburgh, at **info@naioppittsburghc.com**.

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Bill Scherfel

FIRM PROFILE

MONSTER SMASH LLC

A heavy piece of equipment, running on diesel, might not strike you as a "green" approach to construction waste management. In the case of Monster Smash, however, the company and its equipment are doing the kinds of grunt work behind the scenes that has a beneficial impact on two significant environmental problems: the amount of construction waste that is landfilled and the fuel consumed in the process.

Monster Smash provides a service that is fairly new to the U.S. and the Pittsburgh market. The company compacts the waste discarded in dumpsters at its customers' locations using a heavy "smashing" unit mounted on the body of a truck. The smashing unit fits inside the walls of a standard container of any length and operates by compacting the waste and rolling from one end of the dumpster to another. The result is a reduction in the volume of waste in the dumpster of about one-third. On a construction job site, where a significant amount of the dumpster contents includes large empty components (like HVAC equipment or office furniture), the volume reduction can be even greater. For the owner of the dumpster the service reduces the number of times the container must be hauled to a landfill. It also helps solve other headaches related to maintaining an unattended dumpster.

"It's a service that is prevalent in Europe because of how dense the population is there," says Bill Scherfel, Monster Smash's founder and managing partner. "It's new to the U.S., although it's growing rapidly."

While Monster Smash has application anywhere there is a dumpster, the service is most valuable in situations where there is a high volume of compactable waste, like a construction site, manufacturing plant, or distribution center.

"We go to customers and smash down their trash in the dumpsters on the site. Our customers get efficiency in how they utilize their dumpsters so they can have lower roll-off costs from switching out the dumpster. We increase the efficiency of compacting it by about 70 percent, which equates to about 40 percent savings, even with our fee," Scherfel explains. "It's not just a cost savings. The service helps with safety, cleanliness, and general liability problems that might arise from having the contents of a dumpster on the ground. We create a smaller footprint for our customers on the landfill as well."

Scherfel founded Monster Smash with the intention of the service being a simple solution to the problem of managing dumpster costs. During the sales process, he discovered that dumpster customers had other concern that he could address. He notes

The Monster Smash truck compresses construction waste in a dumpster, reducing volume by one-third.

a couple of examples of repeat customers for which the cost of replacing full units is not the primary issue.

An apartment complex owner offers the use of the property's commercial dumpster to its residents. Weekends bring a high volume of trash, however, creating overflow conditions. By compacting the dumpster ahead of the weekend, the property owner keeps the residents' trash in the dumpsters and off the ground.

A contractor that works regularly on tight urban blocks has its dumpsters compacted by Monster Smash twice before the replacement of the unit is necessary, reducing or eliminating the need for the large vehicle used by the roll-off service to navigate the tight conditions.

A window manufacturer maintains a multi-building facility with an emphasis on the appearance of the facilities, but large numbers of pallets used to receive materials regularly pile up, creating obstacles and an eyesore. Routine compaction keeps the areas surrounding the dumpsters pallet-free.

Each of the customers cited also reduce the number of trips needed to replace the dumpster, which reduces the cost of maintaining it. Monster Smash's fees do not exceed $200, a significant savings compared to the waste hauling service. Although haulers perceive Monster Smash as a threat to revenues, Scherfel says he has discovered that the compacting services have proven to be valuable to the haulers in certain circumstances.

"We can be helpful to the haulers who don't have their own landfill. In those cases, the haulers are charged per box at the landfill, and we reduce the number of times they have to take the same box to the landfill," he says. "Monster Smash can complement a hauler that might have trouble with staffing or can't get to containers as quickly, or if there are the problems related to the container, like spillage. The service also helps the recyclers because we can smash down the empty cans and containers and eliminate the number of trips they are mandated to make."

Monster Smash LLC was founded in January 2021 as Scherfel looked to grow his business beyond his core business, Integrative Staffing Group. As a provider of staffing services, he knew the workforce shortage had become a fact of life long before it became a media headline. Scherfel decided to look to another industry for expansion opportunities and drew up a list of criteria for a new business. The 20 qualifications included some obvious thoughts – low overhead and startup costs, less reliance on labor, resistant to recessions, less vulnerable to regulations and technology changes – and also some criteria that were more novel. Scherfel focused on satisfying what he calls "basic human needs or bad habits" and looked for a business that the workers could learn easily. He says he was looking for something simple and fun.

Evaluating business opportunities was nothing new to Scherfel, who has been an entrepreneur for more than 25 years. Scherfel was raised in Ambridge as one of five children of a state policeman and a nurse. After graduating from the University of Pittsburgh, Scherfel became part of the Pittsburgh diaspora, moving to Florida to start a career in sales. After a few years, he felt the pull to return to Western PA and decided to create his own opportunity.

"I was in sales and doing fine but I was looking for something different. At that point I was 25 years old. I decided I'm single; I'm dumb; and I have no money, so I might as well start my own business," Scherfel laughs.

"I was in sales and doing fine but I was looking for something different. At that point I was 25 years old. I decided I'm single; I'm dumb; and I have no money, so I might as well start my own business," Scherfel laughs. "That's when I decided to talk to my father, and we started the staffing company in 1995."

In the decades that followed Scherfel and his wife started a toy company, which they grew and sold. He earned a master's degree from LaRoche University. Scherfel is a minority owner of a pizza restaurant and has ownership interests in several others. Integrative Staffing Group is the anchor for Scherfel's entrepreneurial ventures, but the COVID-19 pandemic exaggerated his concerns about the prospects for expanding that business for the future.

"I don't know how much more I could scale my staffing company to the levels I wanted because the labor was not available across all disciplines That is not going to change anytime soon," he predicts. "I decided instead of investing more money in the staffing company, I would continue to operate it but look for another business to start."

While Monster Smash required a significant initial capital investment to purchase the truck and compacting unit, the business is not capital- or labor-intensive to operate. Monster Smash LLC employs an operator, administrative assistant, and a marketing assistant. Expansion will require adding another smashing truck and operator – a development Scherfel expects will occur in the coming year – but the opportunities to expand are not limited by geography or schedule. Operators can smash dumpsters on a night or weekend shift, and new trucks can be deployed in markets where demand is not being met, even if those are areas removed from Western PA. That is the growth strategy Scherfel envisions for Monster Smash. In the near term, the focus is still on creating the market.

"The main challenge right now is to just get more business. It's a new concept but it is so simple to understand. If we can reduce a pain point of a commodity like waste, whether that's money, safety, compliance, or appearance, it's amazing how many people want it," says Scherfel. "We just have to understand your business a little bit. The biggest challenge is getting people to think differently. They're so accustomed to calling the hauling company to pull the dumpster. Our service isn't an issue until after the box has been filled up. We need to change their habits so instead of calling the hauler, they call us." BG

MONSTER SMASH LLC

DUMPSTER SMASH AND DASH

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LEGAL PERSPECTIVE

SUPPLY CHAIN ISSUES CONTINUE TO IMPACT CONSTRUCTION INDUSTRY

BY JAMES R. MALL

Since March of last year, the COVID-19 pandemic has caused serious disruption to supply chains across the globe, the effects of which continue to plague U.S. businesses, including the construction industry, which has been particularly hard hit. Supply chains that were disrupted during the global pandemic have yet to bounce back to pre-pandemic levels and, as high consumer demand continues to outpace supply in many segments of the construction industry, there is little hope that the system will be able to reset itself anytime soon. Experts predict that supply chain problems will get worse before they get better and that the effects will continue in the foreseeable future, possibly into 2023, before things return to normal.

The rapid spread of the virus in the first half of 2020 caused many non-essential businesses, including the construction industry in Pennsylvania, to shut down temporarily. While construction did pause briefly at the beginning of the COVID-19 lockdown, it is now up and running as an essential industry, but continues to feel the impact caused by the pandemic with no end in sight at least in the near term. While lockdowns initially resulted in decreased consumer demand and a brief recession, as the lockdowns were lifted, demand for materials like lumber, steel, plastic and aluminum increased quickly above pre-pandemic levels and suppliers struggled to keep up with rising consumer demand. As manufacturers began reopening, they faced unprecedented labor and raw material shortages creating production delays that further drove up costs. Many of the goods that have been in short supply come from the Far East and freight rates for merchandise coming from China to the U.S. have skyrocketed while a shortage of trucks and truck drivers has exacerbated the problem of getting goods to their final destination also contributed to higher prices.

A year and a half after the pandemic started, construction firms, which were already absorbing costs associated with protecting workers from the pandemic, are still confronted with widespread supply-chain problems. Soaring material costs and delayed deliveries of materials, parts, equipment, and supplies are resulting in project deferrals and cancellations and are wreaking havoc with many contractors.

Consumers also played a role in disrupting the supply chain. Many people were forced to work from home and consumer spending habits shifted to on-line buying and people took up new habits, such as home improvement projects, which boosted demand for construction materials and further strained supply chains. For instance, the price for drywall and plywood soared as people stuck at home decided to do more home improvement projects. Increased on-line shopping created a host of warehousing and logistic/transportation issues which were unprecedented in scope.

Visual evidence of supply chain disruptions is well documented in news photographs showing dozens of huge container ships, each containing between 10,000 and 21,000 containers, anchored off west coast ports waiting for open docks to unload their cargo. Ships are waiting up to two weeks to dock and unload – as much time as it takes a ship to cross the Pacific Ocean. Some California harbors are operating on limited capacity due to COVID outbreaks and other regulations. Once unloaded, the containers often stack up at the port. While many component parts are being manufactured overseas to pre-pandemic levels, the log jam at the U.S. ports are keeping them out of the hands of manufacturer and consumers. Due to truck and driver shortages, transportation delays further exacerbate supply chain disruptions. If companies can't get supplies, they can't meet project schedules and deadlines.

The pandemic is not entirely to blame. In the words of one commentator, the impact of COVID was to take a bad situation and make it worse. At the time the pandemic struck in the spring of 2020, there were already labor shortages, warehouse, distribution and truck and driver shortages nationwide, as well as a shortage of containers to ship goods to and from the ports. There was a convergence of other unrelated factors that contributed to the supply chain disruptions – storms and winter freezes in Texas, the Suez Canal blockage in March, rising inflation and cyber security attacks. The pandemic has demonstrated how interconnected, and how easily destabilized, global supply chains are.

A year and a half after the pandemic started, construction firms which were already absorbing costs associated with protecting workers from the pandemic, are still confronted with widespread supply-chain problems. Soaring material costs and delayed deliveries of materials, parts, equipment and supplies are resulting in project deferrals and cancellations and are wreaking havoc with many contractors. For example, long production times for structural joist and decking, which are both essential components in steel building construction, have 8-to-12-month lead times. Lead times for various roofing materials range from four to eight months, with uncertain availability of fasteners and other essential items. Construction firms are struggling to cope with supply chain challenges and rising material prices, which is undermining demand for new projects and impacting firms' abilities to hire new workers. A recent AGC workforce survey found that 88 percent of the surveyed construction firms were experiencing project delays with 75 percent saying that longer lead times and material shortages were to blame.

The financial impact of the supply chain disruptions is staggering. For instance:

- The cost to move a container from China to the U.S. west coast is 4 times what it was a year ago and more than 10 times what it was before the pandemic;
- Shipping costs for containers from China to the east coast of the United States have increased more than 500 percent from a year ago;
- In-bound freight container costs nearly tripled during the second quarter of 2021;
- Supply disruptions were up 638 percent in the first half of 2021;
- The Consumer Price Index increased 6.2 percent from October, 2020 to October, 2021, the largest increase in 40 years;
- U.S. trucking freight rates rose in October, 2021, by more than 36 percent from a year earlier, the biggest annual increase in three decades;
- There has been an average increase of 27.8 percent in input costs on construction projects from April, 2020, to August, 2021;
- Wood is up 101 percent year over year;
- Iron and steel prices have more than doubled in the last year and are up 95 percent while copper has increased 61 percent and aluminum 33 percent. All of these materials have experienced multiple cost increases since the second half of last year.

Now, builders, developers, manufacturers, architects, and contractors are dealing with the reality of a broken system and trying to figure out the best way to move forward in these uncertain and volatile times. Some short-term solutions include the following:

Price Escalation Clauses

Legal counsel should be consulted to review all prospective bid proposals and long-term contracts to ensure they have a price escalation clause to protect the contractor from volatility in the construction industry. Existing agreements should be carefully reviewed to determine what remedies may be available in the event material procurement issues impact time for performance and/or cost of performance. With new strains of the virus now appearing, contracts should always address the risk of pandemic-related supply chain delays and contain a force majeure clause and other disclaimer language to hedge against the impact of material price escalations and supply delays. Existing long-term contracts should also be reviewed with a focus on provisions relating to force majeure, excusable delays, emergencies, changes, contingency, suspension and termination, site investigation, as well as representations and warranties. By carefully reviewing these provisions, contractors may not only be entitled to relief for unanticipated events, but also may find that they are entitled to obtain both time extensions and financial compensation for unknown impacts of a known event – the COVID-19 pandemic.

Supply Chain Risk Mitigation

- Lead times of key construction materials, such as steel and lumber, should be monitored on a regular basis. Long lead time components should be pre-ordered and placed into inventory in anticipation of demand over the next year.

- Planning in advance to stockpile certain key materials allows construction projects to be managed with far less disruptions. If economically feasible, begin stockpiling materials for back log projects which have been awarded, but not scheduled to start.

- Develop a redundancy in the supply chain, by placing multiple orders for the same products from different factories, even though it may cut into profit margins.

- Look to source from alternate suppliers key components and critical materials and utilize geographic diversification to obtain goods manufactured closer to home with less risk of transportation glitches in getting the product to the jobsite.

- Look for alternate building materials that are readily available, albeit more expensive, when standard products are delayed or unavailable when needed on a project.

- Work to bring some of the supply chain stateside ("Buy American").

- Consider alternative project delivery methods like Integrated Project Delivery (IPD). Design Buildings (DB) and Construction Management at Risk (CMAR), stress collaboration to allow early decision making on alternative materials and delivery methods.

- Increase dialogue and collaboration among all members of the construction team, owner, contractor, architect, construction manager, to determine whether all crucial materials are available to meet the proposed construction schedule and if they are not, to meet early on in the process to make alternate arrangements. For instance, architects and interior designers should plan on meeting with manufacturers' reps before specifying certain materials for a particular project to determine if those materials are available and if they are not, to specify comparable materials that are not experiencing long lead times.

- Identify the appropriate building systems based upon cost and availability to insure that the project is appropriately planned by allowing materials to be procured in alignment with the current market conditions.

- Practice predictive analytics which allows contractors to make informed decisions about their supply chain risks. Utilization of this type of analytics allows contractors to determine when is the right time to place a particular order and from which suppliers. Reach out to legal counsel to proactively develop strategies that will provide a basis for an adjustment to the contract price or schedule if it appears likely that delays and cost increases are in order.

- Mandating vaccines for all eligible employees who work in manufacturing and raw materials processing in order to reduce labor turnover and inefficiencies in the supply chain.

Political Solutions to Help Alleviate Supply Chain Issues

Construction industry lobbying groups may be able to ease some of the supply chain bottlenecks through political channels by contacting their legislators to:

- Ease or remove tariffs enacted during the Trump Administration on key construction materials such as steel and lumber. In addition, barriers for importing materials from Canada should be addressed and eased.

- Ease maritime shipping delays by considering the repeal of the 100-year-old Jones Act which prohibits ships flying foreign flags from transporting goods within U.S. ports. Also, exploring regulatory measures to keep ports operating 24/7 until the supply chain log jam has been erased.

- Increase funding for infrastructure projects especially at ports and transportation hubs across the country, which will increase the country's efficiency in transporting goods from manufacturers to the ultimate consumer in the long term, and hopefully avoid similar supply chain issues from arising from the future.

Summary

While the current supply chain crisis constitutes a real obstacle for the profitability of many in the construction industry, the hurdles are not insurmountable and can be managed by collaboration among the construction managers and by advance planning by owners, architects and general contractors designed to eliminate or at least minimize delays and inefficiencies caused by supply chain disruptions. BG

Jim Mall is a partner at Meyer Unkovic & Scott LP and the chair of the firm's Construction Law Practice. He can be reached at jrm@muslaw.com.

THE CONFUSION RETURNS: NEW ACCOUNTING RULES BAFFLE SURETIES AND BANKERS

BY MICHAEL H. BRONDER, CPA, CFF

Construction contractors' reliance on bank and bonding credit makes accurate financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") critically essential. Recent changes in U.S. GAAP have revised revenue recognition rules for all industries, and other changes specific to construction contractors have thrown a monkey wrench into creditors' ability to analyze contractors' financial statements. The importance of a contractor's ability to understand these rules and to present financial statements in accordance with current professional standards cannot be overstated, and it is equally crucial that creditors evaluating these statements thoroughly comprehend these rules to avoid making costly credit decisions.

History of Contractor Financial Reporting

In 1955, the American Institute of CPAs ("AICPA") issued Accounting Research Bulletin 45, Long-Term Construction-Type Contracts ("ARB 45"), which described two accepted methods of accounting for construction contracts: the percentage-of-completion method (under which revenue is recognized as work progresses) and the completed-contract method (under which revenue is recognized when a contract is substantially completed). The percentage-of-completion method was deemed preferrable when estimates of costs to complete and extent of progress toward completion were reasonably dependable. The completed-contract method was deemed preferrable when the lack of dependable estimates or inherent hazards caused forecasts to be unreliable. These two methods were widely used in practice; however, they were frequently applied differently in similar circumstances.

Twenty-six years later, the AICPA issued Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts ("SOP 81-1"), which provided guidance on the application of ARB 45. SOP 81-1 defined the circumstances under which the two acceptable accounting methods were to be used; and it acknowledged that, in practice, contractors sometimes recognized costs and revenues on the cash or accrual method, which were deemed to be unacceptable for financial reporting purposes. Additionally, SOP 81-1 made it clear that amounts billed or billable pursuant to contract terms do not necessarily measure performance, and the use of the percentage-of-completion method was strongly encouraged.

Recent changes in U.S. GAAP have revised revenue recognition rules for all industries, and other changes specific to construction contractors have thrown a monkey wrench into creditors' ability to analyze contractors' financial statements. The importance of a contractor's ability to understand these rules and to present financial statements in accordance with current professional standards cannot be overstated, and it is equally crucial that creditors evaluating these statements thoroughly comprehend these rules to avoid making costly credit decisions.

Creditors' Confusion

Subsequent to the issuance of SOP 81-1, confusion existed among contractors, CPAs, and creditors. Many contractors continued to use the accrual method, and some used the completed-contract method in inappropriate circumstances. Other contractors attempted to use the percentage-of-completion method but made mistakes in its application, such as: including certain costs to date in calculating underbillings and overbillings but not recording those same costs in the general ledger, not including the same categories of costs in costs incurred to date and costs to complete, not accruing losses on jobs in progress, improperly netting underbillings and overbillings, and misclassifying certain contract costs as overhead expenses.

The incorrect and inconsistent application of the new guidance perplexed creditors, which resulted in confusion that lasted for years and contributed to sureties and banks absorbing significant losses in the 1980s. Contractors', creditors', and CPAs' lack of training and experience in these accounting rules exacerbated these problems.

The Confusion Clears

Over the last 30 years, the demand for and availability of training programs resulted in improved and consistent financial reporting for contractors. Creditors insisted on proper reporting, putting pressure on contractors to produce reliable, technically correct financial statements; and this pressure steered contractors to CPAs who understood the industry and reporting requirements.

Percentage-of-completion became the prevalent method of accounting, and creditors became familiar with the format and terminology used in the financial statements. The work-in-progress schedule was required by creditors as a critical supplementary information schedule, enabling them to perform sophisticated analyses of financial statements. Sureties and bankers became proficient at challenging underbillings, overbillings, and estimates of costs to complete and in identifying red flags on contracts, such as unusually high underbillings that might indicate the existence of contract claims, unapproved change orders, or understatement of costs to complete. Creditors also understood retention to be a percentage of billings that were not due to be collected until contract completion and were accustomed to seeing retention presented with accounts receivable in the balance sheet. All of this knowledge facilitated the development of key expectations, ratios, and other metrics in determining a contractor's creditworthiness.

New Revenue Recognition Rules (The Monkey Wrench)

FASB ASC Topic 606, Revenue from Contracts with Customers ("ASC 606") became effective for private companies for years beginning after December 15, 2018. (This effective date was delayed for an additional year for private entities that had not issued financial statements as of June 3, 2020.) ASC 606 introduced new terminology and presentation concepts for all entities that have contracts with customers. Under the new rules, revenue is recognized either over time (similar to the percentage-of-completion method) or at a point in time (similar to the completed-contract method).

In recognizing revenue over time, an entity must measure the extent of completion of a particular "performance obligation." For most contractors, each contract represents a single performance obligation. Methods to measure extent of completion of a performance obligation include input methods and output methods. Input methods commonly used are costs to date as a percentage of total estimated costs or labor hours to date as a percentage of total estimated labor hours. A commonly used output method is units of work put in place as a percentage of total units to be put in place (for example, lineal feet of pipe).

Under ASC 606, the terms "contract assets," "contract liabilities," and "contract receivables" are introduced and defined. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. An underbilling is an example of a contract asset. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer. An overbilling is an example of a contract liability. A contract receivable is an entity's right to consideration that is unconditional, meaning that only the passage of time is required before consideration is due.

Let's now consider retention receivable. Retention represents an amount withheld by a customer until the contractor meets certain conditions imposed by the contract. Retention is typically due upon substantial completion, (i.e., the stage when a contract is sufficiently completed for its intended purpose). To collect retention, a contractor must meet the required conditions and submit an invoice. Until these requirements are met, retention is not a contract receivable because it is not unconditionally due. Retention is more accurately defined as an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. In other words, retention is a contract asset not a contract receivable.

So why does this matter, you ask? Here's why – ASC 606 requires any single contract to represent either a contract asset or a contract liability but not both. This means that a net asset or net liability must be calculated for each contract. Individual contracts that are calculated to be assets are aggregated and presented in the balance sheet as contract assets, and individual contracts calculated to be liabilities are aggregated and presented in the balance sheet as contract liabilities. This results in retention receivable either being included in contract assets or netted against contract liabilities in the balance sheet.

The Confusion Has Returned

The concept of each contract being either an asset or a liability is causing significant confusion for creditors analyzing financial statements. Consider the following example:

Assume that a contractor has one contract in progress with retention receivable of $250,000 and that the project is overbilled by $260,000. Under SOP 81-1, the contractor would report a $250,000 asset for the retention receivable and a $260,000 liability for the overbilling. Under ASC 606, the contractor would only report the net contract liability of $10,000.

Although this is the new requirement, it is not being consistently followed in practice; and creditors are, once again, perplexed.

Effective July 1, 2021, the AICPA issued revised guidance for the sample financial statements included in its Construction Contractors Audit and Accounting Guide. These sample financial statements differ significantly from those included in prior Guides, and the revised guidance answers several questions regarding the application of ASC 606. For example, retention payable to subcontractors and accrued losses on contracts in progress are not contract liabilities. They are to be reported as accounts payable and accrued expenses as was the case under prior guidance.

Furthermore, the proposed guidance recommends transitioning away from the terms "costs and estimated earnings in excess of billings on uncompleted contracts" and "billings in excess of costs and estimated earnings on uncompleted contracts" (the traditional terms for underbillings and overbillings). Contractors can use the terms "contract assets" and "contract liabilities" but are not required to do so. Alternative suggested terms include contracts in progress, work in progress, unbilled revenues, revenues earned in excess of amounts received or receivable, deferred revenue, or amounts received or receivable in excess of revenues earned.

In fact, the proposed guidance advises not using the term "billing" because it is not clear whether this term includes or excludes retention. The suggested alternative term is "amounts received or receivable" because this term clearly excludes retention.

Finally, the proposed guidance provides suggested footnotes regarding the components of contract assets and liabilities, which make it clear that retention receivable is a part of contract assets and liabilities. The footnotes also revise the presentation of costs incurred, estimated gross profit, earned revenue, and billings (excluding retention) on contracts in progress, which results in a reconciliation of contract assets and liabilities to the amounts reported in the balance sheet that differ from underbillings and overbillings as was recommended in SOP 81-1.

Back to the 1980s

Creditors are already baffled by the new rules. They report seeing financial statements prepared in accordance with ASC 606, statements ignoring ASC 606, retention payable and accrued losses included in contract assets and liabilities, retention receivable included in accounts receivable, retention receivable included in contract assets but not netted on an individual contract basis, statements using new terminology, and statements using old terminology. Some contractors are providing work-in-progress schedules conforming to the new calculations and terminology while others continue to follow the old format. As one surety put it, "It's all over the map! How are we to compare contractors' financial statements to each other or even to the same company's prior years?"

As was the case in the 1980s, educating contractors, creditors, and CPAs will be the key. We must all get on the same page again, or the losses resulting from financial statements being misunderstood or incorrect are sure to be repeated.

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REBUILDING OUR CITIES STARTS WITH WORKFORCE HOUSING

Economic diversity adds value to urban communities and offers an often-overlooked opportunity for architects and developers.

BY JONATHON GLANCE, AIA

Cities thrive on dynamisms fueled by a diversity of customs, cultures, and classes, but the middle class is being squeezed out today. While this problem has occurred in major metropolitan areas on both coasts for decades, it is now affecting smaller inboard cities, like Pittsburgh.

Development of more high-quality workforce housing—the buzzword for middle-class housing—would be a step in the right direction. Defined as housing that is affordable for families earning 60 percent to 120 percent of area median income, workforce housing keeps the backbone of communities from having to decamp to the distant suburbs and shields cities from economic extremes. Economic diversity has an intrinsic value to the region and offers an untapped opportunity for developers.

Pittsburgh has seen its share of reinvestment over the last 25 years. The city's legacy industries, such as banking and manufacturing, are now bolstered by tech companies wanting proximity to our strong "Meds and Eds." As a result, Pittsburgh has attracted Silicon Valley's biggest names—Google, Uber, Apple, and Facebook—and spawned homegrown companies like Aurora and Duolingo.

The boom of high-paying jobs has attracted tens of thousands of workers. While the net population of Pittsburgh has remained relatively unchanged since 2000, the per capita income has increased by 24 percent, according to Pew Research. This suggests that the middle- and lower-income families are being replaced by wealthier residents.

As a result, Pittsburgh, once known for affordability, has seen a dramatic shift in the cost of living. The pre-pandemic Freddie Mac Home Price Index notes a 35 percent increase in metro home value over the last five years. In the region's trendiest neighborhoods, the increase becomes four to five times that amount.

Housing Extremes

The city has seen a massive building boom of market-rate housing that appeals to the influx of white-collar knowledge workers. Units have high-end finishes, large expanses of glass, and open floor plans. Each development seeks to out-amenitize the next, advertising massive rooftop decks, pet-washing stations, CrossFit studios, sand volleyball courts, and even a four-lane duckpin bowling alley. These projects

The Revival on Carson. Photo by LGA Partners.

A typical kitchen from the Swissvale Schoolhouse Lofts. Photo by LGA Partners.

command rents that set the ceiling for what the local market will bear.

Pittsburgh, like other communities, continues to build federally subsidized affordable housing. These subsidies are administered by our state-run Housing Finance Agency, which doles out federal tax credits that attract private development to affordable housing. These tax credits act as both a carrot and a stick: Developers get tax credits that can be sold to offset funding gaps, but they must build energy-efficient, high-quality products that look and feel like their market-rate brethren. Amenities here are less trendy and are geared to support services that low-income families need: community rooms, open space, playgrounds, fitness facilities, and health clinics.

While both our high-income and low-income workers have quality housing options, middle-income workers face a dearth of housing products, save the cookie-cutter single-family detached homes in the suburbs. According to Pew Research, 52 percent of Americans fall into the vast middle class. In Pittsburgh, that equates to a median annual income of approximately $48,000. This income is neither high enough to afford the flashy, new market-rate housing nor low enough to qualify for high-quality subsidized housing. Middle-class individuals and families are overlooked.

Proactive Pro Forma

High rents support the cost of constructing market-rate housing. Tax credits fund affordable housing constructions. The challenge for project teams, then, is making workforce housing projects pencil out. The key is to get creative.

- Find the sweet spot. Identify a neighborhood that is neither hip nor dilapidated. Too trendy, and the upfront acquisition costs will be high; too run down, and tenants will be wary. Pittsburgh's South Side neighborhood is largely stable, but still a little gritty in areas. Working with a Philadelphia developer, we renovated a mid-rise, turn-of-the-century office building into 24 one- and two-bedroom units. This project sparked development interest in other similar South Side sites.

- Go for adaptive reuse. Renovations can often be cheaper overall than new construction, especially if that building can take advantage of historic tax credits. In addition to saving a landmark structure, reuse is far more sustainable. Due diligence before an acquisition is critical to avoid hidden costs. Old schoolhouses are ideal for converting to workforce housing because the large, approximately 800-square-foot classrooms with large windows can often be adapted into apartments, and the site may already include off-street parking, obviating the need for new structured parking.

- Leverage existing amenities. Workforce housing is driven by price point and, as such, cannot accommodate as many amenities as the market-rate does. But the construction cost to build the two housing types is not vastly different. Developers get market-rate prices because they add expensive finishes and lavish amenities. But with adaptive reuse, sometimes the costly materials are there from the beginning. An 1880s church we renovated into 16 units on the North Side had exposed brick and stained-glass windows that were fully intact.

- Age in place. Beyond ADA requirements, units should be designed with the flexibility to accommodate tenants as they age or become disabled. Universal design is beneficial to all projects because it encourages inclusivity, visitations, and independent living.

- Think transit oriented. Tenants must be able to access places of employment and grocery stores. After housing, transportation is typically the second-highest household expense, and those living in workforce housing must have viable, affordable mobility options. Access to public transportation should be a critical factor in site selection.

- Neutralize parking. Zoning ordinances that mandate off-street parking spots for multifamily housing drive up development costs and encourage car ownership. For the sake of the environment and development funds, municipalities should revise requirements for off-street parking and prioritize spaces for bicycle racks, car-share vehicles, and electric cars.

The ideal development team includes a nonprofit group that is dedicated to rebuilding neighborhoods and can identify viable sites, a developer who is willing to invest in a quality product, and an architect able to design energy-efficient and adaptable houses that can help revitalize our urban neighborhoods by ensuring all economic classes can find quality homes. BG

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INDUSTRY & COMMUNITY NEWS

(From left) Jendoco's Bill Hawk and Pierre Brun, with CBRE's Rob Blackmore at the NAIOP Pittsburgh Night at the Fights. Photo by Amanda Brisco.

MBA staff joined the board of Master Interior Contractors Association at its holiday meeting on December 2.

(From left) Dave Meuschke from Burchick Construction, Jeffrey Landau, and RSH's David Noss at the PBX's Annual Cocktail Party. Photo by Corkboard Concepts.

(From left) Jeffrey Landau, AE7's Tom White, Mike Takacs from Bohler Engineering, and Sharon Landau.

(From left) Mike Galet from Gateway Engineers, Nathan Tovornik from Oxford Development, and PJ Dick's Chris Cooper.

(From left) Susan Jansen from DRS Architects, Beth DeVivo from Bruce & Merrilees, and Liz Gamelier from Trans Associates at the SMPS Holiday Party. Photo by Candidly Yours.

Robin Zoufalik from Pieper O'Brien Herr with Sharon Landau. Photo by Candidly Yours.

Mascaro celebrated Pink Day by selling shirts to benefit the American Cancer Society and Courtney Jones, who has family members working at the UPMC Mercy Pavilion jobsite. There were over 430 pink shirts and hoodies purchased, resulting in Courtney receiving a check for $2,500 to aid in her fight against cancer. Pictured are Courtney Jones (center), with her uncle, Scott Deems (right), Jess Read (left), and a support crew from the UPMC Mercy Pavilion project.

(From left) Rick Bowers from Mascaro, chair of the MBA's Risk Management Committee, Ralph Pagone from Richard Goettle, Inc., and the MBA's Bob McCall at the MBA Safety Awards.

(From left) Rick Bowers, Blake Carroll from Carl Walker Construction, Bob McCall, and Greg Heddaeus from Carl Walker Construction.

AWARDS & CONTRACTS

Mosites Construction was awarded the general construction contract for the $13.5 million Downtown Port Authority subway station escalator replacement program. The two-year project involves replacing all six escalators at the Wood Street, Steel Plaza, and First Avenue stations. The project was designed by Whitman Requardt & Associates LP.

The Port Authority of Allegheny County awarded a $5.5 million contract to **Mosites Construction** for the general construction portion of the Monongahela Incline Rehabilitation Phase 2. Mott MacDonald Group is the design engineer.

New Kensington Arnold School District awarded a contract to **Caliber Contracting Services** for the Valley Junior-High School Main Entrance Bridge in New Kensington, PA. Patton Engineering designed the project.

Kokosing Industrial was awarded a contract by the Pittsburgh Water & Sewer Authority for the Aspinwall Water Treatment Plant Filter Building improvements. Arcadis US is the engineer for the project.

Volpatt Construction has restarted renovations to University of Pittsburgh Langley Hall classrooms and lobby. GBBN Architecture is the architect for the $3.6 million project.

University of Pittsburgh awarded a $3.6 million contract to **Volpatt Construction** for renovations to 3512 Fifth Avenue for Information Technology. The architect for the 12,500 square foot renovation is DesignGroup.

Volpatt Construction was awarded a contract by Allegheny Health Network for CM-at-Risk services for the $8.3 million renovations to Forbes Regional Hospital Radiology in Monroeville. The architect is Stantec.

Highmark selected **Massaro Corporation** as general contractor for the renovations to the 8th and 23rd floors of Fifth Avenue Place. Designstream is the architect for the $2.6 million project.

Massaro Corporation was the successful contractor on the University of Pittsburgh's $2 million Bellefield Hall renovation.

Massaro CM Services is the construction manager for the $45 million Trinity Area Middle School renovations and new intermediate school program. The architect is VEBH Architects.

Massaro CM Services is the construction manager for Avonworth School District's $24 million Avonworth Middle School/High School renovation. The architect is IKM Inc.

TEDCO Construction is the general contractor for BNY|Mellon to renovate the 37th floor of One BNY|Mellon Centre. The architect for the $1.4 million renovation is DRS Architects.

The City of Wheeling awarded a $12.3 million contract to **Carl Walker Construction** for the new Market Street Parking Garage, which is being built as part of the Wheeling-Pitt Lofts development. The architect is The Mills Group.

F. J. Busse Company is the general contractor for the Friendship Circle's $2 million expansion in Squirrel Hill. The architect is PWWG Architects.

PJ Dick Inc. has broken ground on the new 77,000 square foot Brad D. Smith Center for Business and Innovation at Marshall University in Huntingdon, WV. The new facility is being developed by Fairmount Properties. The architect is Perkins Eastman Architects.

PennDOT awarded **Mascaro** a contract for the State Route 28 at the Goheenville Dip project, which includes safety improvements that include roadway realignment, bridge replacement, turning lanes, and miscellaneous construction along.

At the AEP Amos Ash Units 1-2 project, **Mascaro** is constructing a bottom ash transfer conveyor foundation, ash bunker foundation, bottom ash truck loading slab, bottom ash concrete sump, bottom ash PDC foundation, and other miscellaneous pads. Mascaro is also completing work at the AEP Amos Wastewater Treatment Plant.

Mascaro will be completing renovation work at the University of Pittsburgh Petersen Events Center Campus View Club to create a multi-purpose club space for events, conferences, and the Pitt Athletics training table. Work includes new bar/food service areas, kitchen upgrades, and storefronts.

Mascaro received the contract for the UPMC Rooney Sports Complex Pitt Men's Restroom project to complete work on the restrooms located on the second floor of the facility.

Fred Rogers Productions selected **A. Martini & Co.** as general contractor to build out its new offices in South Side. The architect is Renaissance 3 Architects.

Shannon Construction is the general contractor for the Exus Management Partners expansion at the Energy Innovation Center. The architect is Graves Design Group.

Commonwealth Charter Academy selected **Shannon Construction** as construction manager for its $6 million buildout of new facilities in Johnstown, PA. Strada Architecture LLC is the architect.

Shannon Construction is the general contractor for tenant buildouts for Herbert Rowland & Grubic Engineering and Life Sciences Connect at the Cranberry Business Park. NEXT Architecture is the architect.

In January 2022, **Rycon's** Special Projects Group will kick off building a $2.8 million clinic renovation project within an existing medical office facility in Williamsport, PA.

The 45,000 square foot Social Security Administration building in Johnstown, PA, will be renovated by **Rycon's** Special Projects Group. This $2.5 million project entails tenant and shell improvements.

Rycon's Special Projects Group is the contractor chosen to complete an interior renovation of the 6,000 square foot Allegheny Children's Initiative space.

CarMax selected **Rycon** to complete a $1.2 million, 109,000 square foot parking lot expansion in Norcross, GA.

In the past year, U-Haul has awarded **Rycon** nine new, ground-up storage facility projects totaling $85.2 million. The most recent locations are in Lake Wylie, SC (81,500 square foot U-Haul) and Pompano Beach, FL (18,500 square foot U-Box Warehouse)

Repeat client AutoNation continues to award **Rycon** new construction and renovation projects bringing **Rycon's** count to 12 projects since 2019. Three recent project awards, totaling $12.5 million, are in Boise, ID, Spokane Valley, WA, and Jacksonville, FL.

Rycon was awarded a contract to construct a new $8.6 million Mini Storage Depot in Stonecrest, GA.

After a competitive public bid, **Rycon** was awarded a 3,600 square foot renovation of the kitchen and restrooms within the Mayfield Village Civic Center in Mayfield Village, OH.

Rycon was awarded two Starbucks fit-outs in Beachwood, OH and North Ridgeville, OH for a total of $520,000.

In Cleveland, OH, **Rycon** was awarded a conversion of an existing drug store into a new 13,500 square foot ImmunoTek Blood Plasma Bio center.

Rycon was awarded the $49.2 million construction of buildings 21-23 within Countyline Corporate Park, a 500-acre industrial park development in Hialeah, FL. These buildings are one of 13 newly erected tilt-wall warehouses Rycon built at this complex park.

Conviva selected **Rycon** to convert an empty retail space into a new 9,000 square foot medical office suite. This $2.3 million senior care center will be in Jacksonville, FL.

Aramark chose **Rycon** to perform a $860,000 renovation of Main Line Health's Lankenau Medical Center kitchen in Wynnewood, PA.

As the general contractor, **Rycon** was selected to renovate the multi-tenant third floor common corridor within a medical office building in Bala Cynwyd, PA.

Scissors & Scotch awarded **Rycon** a high-end barbershop fit-out in Castle Rock, CO. The scope includes a full-service bar and private lounge. In the past year, Rycon has handled five additional locations totaling $2.6 million in CO, VA, and Washington, DC.

Allegheny Health Network selected **Turner Construction Co.** as construction manager for the first phase of its $40 million Neurology Center of Excellence at Allegheny General Hospital. The architect is DesignGroup.

Nello Construction converted a 5,000 square foot former auto sales and service building at 326 Mansfield Boulevard in Carnegie into its new corporate headquarters.

A repeat confidential client in the Pittsburgh area awarded **PJ Dick** a $15 million design-build contract for a three-story, 42,000 square foot office building.

AIMS Construction started work on the second phase of the teen homeless shelter for Family Links in the Uptown neighborhood of Pittsburgh. LGA Partners is the architect on the $700,000 renovation.

AIMS Construction was awarded a design-build contract for the West Virginia University Olive AI office fit out in Morgantown, WV. Desmone Architects is the architect for the $800,000 renovation.

Allegheny Health Network selected **AIMS Construction** as construction manager for the $4.5 million hospital-wide sprinkler upgrade at AHN Jefferson Hospital in Jefferson Hills. The project was designed by FMRW Engineering.

AIMS Construction is the contractor for $1.8 million medical office fit out at Robinson Plaza for St. Clair Hospital. The architect is LGA Partners.

University of Pittsburgh awarded a contract to **AIMS Construction** for the Benedum Hall nanotechnology lab. DesignGround is the architect.

AIMS Construction is renovating the pharmacy carousel at UPMC Mercy Hospital. The architect is CPL Architecture.

Rocky Bleier Construction Group is doing the general construction for the first phase of the 28,800 square foot new data center for Comcast in Robinson Township. The project is being designed by Galletta Engineering Corporation and Keystone Engineering.

FACES & NEW PLACES

Katie Truesdell rejoined **Volpatt Construction** as office manager.

On November 1, **Sung Yi** joined **Mascaro** as a quality control manager. He also holds a multitude of role-specific certifications from the American Concrete Institute and the International Code Council.

Joe DeFrancesco joined **Mascaro** as a project engineer on November 15. In addition to his previous work experience, Joe earned a bachelor's degree in civil engineering from the University of Pittsburgh with a concentration in construction management.

With over 10 years of experience, **Marc Palmieri** joins **Mascaro** as a project manager supporting the Airport Enclosure work. Marc also holds a bachelor's degree in civil engineering from Virginia Tech.

Chase Jarrett will also support work at the Airport Enclosure project as a project engineer for **Mascaro**. He earned a Bachelor of Science degree in civil engineering from West Virginia University, graduating cum laude.

Justin Bartlett joins **Mascaro** as a superintendent on the ALCOSAN project. He earned a bachelor's degree in financial economics from Wittenberg University.

Joining **Mascaro's** Heavy/Industrial estimating team, **Rich Kenzakoski** has experience in developing and executing survey plans for geodetic control, topographic, stake-out, and as-built surveys; performing constructability reviews on civil design packages; and directing construction activities of on-site installations to client specifications. He earned a dual degree from Penn State in civil engineering and surveying in engineering.

Mark Hast joins **Mascaro's** Client Services Group as a project engineer. He holds a bachelor's degree in economics from the University of Pittsburgh, with related fields of study in computer science and business management, as well as an associate degree in computer-aided drafting and design from CCAC.

Rycon's Casework & Millwork Division hired **Steve Zsdinak** as an estimator with 23 years' experience.

In **Rycon's** marketing department, **Miranda Anderson** has been hired as marketing coordinator. She is an alumna of California University of Pennsylvania with a degree in graphic design.

Rycon's Special Projects Group welcomes **Matt Cortazzo** as project manager. He is a graduate of Slippery Rock University and is currently pursuing his MBA at the University of Pittsburgh.

Rycon welcomes **Haley Loesch** as proposal coordinator within the marketing department. She is an alumna of Kent State University.

Yoan Aedo joins **Rycon's** Fort Lauderdale office as project manager with nine years' experience.

Rycon's Philadelphia office welcomes **Robert Beatty** as senior project manager with 40-plus years' experience.

With over 35 years' experience, **Mark Chafin** joins **Rycon's** Fort Lauderdale office as senior estimator.

Rycon's Atlanta office welcomes **Will Crimmins** as project manager, a Georgia Tech graduate with a degree in civil engineering.

University of Maryland alumna, **Jenny Dibra** joins **Rycon's** Washington, DC office as project engineer with two years' experience.

Frank Lipscomb Jr., a University of Florida alumnus, joins **Rycon's** Fort Lauderdale office as MEP estimator. He brings over 25 years' experience to the company.

Rycon's Atlanta office welcomes **Eric Sheppard** as senior estimator with 33 years of construction experience.

Rycon's Philadelphia office welcomes **Tony Szwarc** as MEP project manager, a 2012 graduate from Widener University with a degree in mechanical engineering.

With six years' experience in engineering, **Stefano Varacalli** joins **Rycon's** Fort Lauderdale office as project engineer.

Joel Vasquez was promoted to assistant project manager in **Rycon's** Atlanta office.

Turner Construction hired **Ryan Passarelli** as a mechanical estimator. Passarelli has extensive experience in mechanical estimating and project management.

Jim Gibson, a carpenter with over 20 years of experience, joined **Turner Construction** in the role of project superintendent for it Interiors team.

David Morrison joined **PJ Dick** as a project engineer at the ALCOSAN East Headworks project. Morrison spent the past three years with Clark Construction in Washington DC working on the National Museum of the US Army and National Air and Space Museum. He is a graduate of Lehigh University with a degree in civil engineering.

PJ Dick welcomes **Grant Scott** to the Special Projects Group, where he will be fulfilling project manager and superintendent duties at the Produce Terminal and Aurora Smallman Office. Scott had previously been with Conquest Construction and Property Management LLC and Continental

Building Company. He graduated in 2013 from the Penn State – Beaver campus with a degree in business management.

Anthony Agostinelli joins **PJ Dick**'s Self-Perform Group as a project engineer on 3500 Forbes. He's a 2021 construction management graduate from Kent State University. Before graduation, Agostinelli interned with Donley's Inc., a concrete construction company in Cleveland, OH, where he was later hired as a project engineer.

Jack Zeller joins **PJ Dick** as a project engineer with the UPMC Passavant project team. He previously worked with Thompson Thrift Construction as a field engineer as well as Amason and Associates as an assistant superintendent/assistant project manager. Zeller graduated from the University of Alabama with a BS in Civil Engineering.

PJ Dick welcomes **Dustin Voelzke**, a quality control manager with 24 years of industry experience. Voelzke spent the past four years at the Bettis Naval Nuclear Laboratory where he worked as a welding engineer. He is a certified welding inspector and teaches welding part-time at the Community College of Allegheny County.

Michael Larson-Edwards joined the **Albert M. Higley Co. as** manager, customer services group. Larson-Edwards is a 2008 graduate of the University of Pittsburgh with a B.S. in Civil Engineering.

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CLOSING OUT

This fracture along political and geographic lines is real, and it is deep. It has divided friends and families. And it has become the foundation of every conversation about the environment, infrastructure, social issues, and the list goes on and on.

We no-longer have rational fact-based conversations. We immediately breakdown to tit-for-tat political positions which leave serious problems unsolved and further divide us.

We have many issues to tackle at both the state and local levels. Balancing environmental stewardship with economic expansion. Reducing high tax rates for individuals and corporations. A regulatory and permitting process which inhibits growth and drives private investment elsewhere – this is an issue from both an environmental and construction standpoint. Developing and protecting solid middle-class careers in all industries and recognizing that all industries have a role to play in our success.

We all love this region; we all want success and agree that we have the ingredients to be an economic and manufacturing powerhouse and leader. We should be working together to remove hurdles, resolve issues and find reasonable and economically sensible compromises to grow the region into the diverse economic engine it should be.

Other regions and states realize our potential, they do not want us to succeed. We in many ways are their best example to companies of where not to invest and create good paying middle-class careers.

One of our hallmarks has been the ability to work together, to accept that there are different opinions and ways to get things done. Somewhere along the way we have lost this.

Maybe we are beginning to turn a corner. Recently we hosted a roundtable discussion on making Pennsylvania a more attractive place to do business. The panel consisted of Democrat Senator Jay Costa, Republican Senator Ryan Aument, Democrat Representative Robert Matzie along with Don Smith from the Regional Industrial Development Authority and Matt Smith of the Pittsburgh Chamber of Commerce.

Diverse backgrounds. Diverse thinking on policy and other issues – yet – during a one hour truly bi-partisan discussion they shed much light on the deeper issues we face in attracting business while also offering an array of viable solutions that would signal Pennsylvania is open for business.

It was refreshing and mirrors our organization. Pittsburgh Works Together is comprised of companies, labor unions, associations, business, and economic development groups. We certainly do not agree on everything, but our common thread is wanting to see our region flourish and become the powerhouse we all believe it can be.

Imagine what might happen if we talked openly and worked towards the same goals. Finding solutions through open, rational, constructive conversations. Conversations based on common sense not hyperbole.

We do not have to agree on everything, we do not even have to like each other, but we do have a common bond of loving our region and we must act upon that if we are to truly flourish.

Morgan O'Brien
Co-Chair Pittsburgh Works
Former CEO Peoples Business Manager

Tom Melcher
Co-Chair Pittsburgh Works
Pittsburgh Regional Building Trades Council