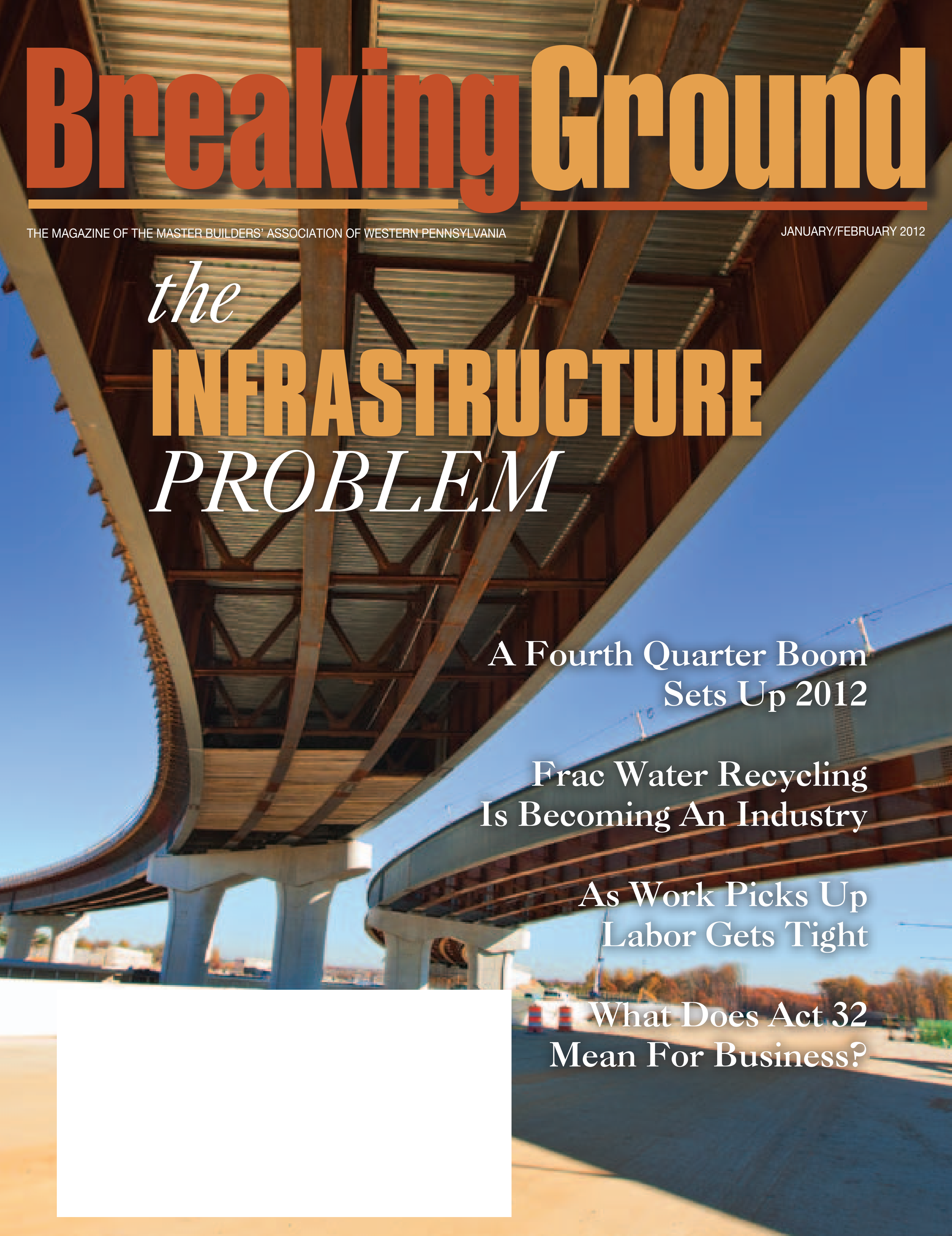
Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

JANUARY/FEBRUARY 2012



the INFRASTRUCTURE *PROBLEM*

A Fourth Quarter Boom Sets Up 2012

Frac Water Recycling Is Becoming An Industry

As Work Picks Up Labor Gets Tight

What Does Act 32 Mean For Business?

Master Builders' Association of Western Pennsylvania, Inc.

The Construction Industry Evening of Excellence

is a night that celebrates the brilliant and unparalleled design and construction industry. This event unites the firms and individuals that are developing our region with a commitment of excellence in each and every construction project. This commitment to excellence will be on display during the event as the winning projects in the MBA's Building Excellence Awards program will be announced.

Thursday, February 23, 2012 • 5:00 to 9:00 P.M.

Heinz Field East Club • $25 Per Ticket

Event includes two drink tickets, a strolling buffet and your opportunity to spend the night with your peers of the construction industry. For event information, join the 'Evening of Excellence' group on LinkedIn.

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See you on February 23rd at the Evening of Excellence!

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ON THE COVER:
Mon-Fayette Expressway
Photo by Alexander Denmarsh

Publisher's Note

We need to fix our roads and bridges and dams and sewers. This edition of BreakingGround focuses on the prospects for construction in the heavy and highway market. As far out as anyone can see the prospects aren't good.

Like with commercial construction over the past year, the problem isn't a lack of demand but rather a lack of financing. Unlike the commercial real estate market, the funding problem isn't a lack of investors but rather a lack of funds in general, and a lack of will to some degree. The nation's infrastructure definitely demands more work. And the payback for repairing the highways and waterways goes well beyond smoother rides and more construction jobs.

Investing in infrastructure and people was a keystone in the building of the growth engine that was the U. S. economy for a generation or more after the Second World War; unfortunately, much of that infrastructure is still in place today and it's falling apart. For a region like Western PA, which is reliant upon all forms of domestic infrastructure and has more bridges than almost anywhere else in the world, decaying infrastructure could mean a loss of opportunity that goes where trucks, trains and ships can move without impediment or detour.

The task that lies ahead of us is daunting, unlike any that Americans born after World War II have faced before. To maintain the kind of infrastructure that will support even our current stagnant economy is beyond the means of the existing tax and toll system. The mother's milk of highway construction has been the federal government but our Congress appears not to have the stomach to commit to any certain funding, let alone any significant increase in investment. From the perspective of protecting their jobs, I can't blame them. Advocating that the government raise revenues means you're a tax and spend representative and that label gets members of Congress and Senators a ticket back to the private sector.

But avoiding the problem isn't going to widen or improve our highways or make bridges safer or rivers more navigable. What is required is for the voters to let the representatives off the hook by demanding the government spend more on infrastructure.

I'm not entirely sure what that would look like, of course. At some point I think it means my party – the Republicans – may have to agree to a realistic highway spending bill without holding the rest of the government hostage; and the other side will have to accept the reality that investing more in infrastructure means that offsetting cuts have to be made. I know how idealistic this sounds, but the solution will only come when each side of the aisle is willing to risk alienating their perceived 'base' and puts the nation's best interest first. That could be a while.

The blame for the decaying systems can be spread around, however. Yes, Congress should be made up of people who can make tough calls but at the same time they aren't always getting realistic input from their constituents either. This past spring I heard my representative – Jason Altmire – talk about the deplorable condition of our infrastructure while telling an amusing, yet frustrating anecdote.

Rep. Altmire told of being at an event in his district and being approached by an over-the-road trucker about the poor condition of the roads. The man asked half-jokingly if Altmire knew of any bridges he should avoid. As a representative of the House Transportation Committee, Altmire could literally tell him which bridges on his routes were a little shaky. The trucker's response was to tell Rep. Altmire to find a way to get the system fixed, so long as it didn't raise his taxes or fees.

This is the dilemma of the day. Taxes are as low as they were in the 1950's but our government is many times larger than the government of that era. Precious few Americans feel they are getting anything from the federal government that justifies their current tax contribution so increasing taxes doesn't seem like a way to solve a problem.

Yet the infrastructure problem persists.

The generation that raised the Baby Boomers has been called the 'Greatest Generation' by Tom Brokaw for their optimism and achievement in the face of challenges like the Great Depression and World War II. My admiration for that generation is based as much upon what they did after surviving the 25 percent unemployment of their parents and the hardships needed to win a war on two fronts on opposite sides of the globe: they built the nation's interstate highway system.

Instead of going about the business of getting their piece of the pie first, those Americans chose to continue to invest by buying bonds and paying more to drive to fund the construction of an infrastructure that produced an unparalleled period of prosperity. Leaders were able to articulate how that investment would benefit Americans over the long haul and the taxpayers bought into it.

I've not heard much in the way of vision from leadership on this – or virtually any – issue but that doesn't mean taxpayers can't take the lead. We've got another election coming up this year. The results of the 2010 mid-term elections have been viewed as an angry response from fed up voters, but the truth is we reelected over 85 percent of our representatives. Perhaps we need to send a stronger message. But if the message doesn't get through it won't change the reality.

We'll still need to fix our roads and bridges and dams and sewers.

Jeff Burd

REGIONAL UPDATE

January is typically a month for retrenching in Western PA. Many firms are putting final approvals on budgets for the New Year. Most are recovering from the down time between Christmas and New Year's. Developers are working to get projects going in the spring. Architects and engineers are often pushing to get plans ready for early bidding after a month of few decisions by their clients. And everyone feels like they need work.

This January there was some unusual activity for the start of the year as an unusual number of projects that were bid or contracted after Thanksgiving are getting prepared to start construction as soon as weather permits.

A check of the cross section of professionals serving the construction and real estate markets at the end of 2011 brought some differing opinions about the prospects for 2012. While there was hardly consensus, the divide between those who were optimistic about the coming year and those who were not seemed to be a function of whether or not the role of those surveyed was a leading or trailing profession. Those whose perspective tends to lag the industry – material suppliers, surety professionals, lawyers – more often than not saw 2011 as a middling year, or worse. Those who tend to be at the leading edge of projects – civil engineers, lenders, general contractors – were more upbeat about 2012.

What is spurring the optimists are the real estate fundamentals and the much more positive economic news – especially regionally – of the fourth quarter. In general, data about jobs, output, consumption and vacancies were all turning decidedly positive after Labor Day of 2011. This trend seemed to help owners and developers move projects forward that had been sitting on idle earlier in 2011 or longer. And on a more visceral level, the advancement of a number of large projects, particularly large private sector projects, is giving more momentum to the feeling that at least Western PA has turned a corner.

Contracting volume was higher than forecast in 2011. The chart shows the contracting trend during the past ten years with a forecast for 2012.

Researchers at On Numbers gave some validity to the feeling of recovery in their December 21 release of an analysis done of the Department of Labor's job figures for the October 2011 compared to October 2001. Metro Pittsburgh had 1.16 million jobs in October versus the 1.12 million jobs that the Bureau of Labor Statistics credited in 2001.

On an analytical level there is data to support the upbeat outlook. The forecast for nonresidential contracting in 2011 was expected to jump to $3.2 billion, but with the expectation that one-third of that volume would come from a single project, the Allegheny Ludlum mill in Brackenridge. Contracting for 2011 actually finished at $3.73 billion, which was almost triple the volume contracted by July 1. The Brackenridge project was a large component of that second half surge but the increase was more broad-based than that. And it's worth noting that the final numbers for 2011 did not include high profile projects that were put under contract in 2011 but won't start or bid until 2012, such as the Tower at PNC Plaza, CMU's Nano-Bio-Energy Tech Center, Mylan's new headquarters or Cardinal Wuerl High School. Also not in the mix were projects that were about to be committed, like the VA Butler's $60 million outpatient center, UPMC's research center in Shadyside or the Mercy Hospital energy plant, which should ultimately run $40 million or more.

Underlying the more upbeat outlook and the better 2011 performance has been the continued strength of the energy and healthcare sectors. Work in the natural gas fields continues to expand even with record low prices for the commodity itself. Development of mid-stream facilities like compressing and processing stations, distribution centers and water treatment plants contributed several hundred million dollars to the construction volume in 2011 and the plans for 2012 are for that volume to increase.

As the fourth quarter of 2011 unfolded, we also got a clearer glimpse of how the competitive battle between UPMC and West Penn Allegheny/Highmark may impact construction. Notwithstanding their research facility, UPMC plans for roughly $300 million in capital spending in the region, including significant projects at St. Margaret's, Mercy, Passavant and the Oakland hospitals. West Penn also announced some specific plans, which include the re-opening of its emergency room and plans for an additional 300 beds. Using even conservative estimates, such a project will run $300 million or more.

Reports of land purchases and site searches in Wexford, Cranberry and the South Hills indicate the likelihood of significant outpatient medical facility construction for the new partnership between Highmark and West Penn Allegheny.

A third sector that will be unusually robust in 2012 is the construction of apartments. Two critical factors are driving the upswing in multi-family apartment development nationally. The first of these is the shift from home buying to renting, which has been largely a product of the housing bubble and the recession that followed. The second is a growing appetite by investors for the apartment product.

For investors looking for product in metropolitan Pittsburgh there will be much more to choose from in 2012 than in almost a decade. The Pittsburgh Downtown Partnership is currently tracking 560 units of apartments either under construction or coming online in 2012, including 96 units of new construction in the Lot 24 project being developed by Chuck Hammel and built by Massaro Corp. Bids were taken in mid-December for two large suburban projects, the 250-unit Newbury Village in South Fayette Township, developed by EQA Landmark and the 228-unit Rochester Village at Park Place, by Morgan Management. Also in the pipeline are similar projects in Cranberry Woods, a 240-unit apartment complex being planned by Trammel Crow and an apartment project of roughly 250 units being planned for the Southpointe area by NRP Group. The demand is such that two single-family builders, Heartland Homes and Hawthorne Green, have each proposed apartment projects of roughly 100 units in the north and south respectively.

Market fundamentals for commercial properties remain unusually favorable. The supply of available office or industrial space in Cranberry Township, Southpointe and Oakland remains almost nonexistent. The surging gas industry has migrated to the Airport Corridor with greater frequency, boosting occupancy. Downtown remains a landlord's market and several of the older buildings with higher vacancies have been acquired to be repurposed as residential or hotel properties. Millcraft Industries recently held a marketing walk-through of the site for its proposed $76.6 million Gardens project on Fifth Avenue at Market, which will include 95,000 square feet of office. And Burns & Scalo Real Estate Services is conducting a design competition to select the architect for its 16-story office planned for First Avenue.

The short supply of office and industrial properties relative to the growing demand is not a recent development. Fundamentals have been supportive of new construction almost throughout the recession but the unfavorable financing conditions have blunted plans to develop anything but build-to-suit projects. Lending conditions have improved throughout 2011 and there is evidence that regionally, at least, competition for financing is growing. Up to a point, that's good for development.

Jim Keating heads up First Niagara's commercial real estate business and is a veteran of five recessions, by his own count. Keating sees the market for construction and permanent loans heating up, which will lead to conditions that developers see as normal.

"We see more of the local banks back in the market," he says. "I think the stability of Pittsburgh is also attracting interest nationally. Pittsburgh has become viewed as a stable market for real estate lending."

He gave an example of one of First Niagara's deals in 2011, which would have gone very differently just a year or two earlier. "We did a joint venture with Huntington to refinance the Grant Building in February. Huntington then moved their offices into the building and it was 92 percent occupied. Then Nationwide came in and took the loan out in just nine months."

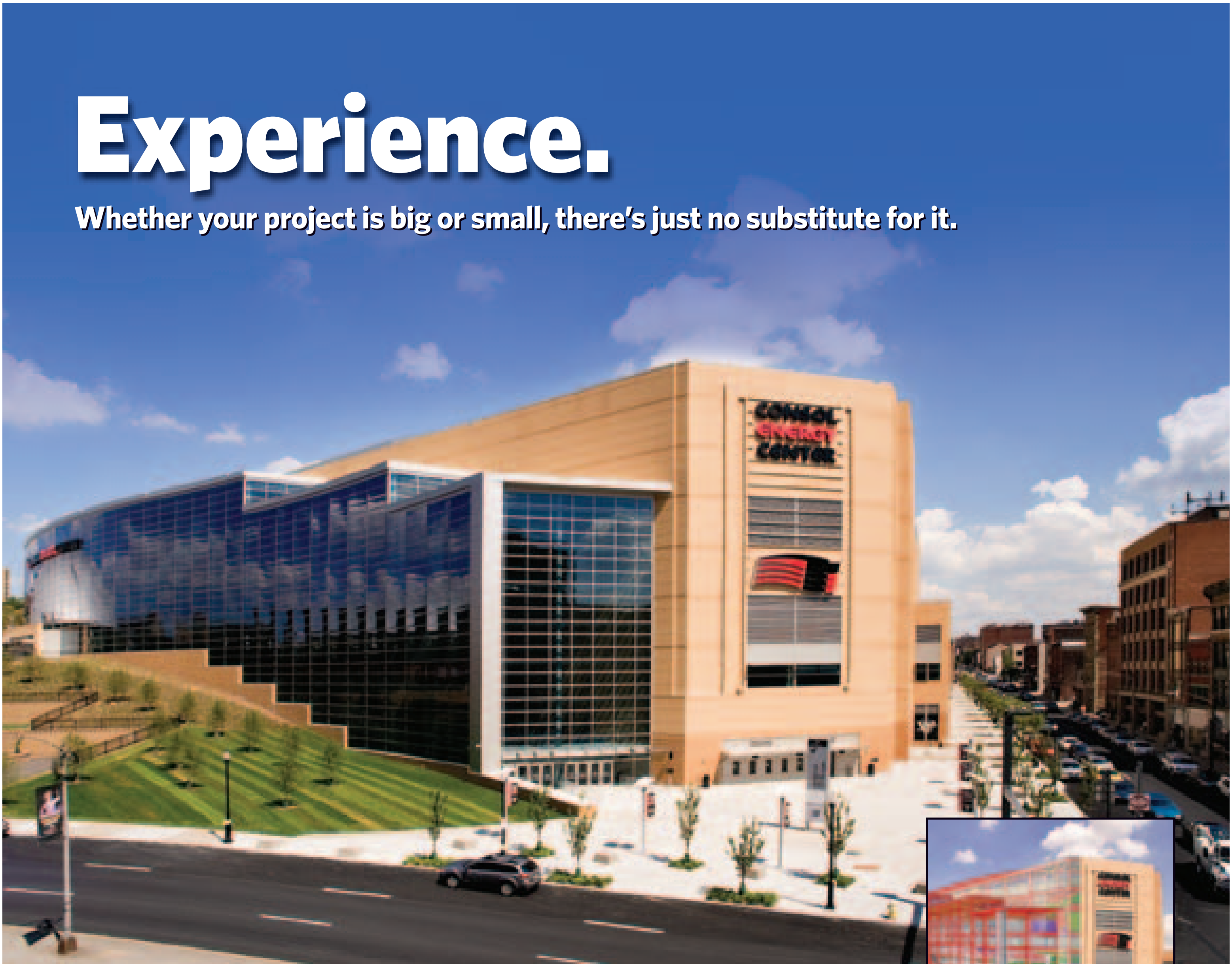
The Grant Building anecdote offers a blueprint for how the credit markets could normalize this coming year. Pittsburgh's local banks are more sound than those in many other regions and can take advantage of long-term relationships with developers and owners with solid credit, especially with the confidence that the term of their risk exposure may well be shortened by competing demand from national or global financing sources looking at Pittsburgh for safe debt opportunities. Over a longer period of time, that kind of heightened competition for loans can lead to overextension of credit and the kind of crisis from which we are healing at the moment. But overextension of credit seems an unlikely scenario for some time to come.

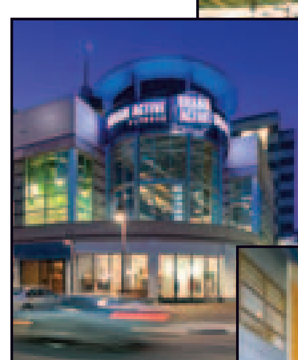
Credit is not in danger of becoming overextended in the single-family home market. Even in a market with conservative appreciation, housing remains stuck. RealStats reported on December 20 that home sales in November were up 10.7 percent compared to the previous year and that the average home price was up 2.5 percent during that period. Those kinds of numbers reflect well on the region's housing market but the conditions are not sparking much new construction.

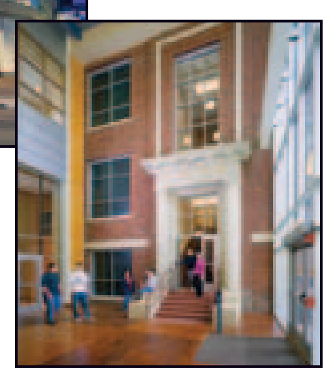
RealStats reported only 149 new home sales in November, although the average price of those new homes had risen 10.8 percent in the year. That level of sales is consistent with the new home starts for 2011. According to the *Pittsburgh Homebuilding Report*, permits for new homes was up 2.4 percent overall to 2,845 units but looking at the mix of the starts reveals a bit more about the health of the market.

Permits for single-family detached homes – the traditional single-family product – fell precipitously compared to 2010, from 1,927 to 1,635 in 2011. Some of that decline can be traced to the ill-fated sprinkler mandate, which motivated some of the builders to pull speculative permits last December and artificially inflated the new home figures for 2010. Much of that rush had worked itself through the system by the end of summer after the regulations were repealed in March. The most likely explanation for the 18 percent decline in single-family homes is the changing demographics and reduced demand, especially in light of the more than 400 unit increase in attached and apartment units.

Like the national market, Pittsburgh homebuilding market is destined to remain soft through 2012 and perhaps even 2013. BG







NATIONAL MARKET UPDATE

As the Western Pennsylvania economy seemed to gain more of a firm footing throughout the latter months of 2011, the outlook for the national economy and construction industry could be summed in the one word that was haunting economists all over the globe: uncertainty.

The uncertainty appears to be increasingly most prevalent among forecasters and economists more so than consumers and business owners. At the end of 2011 the major construction reports, McGraw-Hill Construction and Reed Construction Data, were split as to how 2011 turned out and how the coming year was going to go. As might be expected, economists for these companies, along with others are relying heavily on fundamentals like the weak employment recovery and the depressed housing market, along with a dash of fear of recession from European defaults to cook up a generally negative forecast for the U. S. construction and real estate market. The logic of these predictions is hard to dispute, however the consensus view is for what will be essentially the fourth straight year of virtually the same volume of construction. However logical the conclusions of their research may be, the historical behavior of markets suggests that supply and demand will not produce the same result four years running.

In defense of McGraw-Hill, their forecast was prepared in advance of their 73rd Annual Executive Conference on October 19th. Held midway between the holiday season and the early August downgrade of the U. S. credit rating – done by McGraw-Hill's Standard & Poor's group – the mood of the conference was still quite uncertain. Economic data at that time was reflecting the reaction by consumers and investors to the second summer in a row of a stock market sell-off and fears of a financial crisis sparked by European debt defaults. Since the end of October we've learned that a number of the economic fears may have been misplaced.

The mood at the McGraw-Hill conference was decidedly negative. Presenters focused on the depressed housing market and the weak employment numbers. Those with a less negative tone, like vice president Robert Murray still concluded with pessimistic results. The short version of the construction forecast is that McGraw-Hill expects contracting to be flat in 2012 compared to 2011, although Murray explained that within major categories there was some significant changes from year-to-year. The highlights of his outlook are:

- Single family housing in 2012 will improve 10 percent in dollars, corresponding to a 7 percent increase in the number of units to 435,000.

- Multifamily housing will rise 18 percent in dollars and 17 percent in units, continuing its moderate, upward trend.

- Commercial building will grow 8 percent. Warehouses and hotels will see the largest percentage increases, but improvement for offices and stores will be modest.

- The institutional building market will slip an additional 2 percent in 2012, after falling 15 percent in 2011. The tough fiscal environment for states and localities will continue to dampen school construction, and the uncertain economic environment will limit growth in healthcare facilities.

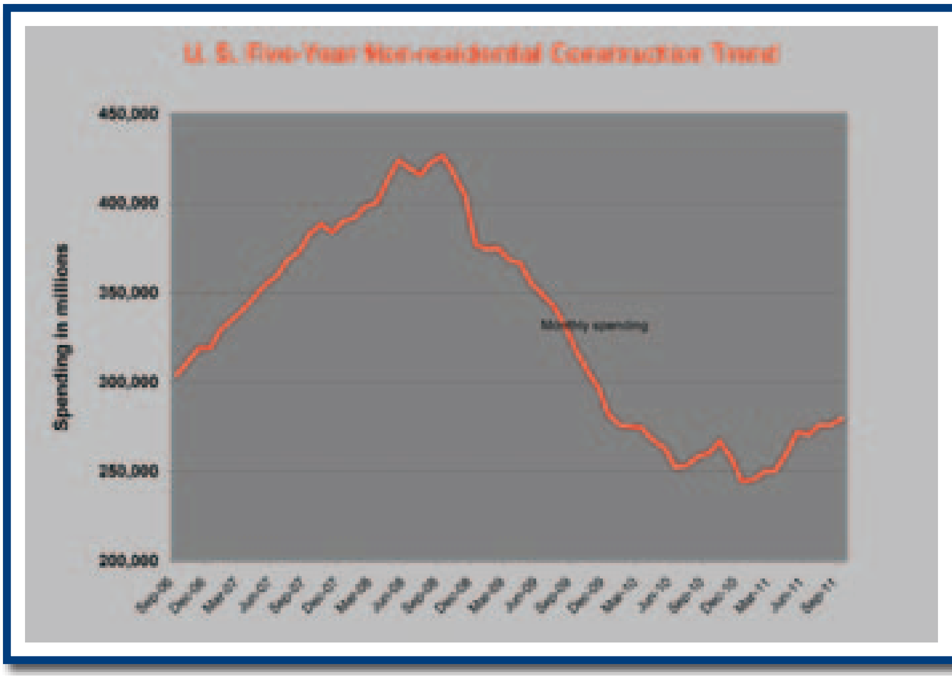
- Manufacturing buildings will increase 4 percent, following the 35 percent gain in 2011, as the low value of the U.S. dollar continues to support export growth.

- Public works construction will drop a further 5 percent, after a 16 percent decline in 2011, due to spending cuts and the absence of a multiyear federal transportation bill for highway and bridge construction.

- Electric utilities will retreat 24 percent, following a 48 percent jump in 2011.

The Rockefeller Institute of Government's latest report on state and local revenue collections reinforces McGraw-Hill's forecast for public spending. States reported a 7.3 percent increase in tax receipts in the third quarter of 2011. The third quarter was the seventh consecutive quarter of increasing revenues, although the pace of growth had slowed since the second quarter. Only three states reported lower revenues than in 2010 and most had recovered to pre-recession levels of receipts. While that represented positive news, the reality is that increases in Medicaid, employee pension contributions and income support during the same period more than consumed the increase in revenues, leaving even less for capital programs.

In its last report of activity before year's end Reed Construction Data reported that the value of nonresidential construction starts increased 2.4 percent in November and 9.1 percent for the first 11 months of 2011, relative to the same period in 2010. In contrast to McGraw-Hill's data, Reed reported that commercial buildings were up 15 percent; industrial projects had soared 24 percent; institutional buildings were up 9.7 percent and waste and water projects rose 16 percent. Offsetting these strong gains was a continued decline in housing construction, a category Reed sees climbing again in 2012. Moreover, Reed's chief economist sees steady growth of about five percent per quarter from mid-year 2012 on.



Construction put in place during the past twelve months has shown a general upward trend but there is little to suggest a steeper recovery during 2012.

Clearly there are differences in the methodology and data collection between these two national construction reports but the disparity in forecasts reflects the unusual variance in how even experienced economists are viewing this post-recession period.

One of the presenters at the McGraw-Hill conference was Beth Ann Bovino, senior chief economist at Standard & Poor's, who focused on the macroeconomic picture. Her forecast was gloomy for GDP growth – expecting 1.7 percent growth in 2011 and 1.5 percent in 2012 – and especially for unemployment, which Bovino said would remain above 7 percent through 2013 and not fall back below 6 percent for a full decade. Interviewed later in the fall, however, Bovino looked at the economy in a more upbeat light. Without changing any forecasts, she nonetheless allowed that the September and October employment data, along with upward revisions from July and August, painted a more optimistic employment picture. Bovino also noted with optimism that after another summer of volatile economic news, orders for durable goods and equipment remained strong throughout.

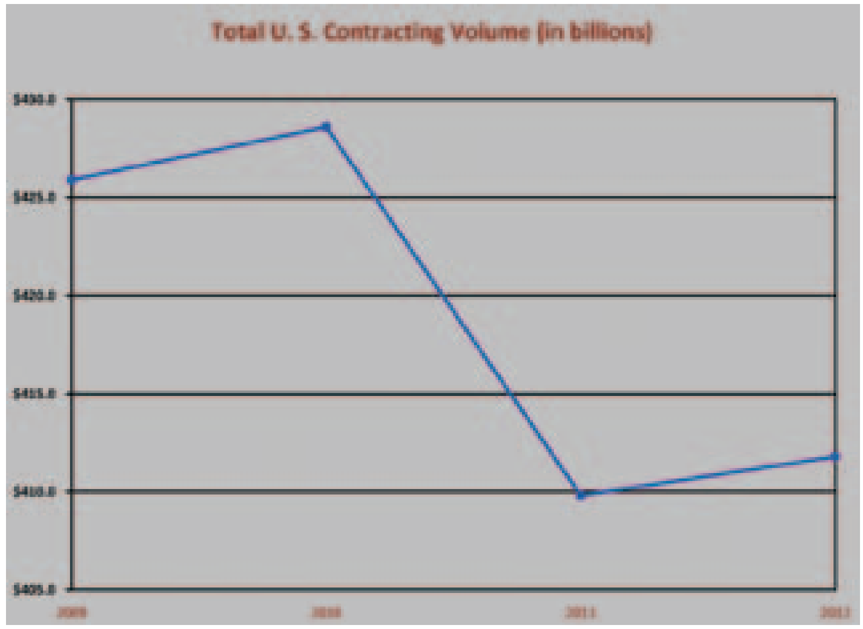
Her observations about the strength of durable goods and equipment purchases were echoed in the data on consumer Holiday spending. For the second year in a row, consumers shrugged off the effects of a summer and fall of fearful news to spend more on gifts, an estimated 3.7 percent more. The double-digit growth in spending on Black Friday and Cyber Monday came on top of a relatively robust increase in 2010 and also came at roughly the same time that a survey showed that only 10 percent of consumers planned to spend more this year, while 42 percent expected to spend less.

Obviously much more of 2012 will have to pass to judge whether Americans were spending like drunken sailors at Christmas because of a return of confidence or simply out of frustration with the length of their austerity, and whether or not a hangover period follows. Both the robust consumer and business spending fly in the face of the atmosphere of fear and uncertainty that was pervasive into the fall, however, and therefore could also be a foreshadowing of a new paradigm.

THE DOUBLE-DIGIT GROWTH IN SPENDING ON BLACK FRIDAY

AND CYBER MONDAY CAME ON TOP OF A RELATIVELY ROBUST INCREASE IN 2010 ...

A paradigm shift in business confidence has one particularly important potential impact on the economy, which is the activation of the alleged trillions in cash that U. S. corporations have on the sidelines. If 2012 becomes the year that businesses put stockpiles of cash to use, the economy will get a double shot in the arm as both hiring and higher capital spending would likely result. Both of those byproducts would also provide a further boost to consumer spending, which in turn would help lift retail construction out of its slump. The retail category has been suffering from too much supply since before the crash in 2008 and the majority of retail construction since has been infill and renovation.



The forecast of total construction shows the U. S. market in a range of less than 5 percent for four years. Source: McGraw-Hill Construction.

An interesting bit of anecdotal evidence about the retail outlook is the attendance at this year's International Council of Shopping Centers CenterBuild show in Phoenix, which kicked off November 30. In the years just before the recession, attendance at ICSC reached 2,500 but the downturn caused a pullback to roughly 700 attendees in 2009 and 2010. Estimates are that the 2011 show attracted 1,100, a 57 percent increase. Even more subjective are reports that the conference's overall tone was upbeat, with store expansion discussions replacing previous years' talk of closings.

Whatever good things consumers may be doing at the mall haven't spilled over into the housing market yet, although one small sector of the market is seeing a boom. In its December 20 report, the Commerce Department reported a 9.3 percent gain in housing starts in November, but the increase was mostly due to a 32 percent jump in multi-family starts. Multi-family, as the government defines it is a building with five or more units, and the majority of these are apartments for rent. The demographics and tighter financing are supportive of apartment development and the category is up 180 percent for the year compared to 2010.

... THE PIPELINE OF APARTMENT PROJECTS IN PLANNING IS GROWING.

With available financing actively chasing apartment projects for both new construction lending and acquisition, the pipeline of apartment projects in planning is growing. McGraw-Hill's database of projects in design showed 692 apartment complexes over 10 million dollars, representing over 200,000 units, were on the boards. Using the rule of thumb of two years worth of starts in planning at any time, their database suggests an additional 100,000 units more starting construction in 2012.

Even with the dramatic rise in apartment units under construction the total number of new housing units started in 2011 were 685,000, which is less than half the historical annual norm. Financing conditions remain constrictive going into 2012 and the inventory of foreclosed homes and those over 90 days late on mortgages remains near 4 million units. Both of these factors will keep the housing market from recovering significantly until at least 2013. If you were looking for a trend that might predict a unexpected change in fortune it might be the unparalleled affordability of homes.

The ratio of median home price to median family income has historically been one of the benchmarks of affordability. Currently that ratio has fallen to 2.6, below the historical ratio of 2.9, according to financial information researcher Clear Capital. Another benchmark, the percentage of monthly family income consumed by a mortgage payment is 12% nationally, the lowest since 1971. Both of these data would seem to reflect more of the deleveraging that was necessary after the housing bubble burst rather than a catalyst for bargain buying, however.

WHAT'S IT COST?

The last Department of Commerce report on price inflation for 2011 was issued on December 15 and the results turned out to be decidedly unremarkable for the construction industry. The data showed a continuation of the trend that began when global economic news turned sour in the middle of the second quarter: earlier sharp increases in crude oil, diesel, copper and steel have blunted and retracted; the extended drought in new home construction has kept prices low for lumber, drywall, coatings and brick; and the consumer price index (CPI) is inflating at roughly half the rate of the producer price index (PPI).

While there isn't any particularly alarming aspect to the data, it is worth noting that the continued flattening of the year-over-year price increases is helping to mask the fact that prices for construction materials and products are advancing at a higher rate than the overall index for consumer prices. Moreover, the general downward trend in energy prices is tending to obscure the fact that prices on a number of essential consumer goods are rising at a higher rate than the CPI itself.

Politicians and economic leaders seem to be leaning on the CPI data to validate their assumptions that inflation is one headache that we don't have to worry about for the coming year or so. This may be true. There are enough critical items that are showing higher rates of inflation, however, to warrant close monitoring going forward.

Chief among these are the products and materials that are derived from crude oil. The price of gasoline and diesel has fallen since the Labor Day travel weekend, settling at national average levels of $3.25 and $3.89 per gallon, respectively during the week of Christmas. Those prices are off some 60 or 70 cents from their pre-Memorial Day high levels in 2011, but are significantly higher than the prices during the last week of 2010. Diesel fuel – which is consumed by construction equipment and fuels the trucks which deliver everything to job sites – is actually up 66 cents per gallon over a year ago. Given the wide-ranging effect that diesel fuel has on pricing of construction PPI, the current pricing suggests that the 32 percent inflation rate of fuel has yet to be passed on through the supply chain.

Much of the inflationary pressure impacting the construction market during the past five years or so has come from the meteoric rise in demand from emerging nations – especially China and India – so it is no wonder that prices have remained calmer as emerging markets slowed throughout 2011. Even so, the PPI increased 5.7 percent overall and 6.2 percent for construction without much higher demand. As 2011 ended, China was beginning to take measures to loosen controls on lending and the U. S. economy was showing signs of growing at better rates than since before the recession. Should the American economy jump to three percent GDP growth or the Chinese or Indian economies resume double-digit growth rates, supplies of many producer materials will be inadequate to meet demand and prices will rise again.

Among the more interesting bits of data in the December 15 report was the steepening of the decline in pricing of steel, copper and asphalt during the past month and quarter. Copper's decline in particular has helped with price pressures on plumbing and electrical products, as well as relieving the need for heightened job site security to protect those easily transported items from theft.

PERCENTAGE CHANGES IN COSTS	Nov. 2011 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	-0.1	-0.1	3.4
Producer price index (PPI) for finished goods	0.1	0.2	5.7
PPI for construction	-0.1	-0.7	6.2
Costs by Construction Types/Subcontractors			
Residential buildings	0.0	-0.3	5.5
New industrial building construction	0.0	1.6	3.4
New warehouse construction	0.0	1.6	3.9
New school construction	0.1	1.8	4.5
New office construction	0.2	1.1	3.7
Concrete contractors, nonresidential	-0.8	1.2	1.4
Roofing contractors, nonresidential	-0.1	1.5	4.6
Electrical contractors, nonresidential	-0.1	1.0	3.5
Plumbing contractors, nonresidential	0.4	0.7	3.6
Costs for Specific Construction Inputs			
#2 diesel fuel	8.9	10.0	32.4
Asphalt paving mixtures and blocks	-0.5	-0.8	8.1
Concrete products	0.6	1.0	0.9
Brick and structural clay tile	0.5	0.4	-2.2
Plastic construction products	-1.3	-1.9	3.9
Gypsum products	-0.4	0.9	-1.0
Lumber and plywood	-0.7	-1.5	0.2
Architectural coatings	0.0	0.4	3.5
Steel mill products	-1.1	-1.3	13.0
Copper and brass mill shapes	-2.3	-11.1	-7.7
Aluminum mill shapes	-1.5	-4.8	2.0
Fabricated structural metal	0.1	0.3	5.1
Prefabricated metal buildings	0.1	-2.1	11.3
Crude petroleum (domestic production)	18.6	28.3	30.4
Asphalt (at refinery)	-3.2	-7.8	19.0
Cement	1.2	1.7	-0.2
Iron and steel scrap	-6.6	-7.7	13.0
Copper base scrap	1.2	-8.1	1.4

Source Bureau of Labor Statistics, Updated December 16, 2011
Compiled by Ken Simonson, AGC Chief Economist

> **... THE DIFFERENCE BETWEEN THE RATE OF INFLATION FOR SUBCONTRACTING AND THE PPI NEARLY VANISHED AFTER RUNNING AT ABOUT HALF THE RATE OF PPI MOST OF 2011.**

Another development that seems to be becoming a trend is the balancing of PPI and construction put in place, especially the major subcontractor trades. During the September through November period the cost of new warehouses, schools and industrial buildings all rose more than 1.5 percent, trending towards a four percent rise for the twelve month period. Office construction rose one percent but also at about four percent for the year. These rates are much closer to the PPI for construction than earlier in 2011 and the current increases are counter to the declining trend in construction PPI. While differing individually, the same magnitude and trend of pricing applied to the commercial roofing, plumbing and electrical contractors as the year wound down. Like with finished building costs, the difference between the rate of inflation for subcontracting and the PPI nearly vanished after running at about half the rate of PPI most of 2011.

The upshot of recent pricing for completed construction types and subcontractor work is that contractors have reached the point of inelasticity with pricing and have been successful at passing price increases along to customers within the past 90 days.

Construction pricing and price index data are derived from national information; however construction is most significantly impacted by regional factors. Regional project owners and designers should be watchful for the trends in PPI and specific material pricing during the early months of 2012, because increased contracting volume and the perception of improved market conditions as early as 2012 will increase the likelihood that price increase attempts by suppliers and manufacturers will be passed on by contractors. At a minimum, the prospects for continuing price pressure should be noticeably reduced. It should be tougher to get a deal in Western Pennsylvania in the coming year. BG

Photos by Alexander Denmarsh. Used courtesy Trumbull Corp.

THE INFRASTRUCTURE PROBLEM

ONE OF THE MORE AMAZING TURNAROUND STORIES OF THE PAST FIVE YEARS WAS SUPPOSED TO BE THE REVITALIZATION OF THE NATION'S HIGHWAYS AND BRIDGES.

THAT STORY LINE, ALAS, HAS NOT PLAYED OUT AS WRITTEN.

The interstate highway system was one of the marvels of the post-World War II period. Coupled with an extensive rail and shipping infrastructure, America's interstate system of highways was one of the main economic competitive advantages we held over the rest of the globe. Through those highways, American farmers found markets that they could not previously reach. The expansion and growth of the western states depended on the interstate connection across the vast unpopulated areas in the western third of the country. And the highway system may have been the biggest facilitator of the economy of the new south, which moved from agrarian to industrial and financial within one generation.

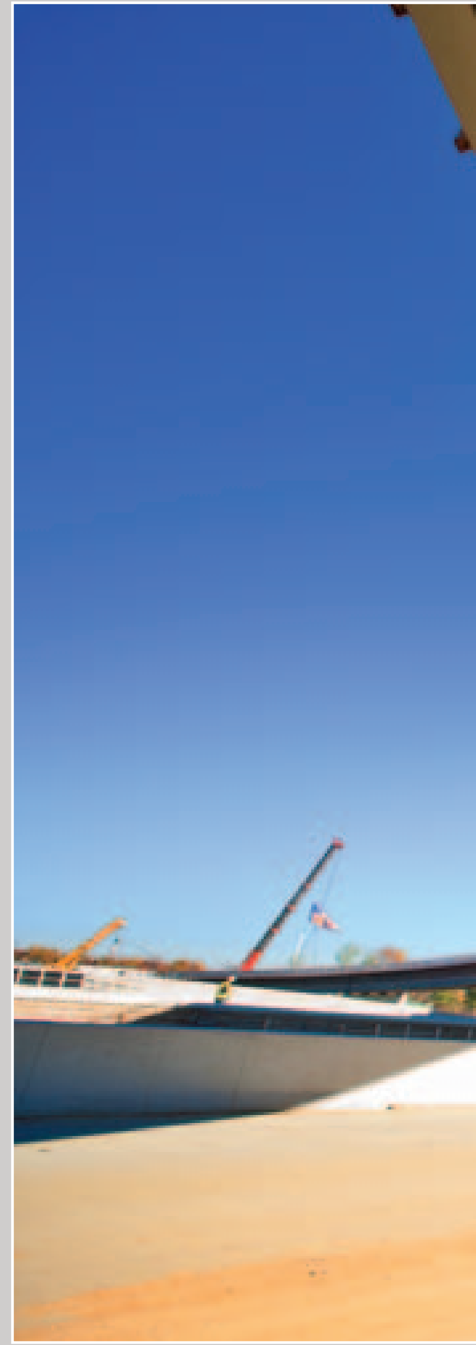
By summer 2008 that system was in poor condition. As the price of crude oil spiked that summer it took the cost of heavy and highway construction with it, compounding an already underfunded situation by practically halving the amount of work that could be done for each dollar. When the financial crisis hit in fall 2008, states and municipalities throughout the nation were left with shrinking coffers, falling revenues, unfavorable bond markets and a decaying infrastructure.

But here's where the story was supposed to have a happy ending. Within a few months of the peak of the financial crisis, America elected a new president and his administration concocted a plan that was to be a remedy for the rising unemployment and the crumbling infrastructure. That plan became legislation as the American Recovery and Reinvestment Act (ARRA) in February 2009.

Touted as a $787 billion stimulus for the economy, the actual dollars available for infrastructure construction were roughly one-sixth that amount. While Pennsylvania was well prepared and put its ARRA funds to work within nine months, many states were less aggressive and funds weren't obligated until late 2010. Enough projects were bungled that more than $68 million in funding lapsed. At the same time, declining driving and more fuel-efficient cars further reduced the revenues states took in. The recession lowered consumption and sales taxes. Falling property values eroded tax receipts and poor fiscal management by a number of states resulted in untenable borrowing situations. In the end, recessionary conditions often caused greater declines than ARRA could offset.

As the third anniversary of ARRA's enactment approaches, the nation's highways, bridges, airports and transportation systems are on the whole in worse condition than they were in 2009.

How this story could have ended is with a litany of gloomy predictions about closed bridges and a tough heavy and highway market (and those are part of the reality), but a happier ending in Pennsylvania has been written by the private sector. In winter 2009 the residents of Pennsylvania were only vaguely aware – if that – of the natural gas industry. By 2012, that industry is maturing and the need to upgrade and expand its infrastructure has filled in the gaps left by the public sector's declining capital expenditures. In the coming few years, in fact, capital budgets for private gas companies will virtually match those of the state dollar for dollar.



What Hasn't Changed?

The most troubling answer to that question is that the resources available for construction remain unchanged over the past few years. Funding for highway construction comes from a relatively few sources, and most have been stagnant for most of the decade. The largest is the state's allocation from the federal Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA), which President George W. Bush signed into effect August 10, 2005 to carry through 2009. Since then, no successor TEA has been passed into law, but rather the funding from the SAFETEA has been extended. This has led to a significant underfunding as construction costs have escalated significantly since 2005. Of potentially greater damage is the fact that each successive extension creates a sense of status quo instead of urgency about the problem

"Highway funding is locked in through March 31, 2012 and airport funding expires on January 31," says AGC's chief economist Ken Simonson. "Legislative committees have been trying to get longer term funding but there hasn't been the support to get a bill passed."

The House Transportation Committee passed a six-year funding act out of committee but cannot get the Ways and

Photo by Alexander Denmarsh. Used courtesy Trumbull Corp.

America's interstate system of highways was one of the main economic competitive advantages we held over the rest of the globe.

Means Committee – which is ultimately responsible for getting it funded – to act. The Senate committee has been more aggressive and has gotten a two-year plan accepted but the legislation would provide for $12 billion in spending that has no source of revenue and therefore won't be passed by the whole Senate either. Simonson doesn't think that is necessarily a bad thing.

"I am not fond of a short-term solution," he says. "That can help states in some ways but it prohibits them from planning any larger projects because the construction will take more than two years. Without assurance that funding is available beyond that, states can't make long range plans."

Rich Barcaskey, executive director of the Constructors Association of Western PA (CAWP), shares Simonson's concern about the need for a long-term solution. He points out that the biggest obstacles may be political as much as fiscal.

"Part of the problem is the fact that states don't get equal returns for their tax dollars. Pennsylvania gets $1.13 back for every $1.00 we send to Washington," he explains. "PA gets more because we have more interstates but also because of our political power. For years Bud Schuster and Rick Santorum made sure we got that share of the pie. But now state's like Arizona, which gets much less than one dollar back are looking for equal distribution of the revenue. If that were passed Pennsylvania would get 36 percent less."

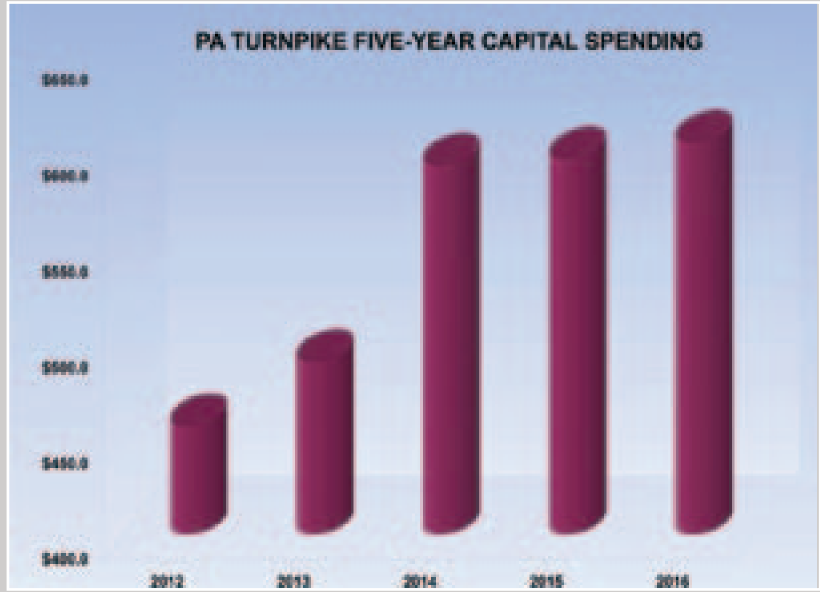
Beyond the Transportation Equity Acts, Pennsylvania generates revenue from its share of the gasoline tax, motor license fees, bond issues, and from the Turnpike tolls. Recessionary pressures and a growing budget deficit have reduced or limited revenues from these sources, again as costs have climbed. One of the state-level solutions that Pennsylvania has attempted to put in place to meet the shortfall is a partnership with the private sector. Thus far, however, their attempts have been unsuccessful.

Act 44 of 2007 had the goal of increasing revenues by using the PA Turnpike Commission to lease I-80 for 50 years, enacting tolls on that interstate highway and raising tolls on the PA Turnpike. As planned, Act 44 would have created revenues from tolls that would allow for $3.5 billion in bridge and roadway construction on I-80, thus freeing up funds used on that highway in the PennDOT budget. At the same time, the legislature approved the concept of leasing the PA Turnpike, which would remove the burden of maintenance from the state. That request for proposals resulted in a bid of $12.8 billion.

To put this plan in place the state needed federal approval but the Federal Highway Administration rejected the I-80 tolling proposal, and the state legislature declined to accept the turnpike leasing agreement. The hole in the budget remained.

The impact on PennDOT has been an extended decline in construction. PennDOT's budget for contracting first topped $2 billion in 2001, but the spending has been stuck at or below that level since. Because of the rapid escalation of diesel and asphalt in 2008, the cost of construction is more than 60 percent higher than in 2001. That 2001 budget covered construction that would cost about $3.2 billion in 2011. And PennDOT's budget for 2011 was $1.9 billion, with only $1.3 billion slotted for 2012.

Things aren't much better with the Pennsylvania Turnpike. The tougher economy resulted in fewer miles driven on the Turnpike as well, and therefore lower revenues from tolls. With the loss of new revenue that was planned to come from the tolling of I-80 or the leasing of the Turnpike, capital spending was reduced.



A look at the five-year planned capital expenditures for the Turnpike shows reduced spending of between $400 and $460 million during 2012-2013. The plan calls for almost $200 million more for 2014-2016, but the problem is that past the next two years the plan doesn't include a mechanism for funding the plan and estimates of toll revenues aren't going to be based on hard and fast numbers. While it's possible the Turnpike Commission may indeed be able to fund more than $600 million in construction, it's worth remembering

Photo by Alexander Denmarsh. Used courtesy Trumbull Corp.

that similar volumes were planned for 2012 five years ago. Delaying less urgent problems by a year or more will have the same effect in 2014 if the funds aren't there.

The stagnation in funding sources is what motivated Gov. Corbett to put together the Transportation Funding and Reform Commission, on which Rich Barcaskey served. That Commission recommended a number of specific revenue-raising ideas, as well as solutions to cutting costs, like reducing registration and license centers around the state. At the end of the day, most of the revenue solutions boiled down to long overdue increases in user fees. These included higher fees for oil franchisees, tolls, and increases in drivers' license and vehicle registration fees, which haven't gone up in more than a generation.

"If it were up to me I'd implement the solutions from the Governor's commission," says Barcaskey. "I'd also push for a comprehensive solution that is realistic but I think Pennsylvania residents understand that fees have to go up. There was a recent poll done in Allentown that showed that 54 percent were OK with an increase in fees if the revenue were used to fix roads."

What Has Changed?

Not surprisingly, the most obvious change in the infrastructure conundrum is that the condition of the infrastructure has deteriorated further. But several factors have been at work that have made an impact on the problem so that not all the news about our roads, bridges and sewers is bad. First, however, it is worth taking an honest look at the conditions.

With the same dollars buying less asphalt, municipal and state roads are in rougher shape than just a few years ago. For the most part, however, the roads are not yet in an unsafe condition. The danger for our surface roads is that deferring a solution will lead to

There was a recent poll done in Allentown that showed that 54 percent were OK with an increase in fees if the revenue were used to fix roads."

With 25,301 state bridges, Pennsylvania has the third largest number of bridges in the nation, but the largest number of bridges classified as structurally deficient.

the kinds of hazardous roads that Pennsylvania had in the 1970's. What gives administrators at all levels headaches is the fact that as important as it is to deal with crumbling highways, dealing with crumbling bridges is an even higher priority.

The bridge problem has long been recognized in Pennsylvania but the problem became much more urgent on August 1, 2007, when thirteen people were killed in the collapse of the I-35 Bridge in Minneapolis.

Federal response to the collapse was both immediate and fleeting. Some $135 million was given to the state of Minnesota by the Bush administration to replace the collapsed span but over the next year political considerations killed several initiatives to create a federal funding source to solve the problem. A five cent federal gasoline tax and a billion dollar bridge inspection fund was vetoed. By late summer 2008, the government's focus had been fully diverted to the looming financial crisis and the recession that followed.

The federal Department of Transportation defines two levels of bridge problems: bridges that are functionally obsolete and those that are structurally deficient. The latter category applies to bridges that are safe at the present but need extensive repairs or replacement. Across the country, 11.5 percent of the bridges have been classified as structurally deficient and another 12.5 percent as functionally obsolete. Here in Pennsylvania, the magnitude of the problem is twice as grave.

With 25,301 state bridges, Pennsylvania has the third largest number of bridges in the nation, but the largest number of bridges classified as structurally deficient. The average age of bridges

U. S. Bridge Statistics

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All Bridges	589,685	590,887	591,940	593,813	590,533	597,340	599,766	601,396	603,259	604,460
Structurally Deficient Bridges	83,595	81,261	79,775	77,752	75,923	73,784	72,520	71,461	71,177	69,220
Functionally Obsolete Bridges	81,430	81,537	80,990	80,587	80,412	80,317	79,804	79,933	78,477	77,412
Percentage Deficient & Obsolete	28%	28%	27%	27%	26%	26%	25%	25%	25%	24%

Source: Transportation Statistics Annual Report, U.S. Department of Transportation, Bureau of Transportation Statistics, 2011

on the state system is 50 years old, which is unfortunately the life expectancy of the average bridge. At the time of the I-35 bridge collapse more than 6,000 Pennsylvania bridges were structurally deficient.

Ed Rendell was the state's governor in 2007 and one of the most vocal of the nation's governors on the subject of bridge safety. He initiated the 2008-10 Accelerated Bridge Program to undertake 1,145 bridge replacements. By the end of 2010, PennDOT reached nearly 1,600 bridge replacement projects, double what would have normally been completed. In addition to the replacements, PennDOT also did around 1,200 bridge preservation projects. These preservation projects will help reduce the number of older bridges that become classified as structurally deficient.

... Pennsylvania was given a heads up on the nature of the stimulus funding and its agencies were prepared to use the roughly $1.9 billion in ARRA funding as soon as it was available.

From its peak Pennsylvania has reduced the number of structurally deficient bridges from 6,034 to 5,069 at the end of September 2011, the lowest number since 2003 but still slightly more than 20 percent of the bridges. The problem for Pennsylvania is that roughly 300 bridges are added to the deficient category each year so PennDOT needs to work on 400 bridges a year to make any headway; and that pace predicts a lengthy process in order for PA to be at the national average of 2,700 structurally deficient bridges.

Another significant mitigating factor in the infrastructure's decay was ARRA. Because of then Gov. Rendell's political relationship with the incoming Obama administration, Pennsylvania was given a heads up on the nature of the stimulus funding and its agencies were prepared to use the roughly $1.9 billion in ARRA funding as soon as it was available. The net effect was that virtually a full year's worth of projects were able to be advanced as a result of the windfall, which was essentially committed fully in Pennsylvania by the end of 2009, doubling the state's expenditure for the year.

ARRA also had an impact on a national level, even if it was more muted than originally advertised. The $26 billion spent on the nation's highways was a 63 percent boost to the funding allocated by the TEA legislation. And an analysis of the nation's bridge problems finds that more than 2,500 fewer bridges were categorized as structurally deficient in 2010 than were in 2008.

Without question the most promising change in the infrastructure market has been the boom in privately-funded infrastructure projects as a result of the natural gas industry's exploration of the Marcellus and Utica Shale formations.

The gas industry's focus up until late 2010 had been on acquiring the rights to drill, navigating the state's regulatory agencies and building the capacity to extract and process the natural gas. Developer Mark West had invested as much as a hundred million dollars in pipelines throughout western Washington County as part of its Houston processing plant project in 2009, so that its customers could transport the gas from the plant to a distribution center at Majorsville. Part of the early exploration process included the restoration of municipal and county roads that were damaged during the well construction. In some of the more rural counties, like Tioga, Bradford or Sullivan in the northeast, the paving expenditures of the gas companies often surpassed those of PennDOT in a year.

Since then, Mark West and developer Keystone Midstream have been active in building compressing stations strategically throughout the drilling fields in Washington, Westmoreland and Butler Counties. The pace of development of these stations, most of which have cost between $15 and $30 million will increase in 2012 and 2013, with as many as a dozen more planned.

With drilling activity growing and the capacity for production building, the stage is set for the expansion and upgrade of the pipeline infrastructure. The need to replace and expand the distribution system for natural gas has been a given by observers since the industry moved here to explore the Marcellus Shale, but the sheer scope of the work is only beginning to unveil itself. Reports of space searches for facilities to store as much as 200 miles of pipe and of MarkWest's pipeline budget – in excess of $1 billion – are surfacing and give an indication of just how much distribution will ultimately be put in place. The missing ingredient had been the regulations that the state wanted on the construction and safety of the pipelines, regulations that were outlined in Senate Bill 344 that passed just before Christmas. By all indications the industry is prepared for the regulatory requirements but simply needed to have certainty about what a new pipeline system in Pennsylvania will look like.

Assuming that Bill 344 provides that certainty, the pipeline construction that will be unleashed defies comparison to any other infrastructure project in Pennsylvania. Several studies have estimated the pipeline needs for the mature gas industry and their figures vary from 10,000 miles to 25,000 miles of new pipeline. With pipeline construction costs of between $1 million and $1.5 million per mile, that translates to $10 to $15 billion on the low side of the estimate.

Pennsylvania's existing gas pipeline distribution system is also in the midst of major investment. This system, which takes gas to residential and business customers for the private utilities, is made of aging cast iron and steel pipe. According to the Public Utility Commission, some 12,600 miles of pipeline will need replacement over the next two decades, a project that will cost the utility companies – and their customers – roughly $13 billion.

The anticipation of the pipeline boom is behind US Steel's re-entry into McKeesport to locate a pipe mill and the massive investment by V & M Star in Youngstown for construction of a new $600 million mill, a project which has been expanded since construction began to more than $1 billion.

Where Are the Opportunities?

Even with the steep cutbacks in spending at the state level and the stagnant federal highway funding there will still be several billion dollars invested in the roads and bridges throughout the state annually. Among the larger projects under construction or planned for the region within the next couple of years are:

- $31 million Mansfield Bridge, awarded to Joseph B Fay Co. in October
- $49 million Masontown Bridge awarded to Brayman Construction in October
- $16.2 million Turtle Creek Bridge 6, awarded to Brayman in September
- $107 million Route 28 Widening, a multi-phase project scheduled for completion in winter 2014
- $15 million Route 51/88 improvements, being done in phases through 2014
- $15 million West Carson Viaduct, planned for 2013-2014
- $20 million Ambridge/Aliquippa Bridge, now delayed until fall 2012
- $70-90 million new Hulton Bridge, set for summer 2013
- $60 million Squirrel Hill Tunnel rehabilitation, which bid December 22

The impact of the Clean Water Act of 1997 has been creating construction opportunities in waste and water treatment with increasing frequency. The extent of the problem, which requires a solution for the region's wet weather and sewer infiltration, is very pervasive. Due to both aging sanitary and stormwater systems and combined systems that still exist, problems exist throughout the region for contamination of fresh water with sewage overflow.

One side of the opportunity is the extensive construction of sanitary sewer lines to provide separate storm and sanitary systems. The other is the increased capacity needed by the regional treatment facilities, many of which have seen sewer outflows bypass treatment and empty into rivers prior to the Clean Water Act.

The largest of these treatment plants impacted by the Act is the Allegheny County Sanitary Authority (ALCOSAN). The authority has been under a judicial consent agreement for two years that requires that it design and build new conveyance and treatment systems for all sanitary and 85 percent of combined sewer flows. With over 5,000 miles of service area, the price tag for such a system will likely be $2 billion to $4 billion in today's dollars. That's a wide range that could go higher. The determining factor will be the ultimate decision of environmental regulators and probably a judge or two.

"We've developed a lot of options and what we build will depend on the amount of control that is required by regulators," says David Borneman, P.E., the director of design and construction for ALCOSAN. Borneman points out that whatever plan ultimately shakes out there is no plan for funding the construction at either the federal, state or local levels. ALCOSAN'S current thrust is to get some plan decided. "We'll have a draft of the plan ready for public comment in mid-year," says Borneman. "The final plan has to be submitted to the agencies by January 2013."

While working through that planning and review process, ALCOSAN will have an unrelated significant construction project bid this spring, a $20 million upgrade to its main pump station at the Preble Avenue plant. The project is currently being designed by engineers Brown & Caldwell.

Waste and water projects at the municipal level have been on the upswing in general. A check of the Dodge Reports database shows 29 such projects over $5 million in design or construction right now. The largest of those is the $55 million plant in McKeesport. The local construction report of the Pittsburgh Builders Exchange lists a total of 69 projects either bidding or in design at the end of December 2011. Some of the larger projects they show coming are:

- $14 million East Huntingdon plant in Westmoreland County
- $28 million Kiski Valley water plant in Leechburg
- $14 million Donaldson's Crossroads wastewater plant in Peters Township
- $25 million new wastewater plant in Clearfield, PA
- $15 million East Freedom plant outside Altoona, PA

Photos by Alexander Denmarsh. Used courtesy Trumbull Corp.

Several studies have estimated the pipeline needs for the mature gas industry and their figures vary from 10,000 miles to 25,000 miles of new pipeline.

Estimated 5-Year Infrastructure Investment Needs in Billions of Dollars

	5-Year Need	Actual Spending	ARRA Spending	Five-year Shortfall
Aviation	87	45	1.3	(40.70)
Dams	12.5	5	0.05	(7.45)
Drinking Water and Wastewater	255	140	6.4	(108.60)
Energy	75	34.5	11	(29.50)
Hazardous Waste and Solid Waste	77	32.5	1.1	(43.40)
Inland Waterways	50	25	4.475	(20.50)
Levees	50	1.13	0	(48.87)
Public Parks and Recreation	85	36	0.835	(48.17)
Rail	63	42	9.3	(11.70)
Roads and Bridges	930	351.5	42.5	(549.50)
Schools	160	125	0	(35.00)
Transit	265	66.5	8.4	(190.10)
	2.122 trillion	903 billion	71.74 billion	(1.176 trillion)

Source: Transportation Statistics Annual Report, U.S. Department of Transportation, Bureau of Transportation Statistics, 2011

According to the Public Utility Commission, some 12,600 miles of pipeline will need replacement over the next two decades, a project that will cost the utility companies – and their customers – roughly $13 billion.

Photos by Alexander Denmarsh. Used courtesy Trumbull Corp.

The Long Term Fix

The issue of fixing America's aging transportation and utility infrastructure is squarely in front of us in the early years of the 21st Century. The federal Department of Transportation estimated in its 2011 annual report that the transportation system needs $2.122 trillion in investment over the next five years to bring all aspects up to current standards. The report also estimated that the total budgeted investment for that same period would be $903 billion, leaving a shortfall of $1.2 trillion. That is the size of the opportunity.

Pennsylvania has a disproportionate share of that shortfall and opportunity. Because of the many rivers, the freeze/thaw cycle and the existing highways, the state's share of the transportation infrastructure need has historically been closer to five percent rather than one in 50. Like every other entity responsible for maintaining infrastructure, Pennsylvania's opportunity currently well outstrips its ability to pay for it. Unlike most, however, the state has the potential for benefitting from a burgeoning new industry that is also infrastructure heavy. Taking advantage of that benefit without introducing disincentives will be the challenge.

Whether Pennsylvania's government can create a revenue stream out of a profitable natural gas industry or piggy back on that industry's need for its own new infrastructure, sources of funding to rebuild highways, bridges, utilities and riverways must and will be found. For those serving the heavy and highway industry the next few years will be a rough patch, but the demand for the construction will continue to build. In Pennsylvania, at least, the private sector demand for those same services and skill sets will more than offset the hole in the government's pocket. BG


The completed tanks after installation of the piping infrastructure.

BLOSSBURG

FRAC WATER TREATMENT PLANT

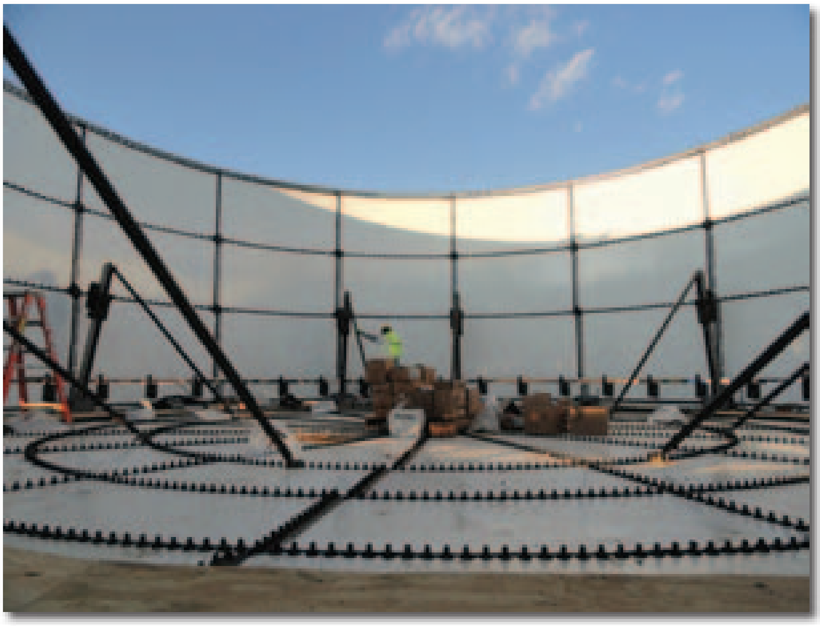
THE POTENTIAL SOLUTION FOR A CRITICAL PROBLEM IN THE PROCESS OF NATURAL GAS EXPLORATION AND PRODUCTION – MANAGING WATER CONSUMPTION AND TREATMENT – IS BEING DEVELOPED IN A SERIES OF TREATMENT PLANTS IN THE GAS FIELDS IN NORTHEASTERN PENNSYLVANIA. G. M. MCCROSSIN INC. WAS PART OF A DESIGN/BUILD TEAM THAT PUT THIS TREATMENT SOLUTION INTO PLACE IN BLOSSBURG, A SMALL TOWN IN TIOGA COUNTY.

"We got involved in the project as part of Hawbaker's team and our part was the design/build responsibility for the general, mechanical and electrical portions," says Gary Pate, McCrossin's project manager. G. M. McCrossin is headquartered in Bellefonte, just east of Hawbaker's offices in State College, and had worked with Hawbaker in a number of capacities over the years. While the company was comfortable working with an old client on a design/build agreement, the project itself gave McCrossin reason to raise an eyebrow. "When somebody wants to do something that big that has never been done before you get a bit skeptical," explains Pate.

The 'somebody' to whom Pate referred was entrepreneur Neil Hedrick. Hedrick had been in the business of turning a profit from environmental headaches for much of his 35-year career, which began in the coal mining business. Hedrick had been part of the team that had purchased coal refuse piles throughout the state to be used as fuel for the coal-fired power plant built along the Conemaugh River in Seward, PA in 2004. He was also minority partner in Sunbury Generation LP, which operates a power plant in Snyder County. Those experiences helped Hedrick build relationships with Pennsylvania's Department of Environmental Protection (DEP) and companies that made water treatment processes. It also gave him an opportunity that would blossom as the natural gas industry roared into the state.

"The history of the [Blossburg] project goes back to 2007 or earlier," says Brian Kaufman, vice president of mining and geological consultant Kaufman Engineering. "Neil Hedrick had a grandfathered agreement from Sunbury Generation that allowed him to accept 30,000 gallons of waste water per day. When gas exploration began, that allowed us to look at the chemistry of frac water and we created a treatment system to do 100 percent recycled water with zero pollution discharge." That permit gave Hedrick a two-year head start on the industry and he launched Hydro Recovery LP to meet the vast gap in capacity for treatment of production water in the Marcellus Shale exploration.

Hydro Recovery's process takes in high total dissolved fluids (HTDSF) from the natural gas drilling and production fields and treats the wastewater so that it can be re-used as hydraulic stimulation fluid (HSF®) in production. The company also developed a process for treating acid mine drainage water, which contains toxic levels of sulfates and can be used to supplement the HSF in natural gas exploration. Hydro Recovery is able to locate some frac water treatment plants in locations with acid mine drainage into streams, pre-empting the stream pollution and decreasing the amount of fresh water used in hydraulic fracking further. These plant locations actually allow the state's Department of Environmental Protection to eliminate acid mine drainage sites without using the nearly exhausted trust funds established for cleanups in the 1970's.



The Blossburg project began develoment in earnest in 2008. Hedrick already owned what would become the job site, a parcel just off the exit for Blossurg from the limited access portion of old State Route 15, now part of Interstate 99. Even though drilling activity was in its infancy in Tioga County, the location of the property appeared to be perfect for serving the boom to come.

"The site is ideally situated for trucking," says David Hedrick, son of Neil Hedrick and project manager for the Blossburg project. "Blossburg is located in the middle of all the wells and right by the highway."

The location was a critical element to the project's success. Trucking frac water is very costly to drillers but is also unavoidable. It was becoming clear with each passing month that Hydro Recovery was trying to serve a need that was going to mushroom and locating near the wells was going to optimize the marketability of their plant. That was important because they also learned early on that their target customers, the drillers and gas producers, weren't going to commit in advance to any purchase agreements.

"We found that the plant was going to have to be built entirely without contracts, completely speculative," explains Hedrick. "Gas companies just don't like long-term commitments."

Developing a project on spec is always stressful, but this was a $14 million investment. Adding to the tension of the development was the fact that what Hydro Recovery was proposing was almost entirely new to the state's regulatory agencies. At the time the project began moving through the entitlement and permitting process in early 2009, exploration of the Marcellus Shale formation had only just begun, with fewer than 100 wells drilled in the state. Moreover, the object of the Blossburg plant – to treat frac water – dealt with one of the most sensitive of the environmental issues associated with gas exploration. Opponents of the industry had raised alarms about the solids in frac water and several incidents of heightened levels of solids had been reported in Western PA. On top of all that Hydro Recovery was proposing a new type of chemical treatment, one that was proprietary and without commercial peers that the regulators could use for comparison. The net result was an extremely deliberate review.

"We spent almost two years in development to get all the permits," remembers David Hedrick. "What we were planning was just so new. We were only the second company to get a permit – the first to open in Tioga County."

To mitigate the slow pace and uncertainty of the development process Hydro Recovery decided to move forward with the project by putting a design/build team together and went out to a few companies with whom the management team had experience. The Hedrick family also owned limestone quarries and one of their contracted mining contractors was Hawbaker Inc. As an experienced engineering and contracting business, Hawbaker

THE PROJECT'S CRITICAL PATH HAD BEEN WORKED AND RE-WORKED TO DELIVER THE PROJECT IN SIX MONTHS ...

was invited to put together its own design and construction team. Hydro Recovery took bids from several companies but in the end felt most comfortable working with Hawbaker.

The comfortable working relationship turned out to be important as the nature of the project began to change almost as quickly as work got underway.

At the same time the permitting process moved along, the momentum of the natural gas industry in northeastern PA continued to build, as did the pressure to get the Blossburg plant open to the market before any other competitor for production water treatment could get a foothold. Without pre-sold or long-term agreements in hand, Hydro Recovery wanted to get to the point of being able to sell and promise delivery as soon as possible. The project's critical path had been worked and re-worked to deliver the project in six months or less but by spring 2010 it became apparent that the state and local approvals were going to take until fall. In addition to an already aggressive schedule, the team was now faced with the likelihood of doing almost all of the construction between fall and spring.

Hawbaker was responsible for the civil engineering and construction. Getting started in the fall meant that there would be lots of difficult days for excavation and compaction. It also meant that even elements that would normally be taken for granted – like site access – would become problems.

"Winter is a different beast up there, even more so than here in State College," says Pate. It's at least five or ten degrees colder and much snowier. There was lots of ground thawing and protection. Even keeping the access roads open – the freeze/thaw created so much mud – meant adding so much stone but that only worked for a few days at a time."

"The work started in October and we fought real hard to get through the winter," says Hedrick. "I think we had one of the worst winters ever in Tioga County last winter. One day the morning started out at minus 31 degrees. It seemed like it snowed every day and more than one day we had to spend hours just clearing a foot of snow before we could start any construction."

The harsh and mercurial weather created more than one challenge as the project ramped up. HydroRecovery's treatment process – which was developed in conjunction with manufacturer Siemens – relies on a chemical reaction that precipitates the solids and has a broad effective temperature range but can be adversely affected by extreme low temperatures, like those in northern Pennsylvania. Because so much of the treatment plant was going to be water containment facilities that were exposed to the outdoors, that weakness in the process was uncovered early on.

"It can get hotter and the process works fine but in Blossburg, where it can be five degrees or less for days at a time, the temperature of the water could drop to the point where the chemicals would be less effective and the reaction will precipitate out too fast," explains Brad Blickenderfer, project manager for engineer CJL Engineering in Johnstown. CJL had been hired by G. M. McCrossin to design the building and systems they were responsible for constructing. By the time the temperature issue was uncovered the tanks and basic plant configuration was designed and work had started. "The solution was to keep agitating the water in the tanks and to heat the water as it was moving from the tanks to the plant," says Blickenderfer.

Another critical discovery made early in construction was that the plant was going to be treating mud as much as water.

"Siemens developed the specs for pricing and purchasing based on water that was less than six percent solids but realized once we were underway that there was much more drilling mud in the frac water," notes Gary Pate. "They discovered that the process was going to be wrong so we needed to change the equipment, piping and some of the systems."

"A lot of the changes that had to be made could be managed by revising the design for the things that weren't already under construction," remembers Blickenderfer. "The contractors did a great job of adapting and building what we designed on the fly. They had to because this was just one of those jobs. We've done a number of design/build projects and usually there's a certain amount of design before there's any build, but Blossburg was kind of design and build at the same time."

Gary Pate credits the owners for managing the project's challenges. "The owners handled all the changes extremely well. They seemed not to want to hear about problems but just how we were going to fix it, and they dealt with any issues of extra compensation for the changes very fairly."

Pate also gave CJL high marks for being flexible about the direction they were getting, some of which involved unconventional responses.

"We worked together with CJL very well to deal with the problems that came up during construction, not at all like you would in a hard bid job" he notes. "Our motto with the engineers was to be smart and be quick. That meant that while there might be savings in there, we had to focus on doing things the right way."

As an example, Pate explained that instead of getting primed steel and painting it, which would have been difficult and less durable in the plant's ambient environment, they recommended buying galvanized steel. "Galvanized is more costly and it meant that it would take longer to have the steel delivered but it saved so much time in the field," he says.

For all the changes in direction and difficult weather the team was able to maintain the aggressive schedule and the Blossburg plant opened in April 2011, actually accepting HTDSF prior to the completion of construction. The completed facility includes a 6,300 square foot treatment building and 2,400 square foot office, two 340,000 gallon containment tanks, and processing facilities to recycle 300,000 gallons a day. At that rate Hydro Recovery estimates that their process of treating and recycling HTDSF for usable stimulation fluid will save 100 million gallons of fresh water from use in the exploration process. And by centralizing the intake and recycling from the field operations into a plant setting, Hydro Recovery can industrialize the treatment and assure the quality of the end product better. That allows them to add value to the process, which assures integrity for the environmental outcomes and uniform quality for their driller customers.

"Companies can do what we're doing at the site," acknowledges Hedrick. "But we believe in accepting the liability for the water. We can handle high solids that field sites just cannot."

The Hydro Recovery/Hawbaker/McCrossin team started construction on its new Antrim plant further west in Tioga County in November. That plant will include the process for treating acid mind discharge water as well as recycling frac water into hydraulic stimulation fluid. Hedrick is confident that this hybrid treatment/manufacturing facility is the future of water resourcing for the gas fields. By treating the AMD water Hydro Recovery further reduces the amount of fresh water used in gas exploration while eliminating an environmental problem, and paying the state a royalty to boot.

"Neil Hedrick is one of the premier environmental entrepreneurs I've ever worked with," says Brian Kaufman. "These projects continue that legacy of turning environmental liabilities into assets."

"At Blossburg we all learned a lot of lessons as a team," says Pate. "The design/build method is more of a challenge but it's also very rewarding. It's not so much being the one calling the shots but being able to have your opinion heard."

Getting in on the early stage of development in the natural gas industry is something that the participants seemed to understand was an unusual – if not once in a career – opportunity. Time will tell what will become the standard of care for the treatment of production water and for sourcing water for the gas fields, but the experience of delivering a high-priority project that is ahead of the curve in water treatment puts each member of the project team in an enviable position.

Brad Blickenderfer chuckles at the memory of the project's critical path. "This was the first job I worked on where the construction was done Friday and the design was done on Thursday," he says. "It was a great learning experience and it was great to be involved in a project that hadn't been done before." BG

PROJECT TEAM

- Owner............................Hydro Recovery LP
- Contractor.......................G.M. McCrossin Inc.
- Civil Engineer/Contractor ..Hawbaker Engineering Inc.
- Treatment Consultant.......Kaufman Engineering
- Design Engineer ....CJL Engineering
- Tank Subcontractor..........Statewide Aquastore
- Building Manufacturer .....Star Building Systems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Laurel Aggregates, Inc.

There is a lot to be said for the value of a well-timed accidental discovery in the evolution of a business. In the case of stone producer Laurel Aggregates, a couple of well managed 'accidents' paved the way for a healthy growth business.

The company is owned by the Laurita family from Morgantown, WV. The Laurita's have a multigenerational coal and excavating business that encountered a seam of limestone at one of its mines in 1996. To take advantage of this unplanned find the company opened a quarry and began to crush and sell limestone to its existing customers, as well as other businesses using limestone. Some of the company's best customers were power plants and the limestone was needed for use in the scrubbers that are part of coal-fired plants.

Within a few years the family purchased the former Martin Marietta quarry near Lake Lynn, south of Uniontown in Fayette County. The quarry had been previously sold by Commercial Stone to a competitor of Laurel Aggregates but that company had struggled to operate the quarry profitably because of a focus on volume. The quarry was well positioned to serve several of the power plants that were along the Monongahela and Youghiogeny Rivers near the Pennsylvania/West Virginia border. Laurel's management had no intention of expanding the operations into the commercial stone market until they found that the quality of much of the quarry's output was inadequate for use in scrubbers. Forced to look for other end uses for their stone, it was Laurel's good fortune that three of the four limestone seams they quarried produced stone that met the specifications of both PennDOT and WVDOT.

They were also fortunate that a major project was in progress right in their back yard. In 2001, Laurel Aggregates was able to land a contract with Mashuda Construction for a piece of the Mon-Fayette Expressway. It was the kind of opportunity that gave them experience with big projects and began what would be a great relationship with one of the region's more active contractors. The scale of the job allowed Laurel to begin investing in more equipment and growing their production to meet the demands of highway work. By 2003, the quarry was selling one million tons of stone annually.

Because of the Laurita's own construction experience they had an understanding of what was important to contractors and how to perform. The Lake Lynn quarry operation was still working through the transition and wasn't up to speed when the work for Mashuda began. At one point in the project the quarry was not going to meet a delivery so the Laurita's trucked stone from Morgantown at a loss to ensure that stone was at the site as promised. Their performance on the Mon-Fayette project made a believer out of Ralph Mashuda, who was not shy about recommending Laurel and vowed not to give his limestone business to any other company. A commitment to service became one of the underpinnings of Laurel Aggregate's business philosophy.

In June 2007, the company took advantage of another fortuitous accident and long-term relationship to help forge a new direction of growth.

Barry Fink was a CONSOL executive who had roomed with Jim Laurita Jr. in college. He had maintained his friendship with Jim and his family through the years and when he retired early Laurita approached him about taking the position of CEO for Laurel Aggregates. The owners felt that Laurel needed to be managed differently and believed Fink had the experience and philosophy that matched theirs. It turned out to be a good decision.

Fink brought a professional manager's style to the business but he was drawn to the chance to work for a small company with the willingness to evaluate and take calculated risks. "After 21 years with CONSOL I wanted to do the entrepreneurial thing," he says.

One of Fink's objectives was to diversify the business so that there was less seasonality and dependence on construction. Around the time he started with Laurel, he and his sales manager began to observe a change in the natural gas industry near their homes in Peters Township. Laurel worked in the natural gas business by supplying companies like CNX, Atlas Services and Equitable on their conventional shallow well sites.

"Chris Schweiger and I both live in Peters and we noticed that Range Resources had moved into Southpointe," he remembers. "So we cold called them. I remember one of their guys looked at me across the table and asked me if we would ever run out of stone. I told him that I was in the energy business before and understood what it meant to be ready to drill and have to shut down. He gave us a chance and we never let them down."

Succeeding at the chance to serve the first drillers in the Marcellus Shale exploration was exactly the kind of opportunity Fink was searching for. Gas drilling is a year-round activity and the premium is on performance and service before price. To capitalize on the opportunity, Laurel Aggregates began knocking on the doors of all the energy companies. Their experience, while limited in the Marcellus fields, was equal to any others and their devotion to service won business over to them.

By 2009, Laurel was producing almost two million tons of stone. They had built an organization that was sales and customer driven and became very good at managing the logistics of their quarry. Their business model was oriented towards serving third party customers – those without ties to a batch plant or a highway project – and they committed the resources to be able to serve all their customers' needs every day. Laurel subcontracts to private truckers and services between 150 and 210 trucks per day. That translates to loading a truck every five or six minutes.

Succeeding at the chance to serve the first drillers in the Marcellus Shale exploration was exactly the kind of opportunity Fink was searching for.

"We have five CAT 980 size loaders and keep three or four of them going at all times to accomplish that pace of production," explains Fink. "We want to have every product that a customer wants on the ground and ready to deliver at the time they need it."

The natural gas industry has been a boon to the commercial stone business but the demands of the business have also stretched suppliers thin. Laurel Aggregates saw these dynamics as another opportunity to build a complementary line of business by creating strategic partnerships with other quarries. Laurel had symbiotic relationships with a number of competitors who served somewhat differing customer bases. In 2009, Laurel began doing sales for quarries with limited sales efforts and providing full service logistics for others. The partnerships allow the quarries to backstop each other, driving business to underutilized quarries and preventing those at full capacity from failing to deliver. It's another revenue stream that also allows Laurel Aggregates the chance to deepen its business relationships.

As 2011 ended the Lake Lynn quarry surpassed three million tons for the year. By identifying new gas industry players before the rest of the region knew what the Marcellus Shale was, Laurel was able to grow their production dramatically while changing the blend of their business to 60 percent energy customers and 40 percent construction. Barry Fink has gone a long way towards achieving his goal of making Laurel Aggregates a year-round, full service provider and he sees the upside potential of their business as much greater in the future.

"We're going to be in the top 20 quarries in the state this year, but our goal is to be the number one customer-oriented stone producer and logistics service provider," he says. "I want our customers to know that if it's not right we'll fix it." BG

Company Facts

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Legal Perspective

DESIGN-BUILD PROCUREMENT IN PENNSYLVANIA? – SOMETIMES.

By W. Alan Torrance, Jr.
Shareholder, Construction Practice Group
Dickie, McCamey & Chilcote, P.C.

As trustees of our taxpayer dollars, public entities are required to spend as little as possible to purchase quality construction projects. To ensure that the process is fair and results in the lowest possible cost, Pennsylvania law generally requires the bid process to be fair by being open and objective, with price as the primary distinguishing factor among bidders. Traditionally, this was accomplished through the design-bid-build project structure.

Public owners, however, have long envied the success of design-build projects in the private sector. Through a single source of responsibility for design and construction, overall project duration from the beginning of design to final closeout is reduced. Not only does the reduced duration result is lower costs, the risk of conflicts and claims is virtually eliminated. However, bidding a design-build project that will comply with laws that evolved using the design-bid-build project structure is like fitting a square peg into a round hole.

With limited exceptions, Pennsylvania law requires that construction projects be awarded to a responsible contractor who has provided the lowest bid. The goal is to provide all responsible builders with an equal opportunity to perform the work and by doing so, the absolute best price will be obtained for taxpayers of the Commonwealth. Since all contractors are submitting bids to the same project criteria, the contractor that is best suited for the project is determined through an objective analysis, i.e. the estimated price to perform the work. Favoritism is avoided.

In a design-build contract, the owner establishes a "program", which is essentially a wish list for features it would like to see in the project. Unlike a design-bid-build project which requires all bidders to meet specific design and performance criteria, the requirements on a design-build project are much less specific, giving the design-build bidder more freedom to submit its vision for a successful project. By their very nature, design-build proposals will not be the same, injecting some subjective evaluation into the process.

In an attempt to gain the benefits of single-source contracting, the Pennsylvania Department of Transportation ("PENNDOT") has pursued projects on a design-build platform. PENNDOT's use of a project structure called the Design-Build Best Value (DBBV) method was declared by the Pennsylvania Supreme Court to be unfair and, thereby, illegal. Pursuant to instructions from the Supreme Court, on October 5, 2011, the Pennsylvania Commonwealth Court permanently precluded PENNDOT from using DBBV in its original form.

DBBV was instituted by PENNDOT, ostensibly, to narrow the number of proposals required for review for a given project. The key to the DBBV system is PENNDOT's creation of a "short list" of qualified DBBV bidders. While a short list procedure is somewhat similar to a pre-qualification process, which has been used for years, it is different in a significant way. Typically, the number of pre-qualified contractors who are eligible to bid on a given project is limitless. Conversely, a short list reduces the number of design-build bidders to a handful of contractors who are selected by PENNDOT on what has been described as subjective qualitative criteria such as: experience with similar work, management strategy for design and construction, timely completion and budget control, experience of key personnel, and past performance reports. While these criteria are weighted and plugged into a formula which lends some objectivity to the evaluation, the values for each of the criteria are primarily subjective.

PENNDOT's DBBV program entitled "Publication 448, Innovative Bidding Tool Kit" had two phases, which included:

Phase I – Identify Short List Contractor;

a. PENNDOT advertises the project with a general description of the work, technical qualifications desired, and a deadline for interested design-build teams to submit their response.
b. Interested teams submit a statement of interest which includes the various subjective criteria identified above, but does not include a bid or estimate for the work.
c. PENNDOT reviews the statements of interest and selects three to five design-build teams and meets with them to provide more detail regarding the project.
d. PENNDOT meets with the interested design-build teams who did not make the short list.

Phase II - Award of Contract

a. Each short list team submits a technical approach and price which is used as the basis for a stipend agreement.
b. A stipend agreement is negotiated with each interested design-build team. The stipend provides compensation to the design-build teams to prepare their proposal.
c. Each participating design-build team submits their final proposal.
d. PENNDOT reviews the submissions and awards the project based on its best value.

Obviously, best value is not necessarily the lowest price.

DBBV was used to bid, and ultimately award, a contract for a bridge project on Interstate 90 in Erie County. Subsequent to the establishment of the short list and before the date bids were due from the short list contractors, Brayman Construction Inc. and Steven M. Muck filed suit in the Pennsylvania Commonwealth Court seeking a temporary and permanent injunction to preclude award of the project. The basis of their objection was that the DBBV process was contrary to the Procurement Code and would compromise the integrity of the competitive bidding process by reducing competition.

From PENNDOT's perspective, the benefit of short listing was to incentivize those design-build teams truly interested and qualified to do the work. By providing a stipend to the short-listed design-build teams, detailed quality proposals would be received with little or no increase in design costs since upfront engineering costs to prepare detailed bid documents were largely avoided. Similarly, the design-build teams were properly motivated to submit quality proposals since they are being compensated to do so. In addition to reducing the cost of the construction itself, it is quite likely that PENNDOT would also realize savings in its engineering costs not only on a unit basis, but also due to the shortened design and construction duration.

In *Brayman Construction Corporation and Steven M. Muck v. Commonwealth of Pennsylvania, Department of Transportation,* the Commonwealth Court agreed with Brayman and Mr. Muck that the DBBV process was overly subjective and not authorized by the Procurement Code. Although PENNDOT argued that short listing was nothing more than "a high end pre-qualification process," the court disagreed because the criteria used to establish the short list or evaluate bids from the short list contractors were not set forth in the invitation for bids.

Is this the end for alternatives to traditional design-bid-build? No, but what must a public owner do to satisfy the law?

Challenging the traditional method of a competitive sealed bid is nothing new. In 2007, the Pennsylvania Supreme Court held *in Pennsylvania Associated Builders and Contractors, Inc. v. Department of General Services* that the Procurement Code permitted the Department of General Services ("DGS") to use a sealed RFP / Negotiated Price approach in lieu of competitive sealed bids for "complex" construction projects, or those with a value in excess of $5 million.

Interestingly, in Brayman, PENNDOT did not rely on the arguments successfully used by the DGS in Associated Builders. Nonetheless, the Supreme Court in Brayman, explicitly stated that the Procurement Code does not prohibit PENNDOT's use of a sealed RFP / Negotiated Price approach in other instances. This was nothing short of an invitation to PENNDOT to try a different, more objective, method to bid projects.

There is little doubt now that PENNDOT will look for a new bid method. The Pennsylvania courts will permit alternatives to the traditional design-bid-build project obtained through a competitive sealed bid. However, they have repeatedly stated that the only way in which the public can be sure it is getting the "best" price, is for the bidding process to be open to all qualified bidders to compete against one another based on clearly stated criteria. Anything less will likely be rejected.

The challenge to buyers such as DGS and PENNDOT is how can they employ design-build project structures which use sufficient objective criteria and a sealed competitive proposal process to comply with the Procurement Code?

In the final analysis, criteria that can be measured and quantified, will lead to a perception of increased objectivity in the process. While design-build proposals often vary in a number of different ways, each proposal must include an objective, quantifiable analysis. In this way, subjective measurements such as those identified above can be quantified to level the playing field amongst all bidders. BG

Management Perspective

Highlights of Why the AGC's Membership Unanimously Voted Not to Endorse the 2007 Edition of the AIA A201 General Conditions Documents

By Jack Ramage

The design and construction process can be fragmented, adversarial and inefficient. In today's market, an owner can draft almost any contract and find at least one contractor willing to sign it. However, unfair contracts significantly raise prices, some say more than 20 percent, and result in failed projects and litigation. Negotiating a construction contract is one of the first and most important steps in creating the right foundation to build a successful project. Unfortunately, contracts often repeat a pattern in which risk is pushed down the contractual chain to the weakest party instead of the party in the best position to manage and mitigate that risk.

In 2007, AGC's 600-member board unanimously voted not to endorse the AIA A201 General Conditions document. AGC's decision was done after careful vetting with the AGC Contract Documents Committee and individual AGC chapters, all who expressed deep concerns that AIA A201 does not balance risk fairly, but instead significantly shifts risk to general contractors and other parties outside of the design profession. The increased risk to general contractors stands in stark contrast to the role of architects whom are bestowed immense authority without commensurate responsibility. AGC's unanimous decision not to endorse the AIA A201 was the first time AGC did not endorse the document in more than 50 years. Since then, there has been a growing consensus that the AIA A201 is certainly not in a general contractor's best business interests.

Some highlighted, but certainly not an exhaustive list of concerns that place General Contractors at risk when confronted with the AIA A201 include:

Highlighted Concerns of the AIA A201

1. **Restricts a Contractor's Ability to Obtain Owner Financial Information** (Section 2.2.1)
Obtaining timely and full payment is critical to any contractors business. Consequently, obtaining project financing information in a timely matter is the lifeblood for Contractors to protect their business interests. New language requires a Contractor to make a showing to obtain owner financial information once a project commences. A Contractor's ability to stop work for an Owner's noncompliance has been curtailed. Today's economy makes this provision even more critical and the AIA's approach more troubling.

2. **Potential Liability When an Owner or Architect Impose Means, Methods, and Techniques** (Section 3.3.)
If any damages occur when using Owner or Architect imposed means or methods, new language requires the Contractor to show any damage is "solely from those Owner required means, methods and techniques."

3. **Restricts Communications by the Contractor to the Owner** (Section 4.2.4)
Contractors are contractual directed to funnel all communications through the architect, rather than direct party communications, which are considered best practice. The A201 references the Architect more than 260 times in just the general conditions document making their role pervasive and creating unnecessary contractual silos.

4. **Inserts an Owner's involvement with Payments Between A General payment to a Subcontractor** (Section 9.5.3 and 9.6.4)
Owners are now given the discretion to issue joint checks for a General and Subcontractor. Also, Owners may require written evidence of a Contractor's payment to its Subcontractors.

5. **New Unclear Standards When Encountering Differing Site Conditions** (Section 3.7.5)
New language requires an immediate work stoppage upon encountering human remains, burial markers, archaeological sites or wetlands. Definitions of such conditions are not provided.

6. **Inserts an Owner/Architect into the Approval of a Contractor's Superintendent** (Sections 3.9.2-.3)
Creates a new Owner/Architect approval process for a Contractor to designate or to change a Contractor's project Superintendent.

7. **Creates Dire Consequences Regarding Submittal Schedule** (Section 3.10.2)A Contractor must provide a written submittal schedule that must be approved by the Architect. Failure to meet this new requirement will prevent a Contractor from obtaining time or cost adjustments based on actual time submittal reviews.

8. Creates New Exposures for Unanticipated Encountering of Hazardous Materials
(Sections 10.3.4-10.3.5)
When a Contractor handles hazardous materials which are not anticipated at the worksite, the Contractor is now required to indemnify the Owner.

9. Defective Construction Insurance Coverage
(Section 11.1.7)
New language requires a Contractor to provide insurance that does not appear to exist for "continuing operations" after a Contractor has completed a project.

10. Muddies the Water for Initial Decisions
(Section 15.2.6)
The A201 creates an ambiguous trigger which will likely restrict a Party's ability to dispute an initial decision if a 60-day timeframe is not met.

Since its inception four years ago, ConsensusDOCS has grown its user base despite a depressed construction economy. Owner groups such as the Construction Users Roundtable, the Construction Owners Association of America and the National Association of State Facilities Administrators are actively involved in the writing and endorsement of the contract forms. Associations representing all other segments of the construction industry also are involved, including general contractors, specialty contractors, subcontractors, suppliers, design professionals and sureties.

ConsensusDOCS published comprehensive revisions to its core agreements in 2011. The contract documents offer distinct advantages over the American Institute of Architects contract forms and the custom contracts firms are regularly asked to sign. Fair contracts that appropriately allocate risks and incorporate best practices help improve contractors' bottom lines.

Contract fairness starts with the owner, and the 2011 updates to ConsensusDOCS benefited from the active participation of owner organizations. The 2011 revisions refine the original agreements, as the coalition acknowledges the necessity of contracts to evolve with developments in the design, construction, insurance and surety industries.

Contractors would be wise to consider using ConsensusDOCS rather than attempting to modify another contract form that doesn't reflect today's industry needs. By doing so, a better agreement can be reached with far less transaction cost and attorney involvement. BG

Financial Perspective

Pennsylvania Act 32

By John R. McMurtry, CPA
and Matthew C. Nowaczynski, CPA

On July 2, 2008, former Governor Ed Rendell signed into law Act 32, which completely changed how Pennsylvania's local earned income taxes were imposed and collected. While early adoption was permitted and in some localities required, the law stipulates that employers must comply by no later than January 1, 2012. The inefficiencies of the previous tax system were estimated to cost the Commonwealth and its taxing jurisdictions in excess of $200 million tax dollars annually, mostly because of payroll deductions not being remitted by employers and misappropriation of funds. Act 32 was enacted to make the collection and submission process more simplified, improve the Commonwealth's taxing jurisdiction's cash flow and reduce the burden on employers for reporting and withholding.

Under the Local Tax Enabling Act 511 of 1965 ("Act 511") employers were only required to withhold the worksite earned income tax ("EIT") and not the employee's resident EIT. Additionally, each locality and school district had the options of setting their own tax rates and choosing who would collect the EIT. While each locality and school district still has the authority to set their own tax rates (both resident and non-resident), Act 32 amended Act 511 to require employers to remit earned income tax withholdings for all resident and nonresident employees. Specifically, Act 32 requires employers to withhold the greater of either the worksite non-resident EIT or the employee's resident EIT. For example, if the employee's domiciled EIT rate is 1% and the employer's worksite location is 2%, the employer is required to withhold 2%.

While some employers did provide their employees with the courtesy of withholding their resident EIT, Act 32 was enacted to eliminate the confusion and interpretive practices of employers by establishing clearer rules. Additionally, Act 32 was designed to eliminate inefficiencies in Pennsylvania's local EIT collection system by transferring the administration of the existing EIT collection system from the existing municipalities and school districts in Pennsylvania to countywide Tax Collection Districts ("TCDs").

Act 32 reduced the former 560 TCDs, previously determined and established at the discretion of the localities and school districts, to only 69 TCDs. The streamlining of the collection of EIT on a county-wide basis resulted in each county within the Commonwealth having one TCD with the exception of Allegheny County, which due to its size has 4 TCDs, and Philadelphia.

The City of Philadelphia is exempt under the Sterling Act of 1932. This law grants Philadelphia the authority to impose taxes that are exempt from state taxes and licenses. Currently, employers within Philadelphia are required to withhold and remit EIT for all of their employees who reside in Philadelphia, even if they are employed at a site outside of Philadelphia. As such, Philadelphia is exempt from Act 32.

Each TCD established a Tax Collection Committee ("TCC"), which is made up of representatives from each political subdivision ("PSD") or taxing body located in the TCD. Act 32 called for each TCC to appoint a Tax Officer to collect the EIT on behalf of all of the PSDs in each TCD by September 2010. The appointed Tax Officer may be a PSD, county, tax bureau or private entity such as Berkheimer, Keystone Tax Collectors, Central Tax Bureau, etc.

Employers within the Commonwealth who employ one or more persons for compensation were required to register with the Tax Officer within 15 days of becoming a responsible employer. Employers are defined as an entity having a factory, workshop, branch, warehouse or other place of business within the jurisdiction. In addition to registering, employers were required to complete and retain a Certificate of Residency for each employee. This Certificate of Residency identifies the PSD and PSD codes where the employee works and lives. If an employee changes their address or domicile, the employer is required to obtain and retain a new Certificate of Residency.

The PSD codes are used in conjunction with the Local Tax Register, which was created by the Department of Community and Economic Development ("DCED") under Act 32, to determine the applicable resident and non-resident EIT rates. The PSD code is a six digit number with the first two numbers identifying the county, the second two numbers identifying the school district and the last two numbers identifying the municipality or locality of the employee's domiciled residence or the employer's worksite.

Employers with a single site are required to withhold and remit all EIT to the Tax Officer or Tax Collector they are registered with. Also, within 30 days following the end of each calendar quarter, the employer must file a quarterly return with the Tax Collector. Employers with multi sites are permitted to remit the EIT to the Tax Collector in the TCD in which it houses its payroll offices. The Tax Collector is then charged with remitting the monies to the appropriate Tax Collector in respective TCD. A multi site employer can either (a) report quarterly for each place of employment as described for the single site employer or (b) within 30 days following the last day of each month, the multi site employer must file the tax return information and pay the total amount of income taxes deducted from employees in the previous month to the tax collector in either the TCD in which the employer's payroll operations is located or in the TCD as determined by the DCED. Under this option, the return and income taxes deducted must be filed and paid electronically. An employer must file a notice of intention to file combined returns and make combined payments with the Tax Collector for each place of employment at least one month before filing its first combined return or making its first combined payment.

When filing the tax returns, the following information must be reported:

1. The employee's name, domiciled address and social security number.
2. The employee's compensation for the reporting period.
3. The total income tax deducted from the employee and paid with the return.
4. The PSD code and the PSD imposing the resident tax rate.
5. The name of the municipality and school district of the PSD imposing the resident tax rate.
6. The employment place location address of each employee, more specifically, the address of the location where an employee is normally based and conducts daily activity.
7. The PSD code of the municipality and school district imposing the non-resident income tax for the employer's site.
8. The name of the municipality imposing the non-resident income tax upon employees for the employer's site.
9. The total compensation of all employees during the reporting period.
10. The total income tax deducted from the employees and paid with the return.

Inclusion of incorrect information or exclusion of needed information may result in payment of tax to the wrong school district or municipality. Employers that have failed to deduct or pay over the proper amount of tax for two of the previous four quarterly periods may be required by the Tax Collector to file returns and pay tax monthly. In such cases, payments of income tax shall be made to the Tax Collector on or before the last day of the month succeeding the month for which the EIT was withheld from the employees.

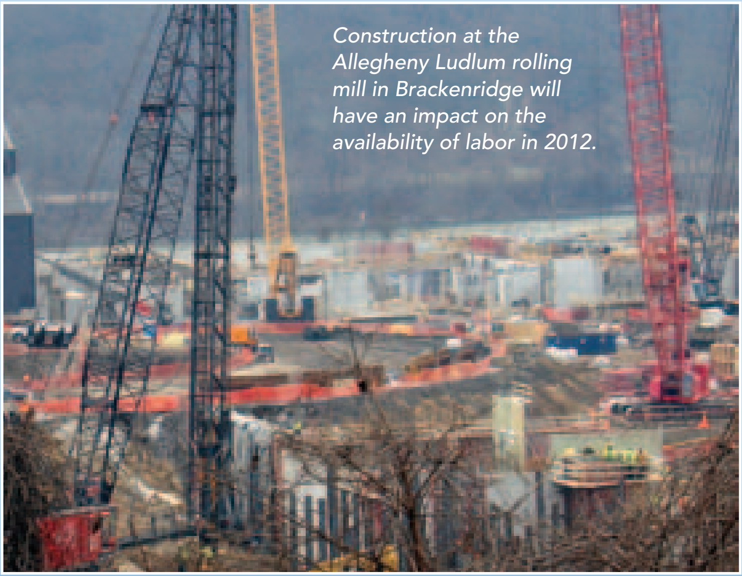
If tax is remitted late, the employer is required to pay interest at a rate established by the Commonwealth of Pennsylvania on the unpaid EIT amount, and an additional penalty of 1% of the unpaid EIT amount for each month or fraction of a month during which the EIT remains unpaid. Additional penalties may apply as stated in tax ordinances of municipalities or tax resolutions of school districts. In addition to these penalties, if the tax is not remitted when due, the employer may be liable for the cost of collection.

John McMurtry is managing partner, Tax Advisory Services at KFMR Katz Ferraro McMurtry PC and can be reached at jmcmurtry@kfmr.com. Matt Nowaczynski is manager of Accounting, Assurance and Advisory Services and can be reached at mnowaczynski@kfmr.com. BG

Trend to Watch

A Construction Labor Shortage Looms

The rebirth of an industrial base of employment and the steadying effect of the strong education and healthcare industries are being celebrated for buffering the negative impact of the recent recession and leading Pittsburgh to a new era of prosperity. But those strong businesses are also creating a tight construction labor market. For developers and building owners hoping to take advantage of a competitive market for good pricing, the market may have a surprise in store in 2012.



Construction at the Allegheny Ludlum rolling mill in Brackenridge will have an impact on the availability of labor in 2012.

During the extended construction boom cycle between 2005 and 2009, labor became unavailable for several years. The overall volume would have consumed much of the skilled labor during that time but the unusual number of large projects – 22 projects over $100 million during a five-year period – was especially constricting, since workers tended to stay with a multi-year project to the end. In the latter years of that cycle all trades were at full employment and a significant amount of the labor force was imported or traveling workers.

As backlogs declined in 2009, workers began returning to unemployment. Coincidental to that cyclical recession, however, was the start-up of the natural gas exploration in Western PA. As drilling expanded and nearly a billion dollars was invested in processing, production and distribution facilities, the demand for construction workers increased so that employment in construction remained above the normal lows for a slowdown and significantly below the national average of more than 20 percent.

The kind of work associated with gas exploration was a boon to several skilled worker groups, notably the equipment operators and the pipefitters.

"We have been at full employment for a while but have been able to meet the contractors' needs as workers get off one job and go to another," says James Kunz, business manager for the Operating Engineers Local 66. "The Operators have benefitted probably more than any other trade from the natural gas industry. That's now getting into drilling sites and the infrastructure."

"We are excited about the increased work opportunities being created with all the gas pipeline work in our area and across Pennsylvania," says Philip Ameris, business manager for the District Council of Laborers. "I am confident the demand for qualified workers will increase and our members will be ready to perform work on the gas pipeline jobs. With the amount of work to be created in this area, I would expect an increased utilization of our members in the coming year."

Labor and management both find themselves looking ahead at an employment market that could make it challenging to flexibly staff construction, especially after the middle of 2012. While the situation will vary from trade to trade and contractors may disagree as to the degree the shortage will exist, there is no disagreement about what is absorbing all the labor, and that is industrial and natural gas projects.

"On the commercial side there's some big work wrapping up – the UPMC hospital in Monroeville and a lot of work at CMY and the universities – that was keeping the mechanicals busy," says Regis Claus, executive director of the Mechanical Contractors Association. "My guys are a little leery of the first two quarters. But here's the good news: the natural gas work is going strong. We've been doing the compressor stations and have 75 traveling welders working."

"I was always skeptical about talk of a labor shortage in the past when there was talk of a lot of work or a lot of retirements, but this is a little bit different," says Ruthrauff Sauer president and general manager Ray Gajski. "This Allegheny Ludlum job is for real and it's going to mean employment for a lot of fitters and electricians. And if even half of what I read about the gas industry is true we're going to be swamped for a long time."

Gajski is referring to the new $1.2 billion rolling mill under construction for Allegheny Ludlum in Brackenridge but the new pipe mill being built by V & M Star in Youngtown is also drawing labor from this area. Pittsburgh contractors like Mascaro Construction are involved in portions of the V & M Star project, which has more than doubled in size to about $1.4 billion. Construction in the gas operations is drawing more of the trades that are usually associated with building construction as the industry builds capacity to compress and process the gas and gas liquids. Several of these facilities, which typically run $15 million to $30 million are underway now, but developers MarkWest and Keystone Midstream have plans for at least a dozen more in the next year or so. All of this demand for labor is above and beyond the demand that is growing for building construction.

"When you combine all that industrial work with the UPMC research building and the PNC Tower we'll be back to having travelers in the city again," says Gajski.

Workers who live elsewhere but come to a market to follow the construction are the 'travelers' about whom Gajski and Claus speak. Attracting workers from outside the area has been the strategy for keeping up with demand for the Operating Engineers.

"It has been an advantage for us that the surrounding states have been slow so we can call to our counterparts in those states and get a qualified operator from another local," explains Kunz. He says that while there is always an element of risk in taking on someone who was not trained and observed locally, they have a fair amount of information at their disposal. "We kept track of the travelers from the mid-2000's and the late 1990's when we were busy. Reputations get known pretty well, both good and bad."

The Operators have plans to double their apprenticeship class in the coming years, both to add to capacity but also in anticipation of a higher rate of retirements coming later in the decade.

Mark Thomas says that increasing apprenticeship has been a strategy for the Ironworkers as well. "We brought more apprentices – 40 or so – on six months ago. We added another class of about 40 in mid-December and it looks like we'll have maybe another 50 or more in six months," notes Thomas, who is the business manager for Local 3 in Pittsburgh. "We're busy with Allegheny Ludlum and the USSteel job in Clairton and preparing for the PNC Tower but we're really picking up generally all over."

One problem facing the construction trades right now is that some of the booming industries are also competitors of sorts.

"In the mechanical trades the industrial work pays at a higher scale," explains Gajski. "With the amount of industrial work that is going it will attract labor to those jobs first. It could leave us with a real shortage for the commercial building work."

Rich Barcaskey is the executive director for the Constructors Association of Western Pennsylvania, whose members are the heavy and highway contractors in the region. The heavy and highway market is down significantly because of less public funding, yet Barcaskey is seeing some of the same problems.

> We are excited about the increased work opportunities being created with all the gas pipeline work in our area and across Pennsylvania …

"Labor has definitely become an issue for our members," he says. "Highway hours are down but labor is getting tied up more and more with pipelines and drilling field work."

Aside from the immediate need for project labor, the natural gas industry presents longer term issues for contractors and labor groups. "We always talk to our members about the need for workforce development but when there's a bust everyone forgets about it," says Barcaskey. "Now there's also competition from an industry that's perceived to be in better shape than construction."

Developing the specific skill sets needed for the industrial and gas projects is a priority for many of the trades. For the mechanical contractors, for example, pipefitters need a welding certification that not all have – or need – to be productive in the commercial or institutional markets.

"We can't find enough welders right now," explains Claus. "The fitters have about 50 or 60 people on the bench out of about 950 but that's less than the number of travelers welding in the field."

On many levels a pickup in work that creates full employment is a very good thing. For certain, fully employed skilled workers making higher wages purchase more, pay more taxes and invest more for their future and their families'. The potential downside of full employment in construction is that it can create uncertainty about a key element in the successful performance of a contractor: the productivity of the labor. That doesn't mean that fully employed workers or traveling laborers aren't as productive but rather that the contractor estimating his or her cost will not be certain of the productivity of unknown labor. Uncertainty increases the perception of risk and risk costs money.

For owners planning to start new projects in mid-2012 or later, who haven't finished a design or signed a contractor, the change in labor climate may be a surprise. This will be especially true for owners who have done a few projects over the last few years and found that the market was giving them a recession discount. Contractors are still feeling the discomfort of that recession and most have not rebuilt backlogs that have them fat and happy. Competition for work will still keep margins lower than desired but the days of discounting may be gone until the next recession. BG

Lazy Marketing, Lazy Image!

By Tom Woodcock

As I work with firms all over the United States I find a condition almost epidemic to our industry, "Lazy Marketing"! For an industry that works so diligently to build the facilities we work and live in, it truly boggles my mind how half cocked most marketing efforts are. Now I know I'm a sales guru but any sales individual worth their salt will tell you they need good marketing techniques to grease their path. Effort in any facet of business relates directly to the value placed on that facet. Unfortunately, very little value is placed on a good, solid marketing campaign. Now I know you're getting hit from all directions from consultants and marketing firms to invest in their great products, services and programs. It can be mind boggling sorting through the need for social media or jumping to the top of a Google page. My motto has always been to be patient and see what techniques stick and produce then incorporate them.

I find there are three basic reasons most construction-related firms struggle with their marketing plans:

Flat Out Lethargy: If you don't completely see the value of marketing to your clients you just won't do it. You'll delay, go cheap or worse, do nothing at all. You feel it's all a waste of time and resources. You can't see any immediate results therefore it isn't necessary. Well, time to become a real business person. Marketing gains you exposure. Most people who call a contractor for the first time have recently seen or been touched by a sales and marketing effort. As good as you think your company's reputation is, if you don't promote that value, far fewer know of them than you may think.

Fear of Expense: I've heard of people paying from $50,000 to $100,000 for a re-branding program. For some reason the term "hoodwinked" comes to mind! With the advent of electronic marketing, costs have dropped significantly. E-newsletters, e-blasts, social media and websites have drastically reduced the price of a good campaign. You really don't need to go to a training class to learn their effectiveness. Teach yourself! If you lack creativity, hire someone on a per project basis to help. Or retain a reasonable marketing consultant to run your annual campaigns. Unless you're a super sized firm you really don't need a full time marketing person to do your eblasts! Hire the sales and business development person instead.

Lack of Discipline: This one drives me nuts! Some firms start doing marketing campaigns, get results and then don't stay consistent with them. What!? I know crazy isn't it? Any time you garner the attention of potential customers you're reinforcing your brand. Why wouldn't you want to continue to do that? If "outta sight, outta mind" is true then so is "in sight, in mind"! Make sense? Of course it does! Is it really that difficult to have good bid presentation materials, get a newsletter out a whole once a month, keep your website updated or have a sales slick to put in a potential customer's hand? I'll answer that for you, NO!

We spend a great deal of time helping contractors understand the need for marketing programs and campaigns. They often need a great deal of assistance creating and managing them. But those that are consistent in implementation get results and swear by them. Not every marketing idea works and some are shams, i.e.: paying for leads, paying to climb to the first page of Google, and paying someone to manage your Linkedin account. They are not as time consuming as you may think and many of the new, proven electronic means are here to stay. Remember 15 years ago when you thought email was a fad? What do you think of it now? Your clients that are between 25 to 35 years old are communicating via the web. Are you marketing aggressively there? Or are you more worried about wasting a client's time or filling their email queue?

If 70 percent of people delete electronic newsletters that means 30 percent don't! If you send one to 2,000 targets or existing customers, it means you have 600 readers a month! Tell me another way to get the attention of 600 qualified targets a month! The Midwest is still significantly lagging in this area as compared to the coasts and major metropolitan areas in Texas. Yes, I said Texas. Even though we have all the same resources they have available to us. You can develop an image as good as some of the highest profile companies in the world for a fraction of the costs. People trust professionalism and obviously distrust non-professionalism. Look, if you're in one of the above categories change it now. You're not too late. As a matter of fact, in the construction industry, you're still ahead of the curve!

The Holidays offer a great example of lazy marketing. The common thought is that most customers have spent their yearly budget, or are putting off orders or projects till next year, or maybe simply gearing down themselves this time of year. I always loved when companies I competed against took this posture. I would do exactly the opposite. I would sell like crazy! Get in front of as many customers as possible. Do everything I could to put myself in position to at least get first in line for the next year's spending or even grab the last bit of budget money sitting in the current year.

Many of your customers are actually much more accessible that time of year. Even the various parties and events that pop up I use as legitimate sales opportunities. Why? Because very few of my competitors do! This does require planning and tact. In this current economy most companies have cut back on thank you gifts or lunches for faithful customers. Perfect! That opens the door for me to come in and get my foot in the door.

So the Holidays are the time to go for it! Next Thanksgiving start filling your schedule with customer contacts and don't be afraid to go after some of those tougher targets. This time of year may be your best chance to wiggle your way in. Get ahead of the new year. Your competitors will see you there, from behind!

Author, and critically acclaimed speaker, Tom Woodcock is known as one of the most dynamic sales trainers and consultants in the sales industry. Each year he speaks to thousands of people about how best to compete in today's intensely competitive economic climate. At nineteen, Tom took a $150,000 equipment territory and grew it to $2.5 million in one year. While at Caterpillar, Tom trained 325 sales reps for a $750 million nationwide equipment firm. Learn more about Tom Woodcock at www.tomwoodcocksealthedeal.com.

INDUSTRY & COMMUNITY NEWS

Young Constructors Ring in the Holidays for Toys for Tots, Lemieux Foundation

On December 1, 2011, the Master Builders' Association Young Constructors (YC) hosted their Fifth Annual Holiday Party at the Hofbrauhaus in South Side Works, raising $5,000, and counting, for the Mario Lemieux Foundation and 250 toys for the Marines Toys for Tots Foundation.

Representing the Young Constructors are (from left) Nello's Gino Torriero, Brett Pitcairn of PJ Dick, TEDCO's Dan Bell, and Jen Landau with Drew Parish of the Mario Lemieux Foundation

Kimberly Scalise with Dustin Giffin and PJ Dick's Mike Koza (right).

Mascaro "Gets Together" for Cystic Fibrosis

Mascaro held its fourth annual "Get Together for a Cause," benefitting the Cystic Fibrosis Foundation on Tuesday, November 15. John Mascaro, Jr. and Nate Martin were the celebrity bartenders at McFadden's on the North Shore, and this year's event raised approximately $4,000 to help those dealing with cystic fibrosis.

Builders Exchange Honors Howard Pfeifer

The Pittsburgh Builders Exchange held its annual banquet November 11 at the Grand Concourse. The highlight of the evening was the awarding of the Tink Bryan Memorial Award to Howard Pfeifer. The honor goes to individuals whose careers in the construction industry were marked with excellence and service to the community. The award is in memory of Frank Bryan Inc. owner Thomas 'Tink' Bryan.

David Bryan (left) and Tom Bryan, sons of Tink Bryan with Jeffrey Landau, honoree Howard Pfeifer and Builders Exchange executive director Del Walker at the PBX annual banquet.

ASA executive director Angela Wentz with Debra Pitschmann of Case Sabatini.

Mark Edgar (left) of Mosites Construction with John Paul Busse at the PBX banquet.

Massaro Serves the Neighborhood Academy

On Friday, December 16 a group of Massaro employees cooked and served lunch for the students at The Neighborhood Academy. The students enjoyed the lunch and participated in a raffle for holiday items. It is an annual event and one that both Massaro & the Neighborhood Academy look forward to!

(Left to right) Mike Katz, John Buechli, Randy Hartsock of Massaro serving lunch.

(From left) Panelists Chip Desmone and Dan Rothschild with Chris Klehm of E2 at the Young Constructors/Young Architects Forum seminar on delivery systems.

Ductmate's Ray Yeager with GBA's Mike Schiller at the GBA member networking cruise on Nov. 18.

James Struther and wife Diane at the MBA's 125th Anniversary gala.

AWARDS & CONTRACTS

The Department of General Services awarded Nello Construction a $10 million contract for general construction for additions and renovations to Ross Hall at Edinboro University. Roth Marz Partnership is the architect for the $16 million project, which involves an addition of 11,565 square feet to the existing 35,000 square foot building.

Nello Construction was awarded a $49 million contract for the general trades on Mt. Lebanon's $88 million new high school project. Celli-Flynn Brennan Architects & Planners designed the school, which includes 240,000 square feet of new construction and 245,000 square feet of renovation.

South Fayette School District awarded Massaro Corporation a $15.9 million contract for the general trades portion of their $24.5 million new Intermediate Elementary School. Eckles Architecture is the architect for the new 124,000 square foot school.

Massaro Corp. was awarded a contract for $1.5 million renovation to the UPMC/St. Clair Memorial Hospital Cancer Center at St. Clair's campus on Bower Hill Road in Mt. Lebanon. IKM Inc. is the architect.

Massaro Corporation has been selected by Auberle to serve as the general contractor for the renovation of an existing rectory into a girl youth home on their McKeesport campus. This 8,000 square foot project is slated to be completed in spring 2012.

Mosites Construction is renovating approximately 148,000 square feet for a UPMC distribution warehouse and office at 405 Keystone Drive at the RIDC Thorn Hill Industrial Park in Cranberry Township.

F. J. Busse Company was the successful contractor for the 18,000 square foot tenant build-out of Maya Design's offices in Gateway Center. EDGE Studio is the architect for the $1 million project. Busse was also selected to manage the construction for the Western PA School for the Blind's HVAC replacement project.

PJ Dick Inc. was awarded a $19 million contract by the Department of General Services for general trades construction on the $34 million renovation and expansion of the Tullio Arena and Erie County Convention Center in Erie. The architect for the project is a joint venture of Friday Architects/Sink Combs Dethlefs Sports Architecture.

Mylan Inc. selected PJ Dick as contractor for its new 250,000 square foot, $50 million headquarters in Southpointe. The architect for the building is Cooper Carry from Atlanta, GA.

Rycon Construction Inc. was the successful contractor for the $4 billion fit-out for the new JCPenney store in Monroeville. KA Architecture designed the project, which is a renovation of 110,000 square feet of the former Boscov's space in Monroeville Mall.

UPMC awarded Rycon Special Projects Group a $1.2 million contract to renovate the Cardiovascular Institute / Time Share / Primary Care departments within the Natrona Heights facility. Designed by Image Associates, this project is scheduled for completion in the spring.

At the UPMC West Mifflin Imaging Center, Phase 3 will soon be under construction by Rycon Special Projects Group. The project was designed by IKM Architects and is scheduled for completion by late winter.

Within Dick's Sporting Goods' new headquarters, the 4th Floor East Wing renovation project will be completed by Rycon Special Projects Group before the spring.

At West Virginia University, Rycon Special Projects Group will remodel the 1,500 square foot Natatorium Foyer & Corridor. Rycon was also selected to do the Incline Equity fit-out on the third floor of EQT Plaza. The Design Alliance is the architect.

*** CORRECTION OF NOV/DEC ISSUE ***
Rycon's contract for the UPMC Passavant S&T Buildings is $11.5 million, not $7 million as published.

Accenture awarded a contract to TEDCO Construction for tenant improvements to its space on the 36th floor of the Ariba Center downtown. The Design Alliance is the architect.

TEDCO was the successful contractor on the University of Pittsburgh spectroscopy laboratory on Chevron Hall's seventh floor. The project was designed by Renaissance 3 Architects.

TEDCO has completed construction of the new Fidelity Investment Center in the Presidential Plaza on Washington Road in Bethel Park. The 5,000 square foot space was designed by KlingStubbins Architecture.

G. M. McCrossin Inc. was awarded the contract for general/mechanical/electrical construction of the Antrim acid mine drainage water treatment and hydraulic stimulation fluid manufacturing facilities in Duncan Township, Tioga County for HydroRecovery LP. The $16 million plant is a design/build project with Hawbaker Engineering.

REIT Management & Research selected A. Martini & Company as the contractor for URS Corporation's 25,000 square foot tenant buildout at Foster Plaza. The project was designed by Gensler's Chicago office.

A. Martini & Co. was awarded a contract for the new $4 million Kaplan School at 933 Penn Avenue, a renovation of 58,000 square feet. Burt Hill/Stantec is the architect.

Mascaro Construction received a contract from the Diocese of Pittsburgh to provide construction services for the new Cardinal Wuerl North Catholic High School project designed by Astorino. Currently in the preconstruction phase, it is anticipated that construction will start in the spring of 2012.

Mascaro began construction of the Indiana Musculoskeletal Institute medical office building in

Indiana, Pennsylvania. Owned by COSM Realty Group, Ltd. and designed by IKM, Inc., this 38,610-square-foot building is expected to complete in early Fall 2012.

Mascaro is the construction manager at risk responsible for 2,000 square feet of renovation in Old Engineering Hall to construct the new Frolov Laboratory. This University of Pittsburgh lab will support a new research group focused on quantum phenomena in nanoscale devices. Wilson Architects is the designer.

Mascaro received the Learning and Development Award from the Pittsburgh Human Resources Association on November 9, 2011. Mascaro was one of three firms from Western Pennsylvania recognized in the People Do Matter awards program for its innovative approach to investing in its employees through training and coaching.

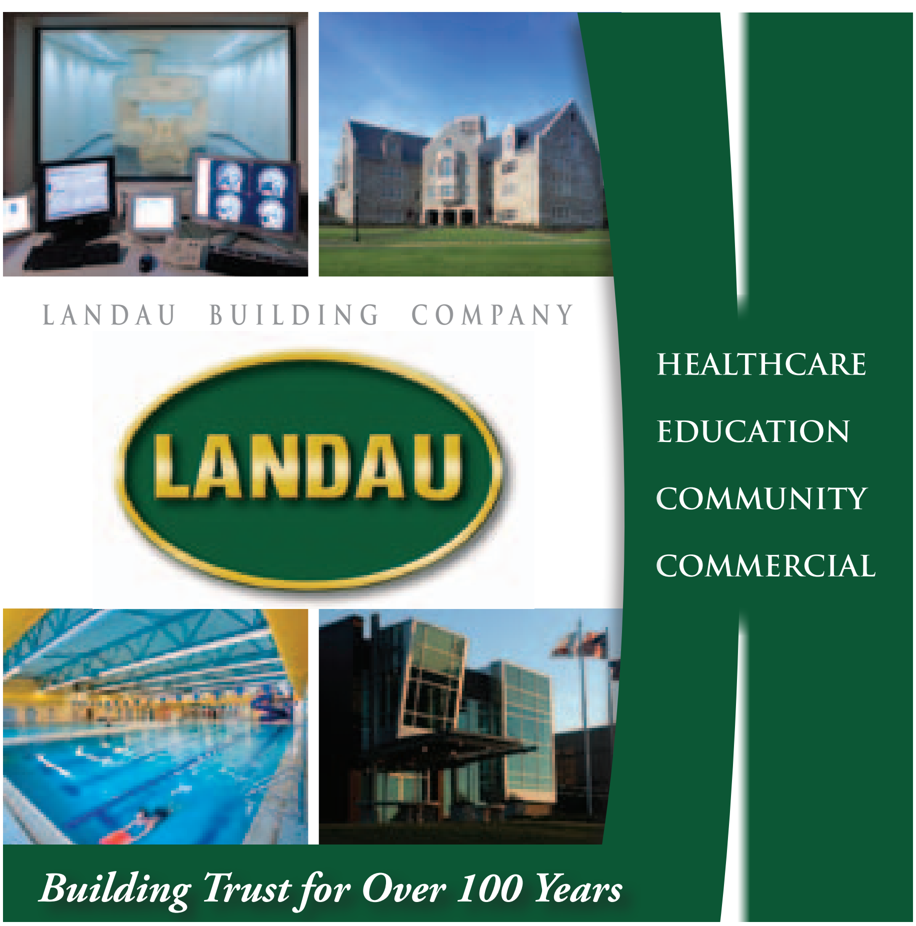
Carnegie Mellon University selected Jendoco Construction as construction manager for their $60 million Nano-Bio-Energy Technologies Building, a 78,000 square foot science building to be built in 2013. The architect is Stantec.

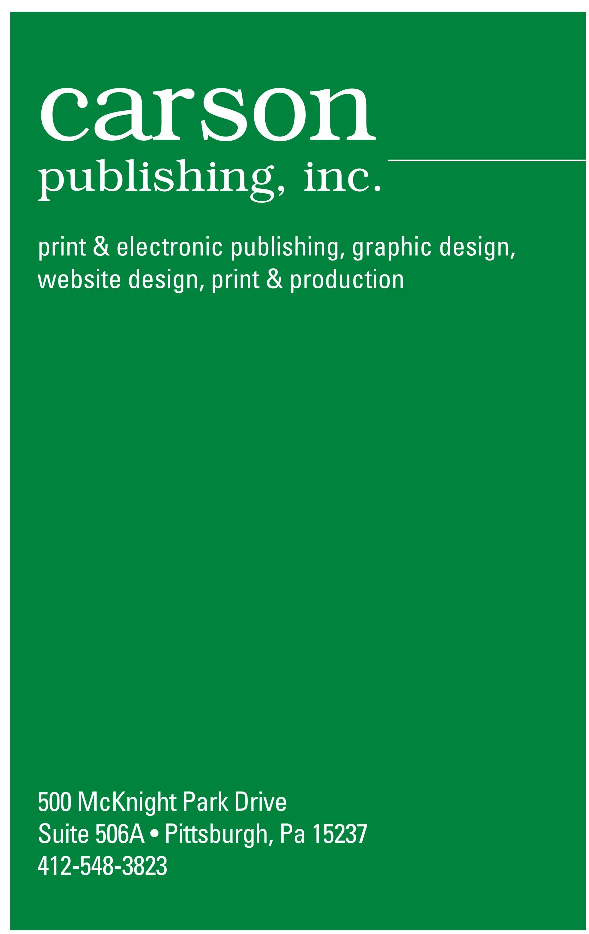
Stifel Nicolaus awarded a contract to Jendoco Construction Corp. for renovations to their offices in the Liberty Center downtown. The architect is GDS. Jendoco Construction was the successful contractor on the Libermann Hall lecture room project, a 5,000 square foot, $700,000 renovation at Duquesne University. DL Astorino & Associates is the architect.

Jendoco is also doing construction on offices at Leander Hall for St. Vincent College in Latrobe.

dck pacific construction, a dck worldwide company, was awarded a $41.7 million contract for the University of Hawaii's new Information Technology (IT) Center. This project includes a six-story, 74,000 sf building that will provide a centralized facility for the University's system-wide IT Services department, along with all site demolition, clearing, earthwork, asphaltic and concrete pavement, site utilities, and landscaping.

dck international, a dck worldwide company, was awarded a $30.1 million contract through our James Todman dck Construction team for the New Peebles Hospital Internal Fit-Out Works project in Tortola, British Virgin Islands. This project involves the completion of the 168,700 sf partially completed hospital, including rework of the MEP and fire protection systems and completion of interior finishes and setting of medical equipment.





Oakview dck, a dck worldwide company, was awarded its 103rd project for Darden, the world's largest full-service restaurant company. This project is a $1.3 million Longhorn Steakhouse located in Salina, Kansas.

Oakview dck, a dck worldwide company, was awarded a $3.5 million contract to build the Ankeny High School Competition Field Facilities in Ankeny, Iowa. This project consists of three support buildings, along with concessions, restrooms, locker rooms, officials' room, storage, spectator seating, and field lighting.

dck pacific guam, a dck worldwide company, is executing a $1.2 million contract for interior fit-out and electrical and mechanical upgrades to GAP, Aerosoles, and Beauty Bar stores at Micronesia Mall and The Plaza in Guam.

Bank Pacific awarded a $1.8 million contract to dck pacific guam, a dck worldwide company, for an Interior Renovation and Electrical/Mechanical Upgrades project.

dck pacific guam, a dck worldwide company, won a $5 million design-build contract for upgrades to the Northern Wastewater Treatment Plant for Veolia Water/Guam Waterworks Authority in Guam.

Volpatt Construction was the successful contractor for the $325,000 fitout of First National Bank's office in Sewickley. The project was designed by Axis Architecture. Volpatt is also the contractor for the renovations to the YMCA in Sewickley. Celli-Flynn Brennan is the architect.

Waynesburg University selected Volpatt Construction as contractor for an $8 million renovation to Stewart Hall, a multi-year project being designed now by VEBH Architects.

Volpatt Construction was the successful contractor for the University of Pittsburgh Cathedral of Learning 31st Floor renovation. Landmarks Design Associates is the architect for the $725,000 project.

Volpatt was awarded a contract for $675,000 to do the third floor renovations for GenOn in Southpointe. DRS Architects is the designer for the project.

FACES & NEW PLACES

Gateway Engineers is pleased to announce the addition of the following employees: Brian Armstrong, Environmental Biologist; Katie Frederick, Human Resources Assistant; Brad Goodballet, Project Surveyor; Scott Baker, CADD Technician; Christa Klingensmith, Administrative Assistant; John Wilson, Environmental Health and Safety Manager; and James Hilliard and Rebecca Weisberg, Operations Specialists.

PJ Dick is pleased to welcome Kristen Hlopick as a Project Engineer on the Tullio Arena Renovation and Expansion in Erie, Pennsylvania.

Matthew Baker of PJ Dick Inc. is among the first to receive a new national accreditation in the use of Building Information Modeling (BIM), a process that relies on computer-generated models to better manage construction projects. The professional accreditation, which is being offered by the Associated General Contractors of America, is the first assessment-based credential to recognize construction professionals on their ability to use the process. Baker was one of 34 construction professionals nationwide who tested successfully to receive the new professional accreditation, the Certificate of Management-Building Information Modeling (CM-BIM).

Rycon Construction, Inc. is pleased to welcome Jim Gerdun to the Special Projects Group as Senior Project Manager. Jim brings over 30 years of construction management experience to Rycon.

Rycon Special Projects Group has also added Brendan Madden to their team as Project Engineer. Brendan received a Bachelor of Science Degree from Duquesne University and brings two years experience in the construction industry to Rycon.

Brady Peat has joined Rycon as an Estimator in the Building Group. Brady received his Associates Degree from Triangle Technical Institute and has over 12 years experience in the construction industry.

The Pittsburgh law firm of Maiello Brungo & Maiello was appointed Solicitor for the Moon Area School District on December 5, 2011. The Public Sector Law Team, headed by Alfred C. Maiello and Michael L. Brungo will represent the district. The Public Sector Law Team is accomplished in School & Municipal Law matters and currently serves Pennsylvania school districts, municipalities and other public entities in all facets of legal concerns.

Anthony DiThomas has joined dck worldwide's corporate Accounting group as Assistant Controller. Mr. DiThomas is a CPA with 20 years of accounting experience. Most recently he led the Business Services Accounting & Reporting Department for Bombardier Transportation.

Guido Morfesi has been hired by dck worldwide as Superintendent. He is currently working on the new Wayne County Consolidated Jail Facility that dck is building in Detroit, Michigan, through its Walbridge dck joint venture.

dck worldwide is pleased to welcome the following personnel to its organization, all of whom are working on the New Peebles Hospital Fit-Out Project in Tortola, BVI: Dean Harris, Project Manager; John Cozza, Superintendent and Ted Kaiser, Project Engineer.

Jendoco Construction is pleased to announce that Brian Miller has joined our Project Management team. Brian brings over 11 years of project management experience to Jendoco. He is a graduate of Penn State with a BS in Construction Management.

The Master Interior Contractors Association (MICA) announced the election of its officers for 2012. Serving as president: Michael Nehnevajsa of Easley & Rivers, Inc.; Vice-president: Fred Episcopo, Wyatt, Incorporated; Treasurer: David Balmert, J.J. Morris & Sons, Inc.; Secretary: Daryl Pitzer, RAM Acoustical Corporation.

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Remaining 2012 Editorial Calendar

March/April **Closing February 17, 2012** **Law/Finance**

Three years after the financial crisis will 2012 be the year that lending conditions return to normal? How has the recession impacted the legal profession? What does the future hold for legislation and regulation for construction and development?

May/June **Closing April 20, 2012** **Energy Update**

Western PA has become the epicenter for nuclear energy, natural gas exploration and coal. As the Marcellus Shale exploration matures the outlook for construction and real estate related to natural gas seems endless. New projects and new industries loom that could change the region.

July/August **Closing June 22, 2012** **Office/Industrial**

Vacancy rates continue to plummet and demand for more space in the Central Business District, Cranberry, Oakland and South is at an all-time high. What conditions need to change for the dam to burst? What do future office and industrial projects look like?

Sept/Oct **Closing August 24, 2012** **Southpointe**

Once a struggling regional office park, Southpointe is now the center of the natural gas business in western PA. Southpointe could use its own zipcode and it has come to mean more than just the property itself. What projects are in the hopper for northern Washington County?

Nov/Dec **Closing October 19, 2012** **Public Construction**

While politicians wrestle with fiscal austerity and which programs will keep the voters happy, our infrastructure has to be maintained, K-12 schools and higher education face a demographic shift and public/private opportunities abound. What projects will move to the front burner? How will public agencies stay competitive? Where will the best opportunities be?

Regular Features

Every edition profiles significant projects and firms, MBE/WBE businesses in the spotlight, regional and national market updates, contract awards and people in the news, plus news about the industry in our community.

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Closing Out

By Gov. Tom Corbett

Pennsylvania has 22,280 bridges, 70 transit agencies spread across 67 counties, 116,000 miles of state and local roads along with 1,754 Interstate miles, 200 miles of navigable inland waterways in the west, and, in Philadelphia, one of the most famous deep water ports in the world, dating to Colonial times.

All of it presents a wealth of possibility and is in a world of trouble.

More than a quarter of those bridges have been classified as structurally deficient. Thousands of miles of those roads are in need of repaving, widening or re-engineering.

The locks on those inland waterways were designed for a 50 year lifespan – almost a century ago.

Infrastructure might be the dullest important issue to face a society. Roads, bridges, sewers and ports are, by their nature, the things that exist in the background. They're not supposed to excite interest. They're simply supposed to be there and work. Nobody calls the transit authorities in Philadelphia or Pittsburgh to tell them they're bus was on time. They call when it doesn't show up.

So, when I took office, one of my first acts was to appoint a commission to look at our road and transit crisis, and it got some attention.

We are still a distance from constructing a solution to our road problems. Governors can form a commission; they cannot alter Pennsylvania's winter weather. But we have managed to figure out the paradoxical nature of our maintenance funding problem.

We are victims of success.

One hundred years ago, according to a study by the American Society of Civil Engineers, from which many of these statistics are drawn, the state took charge of 8,835 miles of roads. Since that time, the number of road miles under state maintenance has grown exponentially. That's success, because a state needs roads.

To fund our repairs and growth, as well as to provide some money for public transit systems, Pennsylvania has relied on a tax on motor fuels. It comes out to 32.5 cents per gallon at the pump, as well as the oil franchise tax.

This funding model worked well in an era of 15-mile-per-gallon cars and the days of limitless driving. With federal mileage standards, conservation and an actual rise in the number of people relying on transit or car-pooling, the motor fuels tax no longer delivers what we need.

The question is how to solve this problem without resorting to the undesirable practice of tax increases. The idea shouldn't be to make the working public pay more. The idea should be to find a funding mechanism that actually reflects how our system is used.

Transportation secretary Barry Schoch has passed along his commission's recommendations. So far, we are still examining options and looking for a solution that will be lasting and long-term. We don't want to be doing this over and over.

The search for a solution has clearly been complicated by the federal government's refusal to permit the tolling of Interstate 80 through Pennsylvania. That toll was part of a comprehensive funding solution envisioned by Act 44 several years ago. Without that option, we are back to square one.

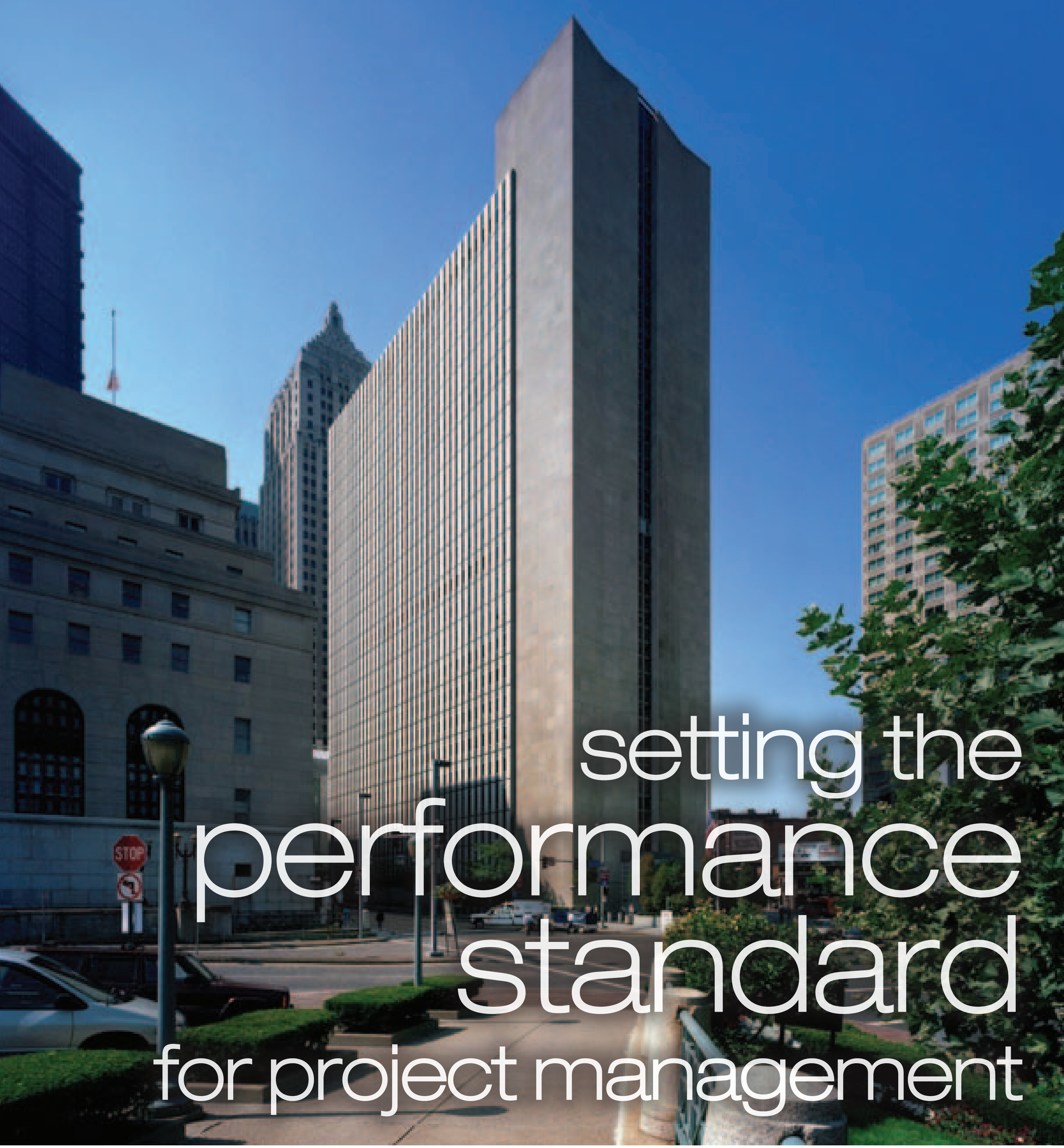
There are bright spots.

The Commonwealth recently delivered $15 million toward its share for the dredging of the Delaware River port area. When complete, the river will be 45 feet deep and able to accommodate the new, larger container ships that will be passing through the refurbished and widened Panama Canal.

A deeper river opens the way for world trade, an economic high tide of sorts. One estimate says the deepening of the river channel will create more than 8,000 to 12,000 direct jobs, and indirectly contribute to another 38,000.

This is where infrastructure investment can pay off in real jobs.

The problem is maintaining it afterward. The search for that formula continues. It is essential. And it means we can neither waste time nor rush.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