Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

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THE BIG PICTURE
Construction as Commodity

The Impact Of The Obama Re-Election

2013 Construction Forecasts

The Region's Five Challenges For 2013

PUBLISHER
Tall Timber Group
www.talltimbergroup.com

EDITOR
Jeff Burd
412-366-1857
jburd@talltimbergroup.com

PRODUCTION
Carson Publishing, Inc.
Kevin J. Gordon

ART DIRECTOR/GRAPHIC DESIGN
Carson Publishing, Inc.
Jaimee D. Greenawalt

CONTRIBUTING PHOTOGRAPHY
Carson Publishing, Inc.
Ed Massery Photography

ADVERTISING DIRECTOR
Karen Kukish
412-837-6971
kkukish@talltimbergroup.com

MORE INFORMATION:
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ON THE COVER:
BNY Mellon Center

Photo by Massery Photography

Publisher's Note

OK, so we're trying something different for the January/February edition this year. For starters, you may notice that our annual 'Big Picture' edition has been pushed back from the November/December slot it has held since 2007. It may have made sense to put it at the end of the editorial calendar at some point but over the past couple of years I have felt that it's foolish trying to put a punctuation point on a calendar year when another two or three months remain. A lot of things can happen in just a few months. Anyone remember 2008?

The other departure for January is that we are publishing an article submitted by someone outside the *BreakingGround* editorial staff as the feature article. Earlier this year the MBA's Jack Ramage sent me an article written by the consulting firm FMI – which specializes in the construction industry – about the sea change they saw in the nature of construction. The article's thesis was that services rendered by professionals in the construction industry had become commodities. FMI had some interesting thoughts about that and some opinions about the long-term ramifications of the trend.

The subject is one that resonates with me. Over the 33 years of my career I have seen margins shrink – at least on the surface – in virtually all industries. In many cases the shrinkage was more in price than margin, but generally speaking business is doing more with less. Technology has been a big factor in allowing this trend to perpetuate, but in many industries the commoditization has come from cheapening the end product.

I am a believer that the process of construction has been cheapened over the past couple of decades. There are still many professionals who are doggedly unwilling to let the end product become cheapened but as design and construction have become commoditized, the results of construction projects are less artful or durable. I understand that in my advancing years I could be accused of looking at the industry through the romantic mist of misremembered youth. But since my profession never involved being a designer or craftsman I doubt that's the case. My concern is more global. Owners of buildings are frequently not getting what they paid for and nobody involved in the process is happy about it.

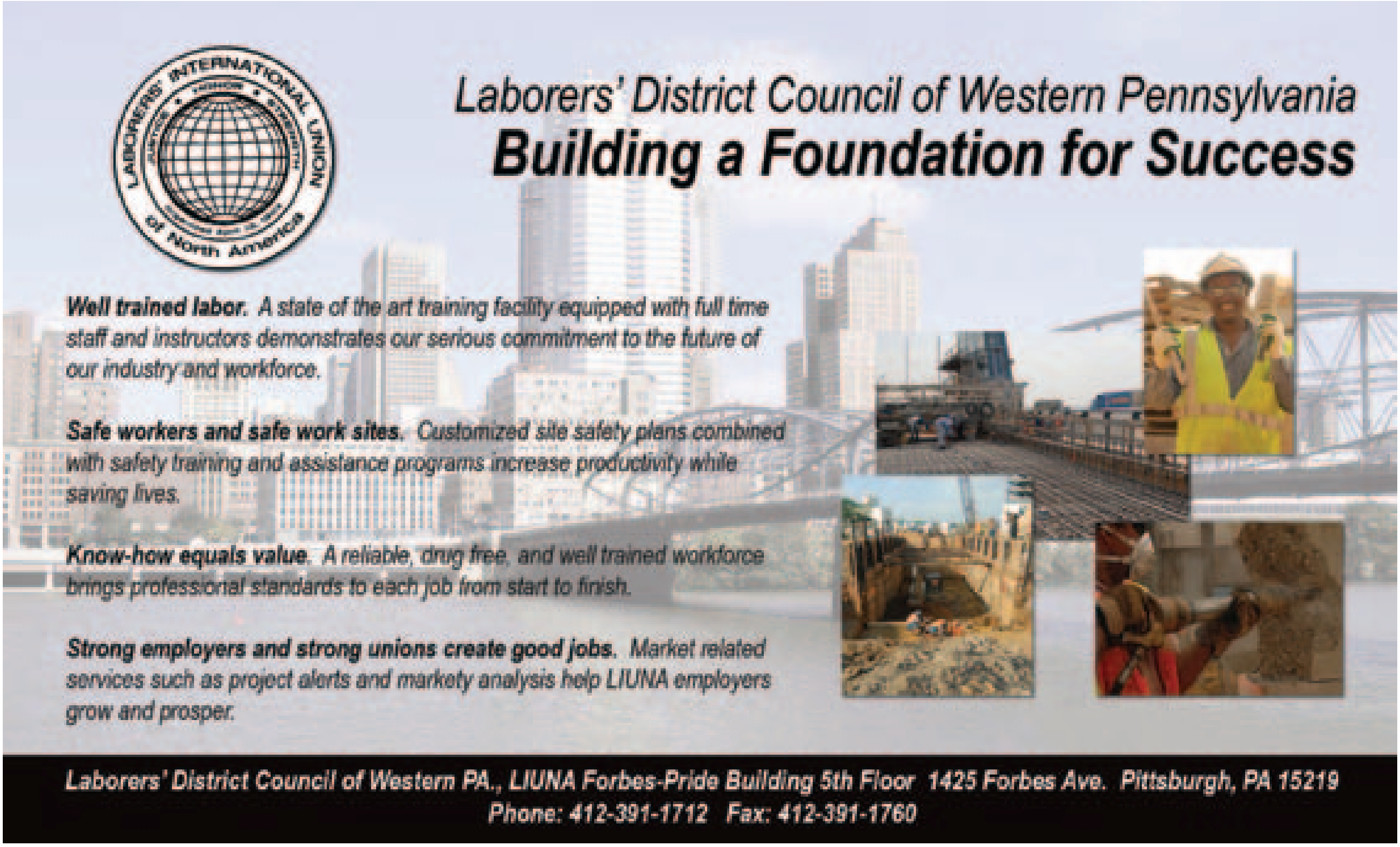
It's foolish for anyone to expect an architect or contractor or subcontractor to discount the value of their services just for the pleasure of working for him or her. Prices do get cut quite regularly but the reality is that a cut-rate design fee or low ball bid carries a discount in what will be provided as well.

Construction is a highly technical industry. Even the simplest of buildings has the potential to be dangerous if it is poorly designed or built. In truth, most projects that are done every day are far from simple. The education, experience and talent of the professionals in the business – whether they be owners, designers or contractors – deserve to be compensated adequately for the risks of the profession. The phenomenon isn't limited to construction. The analogy that is often used to describe the state of construction is medicine. "You wouldn't want your brain surgeon to be the low bidder," or "you don't value-engineer your bypass surgery," are meant to illustrate the foolishness of asking professionals to work for less but of course, doctors and nurses are asked to take less for their services too.

One of my former customers used to say, 'This is America; you can always ask to pay less." He's a doctor and always complained about how insurance companies were nipping at his rates. Go figure.

Perhaps it's the American consumer mentality. Paying a premium for well-made goods would keep most consumers from having as many goods. Is that mentality bleeding over into our work lives? Maybe. I think it is true that we've come to equate the idea of value with bargain. A better value isn't necessarily the lower price. Value is a relative term, so a lower price also implies that the good or service is worth less. Architecture or construction is meant to add value to a property but driving for the lowest price - bidding it down like a commodity – runs the risk of making the property worth less. That's not the goal of any owners I know.

Jeff Burd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REGIONAL UPDATE

Construction activity in Western PA had a similar rollercoaster feel in 2012 as the activity in the previous two years. Like in 2010 and 2011, there was optimism heading into the beginning of the year that was dashed by late spring as doubts about global economic conditions – European default, Chinese slowdown – were joined by uncertainty over the November elections. And now with more serious national economic doubts looming, the outlook for construction in the region is – incomprehensibly – looking brighter again.

"Earlier this year we were busy, maybe busier than we have ever been. We were having arguments about how we were going to get the work done," says Suzan Lami, partner at Lami Grubb Architects. "In mid-year it seemed like everything was put on hold for all kinds of reasons. Now I see a lot of those projects coming back to life again."

Lami's experience is fairly typical of what design and construction firms experienced in 2012. She explains that more of their business comes from repeat clients than from new proposals; while that means she has less of a feel for the pickup in RFP's that many architects have experienced, Lami says that her repeat client base has gotten busier in the past couple of months.

The national trend as measured by the American Institute of Architects is for more inquiries and proposals, and Pittsburgh architects are seeing the same in their markets of late. More encouraging is the higher level of activity among the geotechnical and civil engineers in metro Pittsburgh.

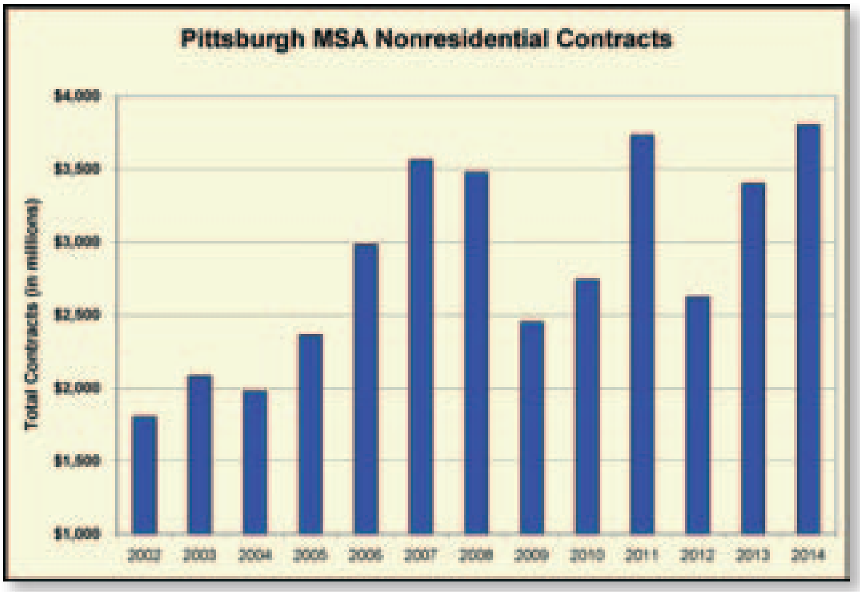
"Our work is up and it's switching to the developer side of the market. We're expecting a 20 percent increase from developers this year," says Ryan Hayes, director of business development for Gateway Engineers. "We beat our forecast in 2012. There's a huge increase in residential developments and we're seeing a big uptick in RFP's from architects."

Hayes says that Gateway's backlog of contracted work has more than doubled from December 2011 to 2012. Much of the firm's growth in recent years has been from the expansion of their natural gas business, but the fact that privately-developed projects are currently swelling the backlog bodes well for construction in 2013. Of course, design backlogs were building in late 2011 as well.

When the dust settled on 2012, contracting results were disappointing. Because a handful of large projects slipped to 2013, the total non-residential contracting volume for 2012 was $2.62 billion. A closer look at the activity in the various segments of the market gives a clearer picture of what was moving the market and where the voids were.

Only six building types had construction of $100 million or more. Office construction was the most active segment, with $580 million in total construction and 1.65 million square feet of new space started. The Tower at PNC Plaza made up the largest chunk of the office volume, but even without the PNC project, offices would have been the largest segment. The other top building types for construction were hospitals ($277 million), industrial ($251 million), multi-family ($210 million), high schools ($138 million) and retail buildings ($114 million).

The activity reflected the strongest parts of the Pittsburgh economy – healthcare, energy – and the overall health of the region. The improving employment picture showed up in the increased office demand; and the retail projects demonstrated that national retailers were interested in Pittsburgh consumers, even as they pulled back in other parts of the country. The strength in retail is all the more impressive in light of the fact that only one big box store – a WalMart at the old Northern Lights site in Economy – was contracted. Other positive demographic trends like a better jobs environment, younger population base and virtually no vacancy drove the planning and construction of new multi-family projects.



A significant mid-year slowdown in contracting activity and deferral of several large projects kept contracting volume well below the cyclical norm.

The segments of the market that were down significantly from the levels of the previous decade or more were mostly limited to education, both public and private. Publicly-funded K-12 and higher education have been the most active segments of the market for most of the past two decades. While high school construction was one of the top segments, the volume was roughly half the norm and was primarily confined to a few

	SFD	SFA	Total
Total Pittsburgh MSA 2012	1,814	1,371	3,185
Total Pittsburgh MSA 2011	1,670	1,202	2,872
% Change	8.6%	14.1%	10.9%

New construction rose on a similar pace to home sales and price appreciation in 2012. Source Pittsburgh Homebuilding Report.

projects over $20 million. Poor fiscal health and an unwillingness to raise local taxes will keep capital spending lower for at least the next few years. The outlook for private colleges is somewhat brighter, as recovering endowments and revitalized giving have boosted planning of future projects again.

While the depressed outlook for public construction is not a positive for the industry, it is positive to observe that the economic health of Western PA is de-coupled from the health of the public sector. Government that was fiscally stronger would add to the recipe, of course, but the construction and real estate market is now being driven by private investment.

Pittsburgh's economy continued to be a national story in 2012. The region made more 'top ten' lists but the most impressive measure of the region's economy came from the Brookings Institute's late November report that Pittsburgh was one of three U. S. cities – along with Dallas and Knoxville – to recover to the pre-recession levels of gross domestic product and employment. According to the Bureau of Labor there were 1,254,110 people employed in the seven county metropolitan area by December 2012, a level that has never been recorded so high in Pittsburgh's history.

One sector of the construction industry that is poised for a stronger recovery in 2013 is the housing market. Like with the U. S. housing market, construction has remained roughly half the historical normal levels since the beginning of the recession in 2007. Unlike the national market, however, home prices have continued to appreciate and no inventory overhang developed.

For 2012, sales of homes and construction of new homes were both up between ten and eleven percent. Likewise, the average value of the homes sold or built were also up roughly ten percent. And unlike virtually any other market, the biggest concern for residential real estate was lack of inventory rather than overhang. Residential foreclosures in the Pittsburgh region were also down slightly in 2012, down about five percent from 2011 and more than 25 percent from the 13-year average for the five-county market tracked by analysis firm RealSTATS.

New home construction cracked the 3,000-unit mark for the first time since 2008 last year, with 1,814 new single-family detached homes and 1,371 attached or multi-family units started. As happened in the non-residential sector, mid-year uncertainty and budget concerns caused delays in a few of the larger multi-family projects and the total number of units started were therefore 500 or so units lower than expected.

With demographic support even stronger for 2013 and somewhat better lending conditions, the forecast for residential construction for the coming year is much stronger as well. The Pittsburgh Homebuilding Report forecasts that permits for single-family homes will be above 2,000 units again, with a similar number of multi-family units getting underway.

On the non-residential side of the market the strength will remain in the office and industrial sectors again in 2013. While no announcements of sites had been made by year end, new corporate offices for Chevron, Shell, USSteel and several others are expected in 2013. Chevron is one of several other petrochemical companies that have also been shopping for sites for ethane cracker plants. Interest in manufacturing sites along the rivers has been reported in eastern Washington County and along the Ohio River in Beaver County.

Further expansion of the natural gas industry's supply chain is quietly creeping into many of the smaller industrial parks as well. Companies like Galloway Tool, NPD, and Scientific Drilling are currently selecting contractors for new facilities of 25,000-30,000 square feet between Washington and New Stanton. At the Alta Vista Business Park in Fallowfield, Washington County, existing tenants Weatherford and Gardner Denver are in the process of expanding buildings that were just occupied and MMIDA executive director Lue Ann Pawlick says that they are in talks with four more companies to build about 150,000 square feet on sites in the park. Two of those projects should be underway by spring.

Healthcare construction should continue to be a strong segment, especially with UPMC's Center for Innovative Science and Highmark's first medical malls getting underway. The expected boom in healthcare construction will be somewhat muted, at least during the first half of 2013, until the negotiations between Highmark and West Penn Allegheny are completed. Capital projects at Jefferson Medical – which were expected to reach $100 million when announced – will get underway this coming year, but the total construction volume for healthcare will fall well short of the one billion that was expected.

The heightened fourth quarter activity, especially the bidding of a handful of large projects between Thanksgiving and Christmas, has created optimism for construction in 2013. With steadily improving fundamentals in the regional economy and extremely strong supply and demand fundamentals in commercial real estate regionally, it's difficult to forecast anything but a strong market, if for no other reason than pent up demand. It's important to temper optimism with the reality that the positive economic fundamentals were also present at the end of 2010 and 2011, for the most part. Confidence is still the final ingredient needed to cook up a growth cycle for construction. The past two years have proven that regional economic strength alone won't create a building boom if national and global economic and political uncertainty exists.

There isn't sufficient space to house the growing office, industrial, healthcare and research users in Western PA. Those dynamics have been true for at least 18 months, however. The key to growth in 2013 will be the degree to which the economic problems from beyond the region hold back the development that is planned. BG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NATIONAL MARKET UPDATE

For more than a year, the confidence-sapping rhetoric of the presidential campaigns progressively weighed down the national economy. By mid-2012, in fact the economy began slowing to a grind as businesses put decisions to proceed with capital expenditures and construction on hold. Since the re-election of Barack Obama was settled – the less desirable result for most business owners – the reaction has been somewhere between muted and nonexistent.

Part of the reason for the non-reaction has been the immediate shift in focus to the deficit reduction negotiations. These actually had a much more material impact on business in the first place. But in the months since the election it has also become clear that the election was more of a non-event than was anticipated. What has been revealed is a bifurcated recovery that seems to be accelerating on the consumer side while business still sifts through the political results to gain some momentum or direction.

A number of things were made certain, or at least more certain, by the election. Pres. Obama's re-election removes any possibility that the tax environment will be friendlier for businesses and their owners. His re-election also makes a repeal of the Affordable Care Act unlikely. On some level, these less business-friendly conditions give some certainty to business owners about the next few years, even if they aren't happy with the reality.

One reaction that was increasing in frequency as the year wound down was the acceleration of decisions aimed at taking advantage of the lower tax rates of the current Federal code. Corporations moved up or initiated dividends and quite a number of sales of business and property were pushed through to book in 2012, when taxes on dividend and capital gains were taxed at 15 or 20 percent.

Beyond tax-driven decisions, and pending a real resolution to the Federal deficit and budget problems, business reaction has been modest.

During the same fourth quarter time period, however, consumers have been behaving in a manner that suggests they were relieved by the end of the campaign or uplifted by the incremental improvements in the housing and employment situations.

The two leading measures of consumer attitude showed similar results in the post-election period in November. U.S. Conference Board's consumer confidence index in November rose to 73.7, its highest level since the 76.4 level in February 2008. The Reuters/University of Michigan consumer sentiment index also rose in November, hitting 84.9, which was two full points higher than expected by the 71 economists Reuters polled for estimates. The unexpected improvement of both indexes was credited to the decline in gas prices, rising home values and the modest gains in employment. No one cited the election results as a factor.

Perhaps as illuminating was the fact that the Reuters/Michigan index showed a decline in December to 74.5. Observers felt the declining sentiment was reflecting fatigue and worry about the 'fiscal cliff.' This reading came after consumer spending on Black Friday registered an all time high of $59 billion – a 13 percent increase from 2011 – and Cyber Monday sales reached nearly $1.5 billion – a 17 percent hike over 2011. Most economists believe the extended period of improved consumer confidence since the summer will carry over and keep consumption from falling even as the deficit deal wears on.

One of the principle conditions supporting better consumer sentiment is the steadily improving housing market.

For homeowners, no improvement matters as much as rising home prices. A leading measure of prices is the S&P/Case-Shiller Index, which tracks the sales prices of existing homes both nationally and in major metropolitan areas and creates six indexes to judge the market. The S&P/Case-Shiller existing homes price indexes advanced for the sixth month in a row in September, the last month monitored by December. The

Total Housing Starts (000s)

	Fannie Mae	Freddie Mac	Moody's Analytics	MBA	NAHB	NAR	S&P	Wells Fargo	Zelman & Assoc.	Consensus (average)
2012	[illegible]	750	782	756	751	769	760	760	770	761 (24%)
2013	[illegible]	910	1,124	898	903	1,120	942	890	980	962 (26%)
2014	N.A.	1,200	1,794	N.A	1,140	N.A	1,244	[illegible]	1,225	1,282 (33%)
Fcast Date	Sept-12	Sept-12	Oct-12	Sept-12	Sept-12	Sept-12	Sep-12	Oct-12	Sep-12	

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

Source Reed Construction webinar.

the inventory of new homes has fallen to 2.32 million units, a 5.9 month supply, and the days-on-market has dropped to 70 days.

Improving conditions for existing homes is a necessary precursor for growth of new construction. A look at the long-term trend in home prices suggests the decline that followed the housing bubble may have reached equilibrium. The CoreLogic Home Price Index (CHPI) has recovered to nearly 150, after falling from just over 200 in July 2006. What is interesting about the index comparison is that the CHPI uses prices in 2000 as its baseline of 100. For analysts who correctly forecasted the end of the bubble in 2007, the strongest argument against housing prices at the time was the unusual variance from the historical mean, which have risen between two and three percent annually. By compounding an annual three percent increase to the 2000 index of 100, the index would be 150 at the end of 2012. That math suggests that the reversion to the mean has been completed.

The recovery household formation growth should finally break the hold that the mortgage crisis has had on new home construction in 2013. Source Reed Construction webinar.

Forecasters from a variety of economic sources agree that the volume of non-residential construction will rise in 2013 ...

A less technical indicator of the housing market's health is the change in household formation rate, which is a key to new construction. Household growth averaged roughly 1.2 million between 1995-2000 and 1.4 million between 2000-2005. From 2007-2011 there were an average of less than 600,000 households formed, with the 900,000 level reached this past year. The Harvard University's Joint Center for Housing Studies forecasts a return to the 1995-2000 levels again in 2013, a formation rate that will outstrip the inventory of new homes. In fact, the consensus forecast from JCHS predicts the number of new units for 2013 to be 980,000, with starts topping 1.2 million in 2014.

national index rose to 132.7, the highest reading since the second quarter of 2010. On a year-over-year basis, the 10-city composite index was up 2.1 percent while the 20-city composite rose 3.0 percent. The individual cities with the largest year-over-year price increases were: Phoenix (20.4 percent), Minneapolis (8.8 percent), San Francisco (7.5 percent), Detroit (7.6 percent), and Miami (7.4 percent). Chicago was the only city with a decline, at 1.5 percent

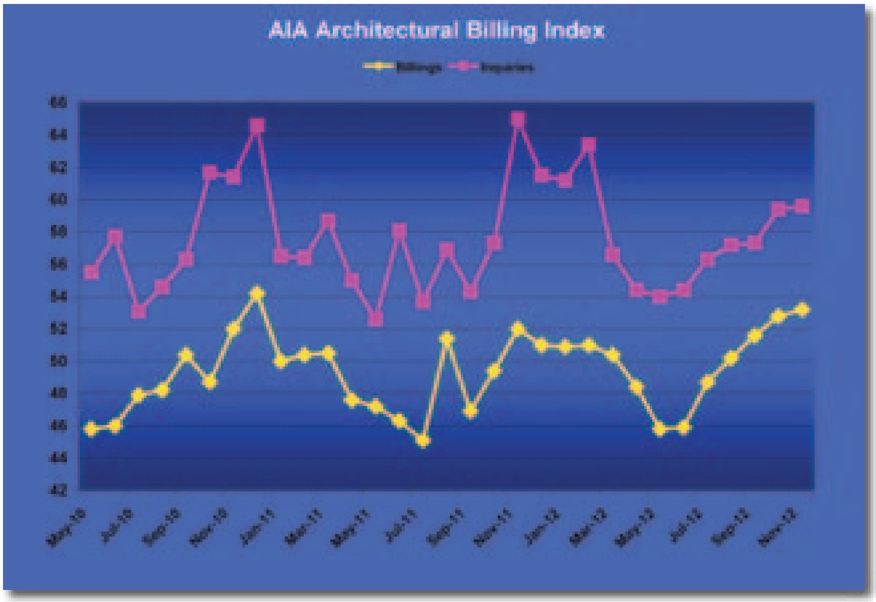
The National Association of Realtors' data, which is more comprehensive, shows an even larger increase in the number and value of homes sold. Through October, sales of existing homes were up 10.9 percent while the median value rose 11.1 percent, to $183,900. NAR's chief economist Lawrence Yun credits improving employment and overall economic conditions but emphasizes that the market fundamentals are the primary driver behind the improvement. According to Yun,

With rents expected to rise in the neighborhood of five percent again and interest rates below four percent the stage is set for a recovery of new home construction. The return of growth in household formation should be the tipping point in a new home construction recovery with real staying power. October's housing starts continued to show that the recovery is underway, with a total of 894,000 units started, 285,000 of which were multi-family.

The benefit from a new home construction recovery cannot be overstated and it doesn't seem to be baked into many GDP forecasts. The construction forecast of the JCHS would result in roughly 1.5 million new jobs, dropping unemployment a full point. The ripple effect of the improved labor market would stimulate all layers of the economy.

As rosy as the forecast for residential construction seems, there still remain several drags that could derail the recovery. For commercial and non-residential construction, however, the probability of continued growth is virtually assured, even with significant weakness in several sectors.

Forecasters from a variety of economic sources agree that the volume of non-residential construction will rise in 2013, even agreeing for the most part that the growth rate will be somewhere between five and ten percent. While weakness in institutional, public and infrastructure construction will persist, the decline is not expected to continue or be as steep in 2013. The moderating level of activity will have less to do with recovering fundamentals and more to do with the depth of the decline in 2011-2012. Offsetting these weak segments will be strength in power, distribution/logistics and hospitality. Continued modest improvements in employment will prop up office and manufacturing buildings, although those segments face headwinds that should keep any growth low.



The AIA's indicator of future activity has risen steadily since July.

Final results from 2012 have not yet been released but the trend in year-over-year construction spending through October remained solidly upward. Spending rose to a 37-month high in October, totaling $872 billion at a seasonally adjusted annual rate, up 9.6 percent from October 2011, according to the Census Bureau.

The activity in commercial categories drove much of the increase. Multi-family projects were up 53 percent; oil, gas and other energy projects rose 19 percent; industrial work was up 3.6 percent and the remaining commercial structures – retail, warehouse, hotels – rose 9.5 percent combined.

In the public sector, highway and street construction spending shrank five percent, while educational construction fell 2.8 percent compared to October 2011.

Unlike the years following the financial crisis, improved financing conditions appear to be catalyst to the better supply and demand fundamentals. The extended low interest rates will make for favorable credit conditions while at the same time putting further pressure on investors seeking higher yields. Commercial real estate will look even more attractive to both investors and lenders.

Increased competition for loans should keep spreads tight. Loan-to-value ratios will continue to creep upward. Perhaps the best indication of the shift is the more open CMBS market. The volume of securitizations is only expected to rise modestly but conditions are moving rapidly towards aggressive, with riskier leverage, shorter amortizations and higher income to property value ratios because of the low rates.

With delinquency rates on commercial mortgages falling below ten percent, the forecast for more favorable financing conditions seems locked in.

Better financing, a recovering housing market and better commercial real estate fundamentals are all positive factors but they remain only indicators of strength. One indicator that is historically reliable is the AIA's Architectural Billings Index (ABI), a survey of the business conditions at 700 firms. The ABI continued its pace of growth for the fourth consecutive month in November, while inquiries for new work also rose, remaining above 50 for the 47th consecutive month. A rising ABI means that construction activity will also be rising six to twelve months later.

As 2012 wound down, the majority of the signals for construction were trending upward, indicating more improvement for the industry in 2013. The AGC's Ken Simonson is among the economists forecasting high single-digit growth but he also points to four risks that could turn the rosy picture sour:

- A sudden jump in taxes that hurts private construction
- Federal spending cuts that further depress public construction
- Deeper slump in Europe and China that hurts exporters, ports, banks
- War in Iran, North Africa or the Pacific Rim that causes a spike in oil prices

We now know that the first two risks were eliminated with the fiscal cliff resolution. Barring the more unlikely scenarios of worsening global political and economic troubles, you can expect the national construction market to heal further in 2013. BG

WHAT'S IT COST?

Prices for construction materials continued their slightly downward overall trend in the second half of 2012, reversing a 0.9 percent two-month increase from earlier this fall to end the year with inflation of two percent compared to the producer price index (PPI) for construction inputs at the end of 2011.

The PPI for finished goods fell 0.8 percent in November, seasonally adjusted and rose 1.5 percent over 12 months, the Bureau of Labor Statistics (BLS) reported on December 13. The PPI for inputs to construction—a weighted average of the cost of all materials used in construction plus items consumed by contractors such as diesel fuel—decreased 0.4 percent for the month, after climbing 0.9 percent for two consecutive months. The year-over-year increase was 2.0 percent. The one-month decrease was led by declines in the PPIs for steel mill products, which fell 1.9 percent in October and 8.5 percent over 12 months; lumber and plywood, -1.8 percent for the month but up 6.2 percent year-over-year; gypsum products, -0.7 percent in October and up 14 percent over 12 months; and insulation materials, -0.7 percent for the month and up 5.5 percent since October 2011. There were sharp one-month gains for copper and brass mill shapes, 2.8 percent and 4.7 percent over 12 months; diesel fuel, 2.3 percent and 13 percent, respectively; and aluminum mill shapes, 1.4 percent and -4.6 percent. There was little change in concrete or asphalt prices: the PPI for concrete rose 0.2 percent and 2.3 percent; and asphalt paving mixtures and blocks, 0 percent and 4.5 percent.

Construction materials are for the most part freight-sensitive, often requiring large containers that must be taken directly to job sites. Moreover, almost all products and materials have global demand that can create supply shortages and logistical bottlenecks in just a

PERCENTAGE CHANGES IN COSTS	Nov 2012 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	-0.5	-0.1	1.8
Producer price index (PPI) for finished goods	-0.9	-0.5	1.5
PPI for construction	-1.1	-0.5	1
Costs by Construction Types/Subcontractors			
Residential buildings	-0.7	-0.4	1.7
New industrial building construction	0	0.4	1.1
New warehouse construction	0	0.4	2.6
New school construction	-0.3	-0.2	1.2
New office construction	0	0.1	1.2
Concrete contractors, nonresidential	-0.1	0	0.2
Roofing contractors, nonresidential	-0.1	-0.1	2.3
Electrical contractors, nonresidential	0	0.1	0.5
Plumbing contractors, nonresidential	-0.1	-0.2	1
Costs for Specific Construction Inputs			
#2 diesel fuel	-7.4	0.1	-4
Asphalt paving mixtures and blocks	-0.1	-0.8	4.9
Concrete products	0.2	0.5	2
Brick and structural clay tile	-0.2	-0.4	-3
Plastic construction products	0.4	1.4	4.5
Gypsum products	0.4	-1.6	14.9
Lumber and plywood	1.7	0.9	9.3
Architectural coatings	0	0	10.5
Steel mill products	-1.3	-2.2	-9.1
Copper and brass mill shapes	-3.3	3	-0.9
Aluminum mill shapes	-0.8	1.7	-3.5
Fabricated structural metal	-0.7	0.6	1.0
Prefabricated metal buildings	-0.1	0.0	-1.9
Crude petroleum (domestic production)	-5.2	-6.0	-16.1
Asphalt (at refinery)	-7.5	-7.3	3.2
Cement	0.2	0.4	3.6
Iron and steel scrap	11.9	-1.1	-11.0
Copper base scrap	-3.5	2.6	-0.7

Source Bureau of Labor Statistics, Updated December 13, 2012
Compiled by Ken Simonson, AGC Chief Economist

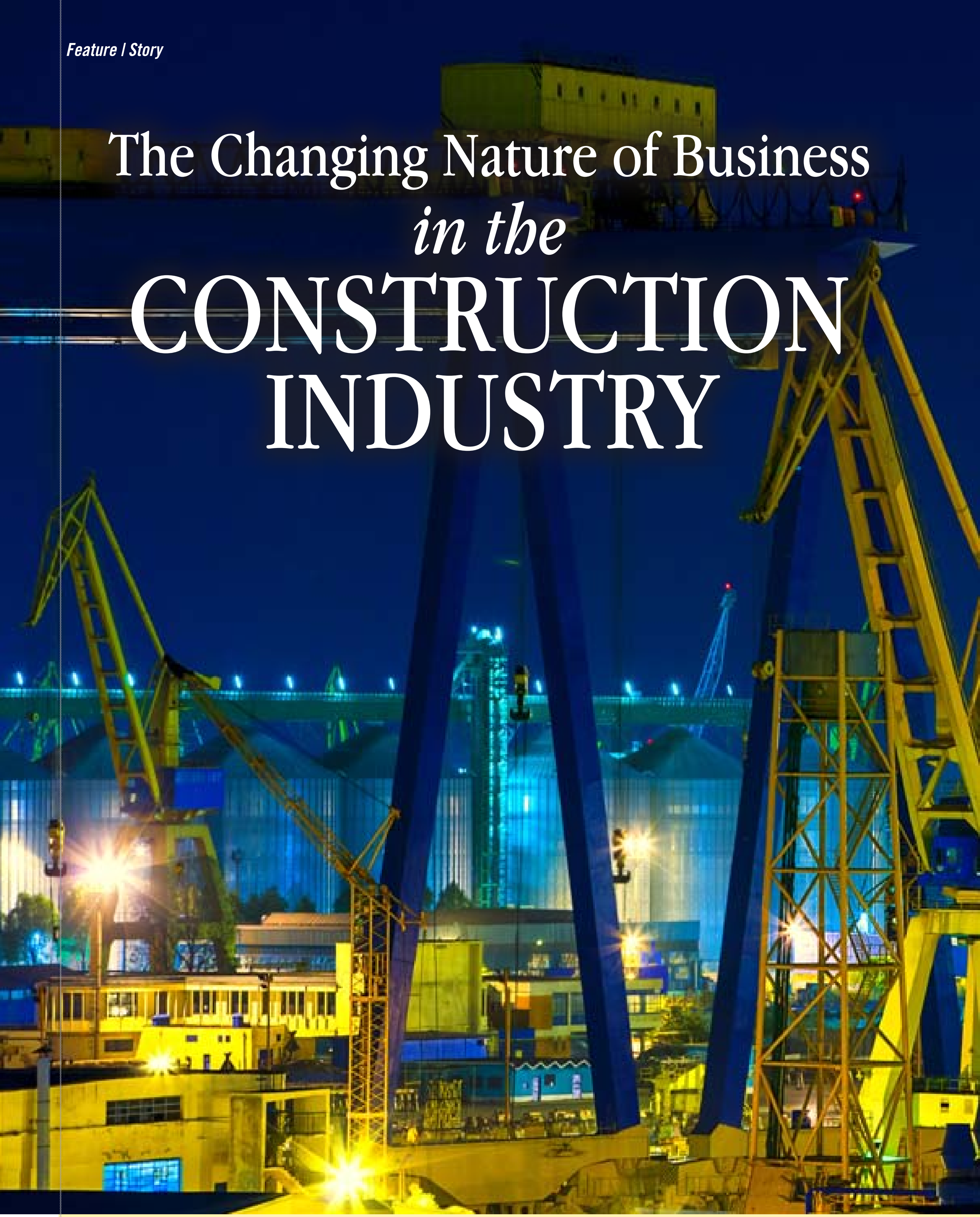
few months. Because of these factors, construction material prices have historically been more volatile than average and are susceptible to spikes in price. Given that environment, the lack of volatility in 2012 has been a bright spot for the construction industry and similar conditions are expected for 2013.

Throughout 2012, prices have remained steady at levels slightly above those for the full year of 2011 for concrete, asphalt paving and paving mixtures, lumber and plywood. Steel products, asphalt roofing and siding products, copper and brass mill shapes have all remained steadily below the level of 2011, although copper and brass prices were higher in the fourth quarter than last year because of the steep decline in October 2011. Of the commonly used materials only gypsum board – up 14 percent – and diesel fuel – up 13 percent – have been significantly off last year's price trend. Demand for drywall has been boosted by the jump in housing construction. Diesel's current price is actually falling closer to the 2011 year-end levels and throughout 2012 has been both higher and lower than 2011 by double-digit margins.

Given the forecasted strong gains in new home construction and the steady improvement in non-residential construction, demand from U. S. users of construction materials will be steadily higher in the coming year. But with global economies continuing to slow, especially in Asia, the outlook for material costs is for increases under five percent, and a repeat of a two percent increase year-over-year is a strong possibility.

What should be different in 2013 from the past two cycles is that no decline in prices is expected during the second half of the year. BG

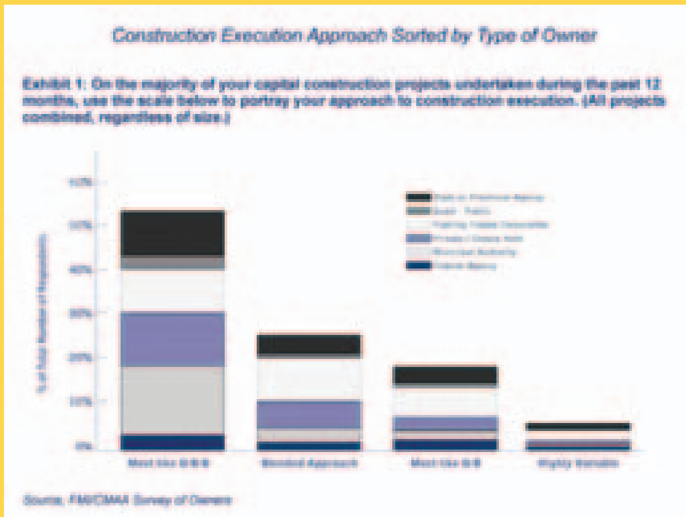
The Changing Nature of Business *in the* CONSTRUCTION INDUSTRY

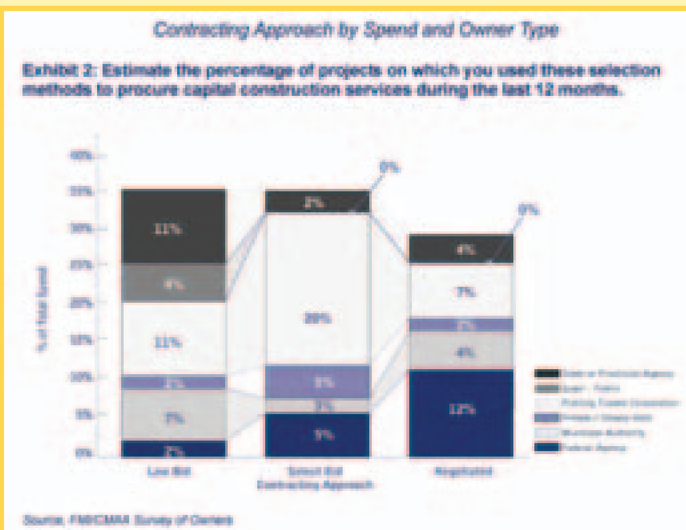


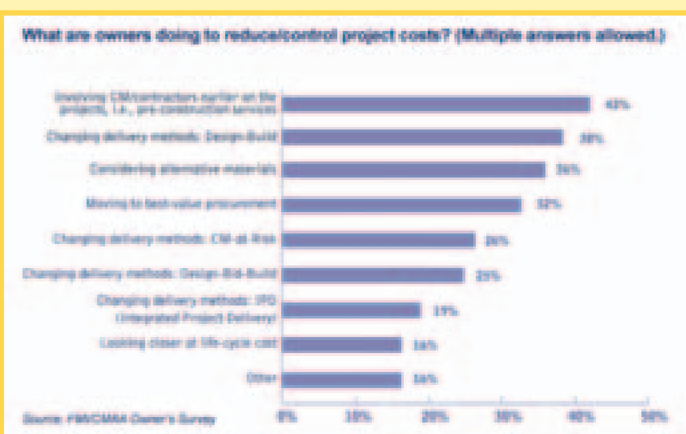
The nature of the construction industry is changing, and a major driving force for this change is what is often referred to as the commoditization of construction services resulting in margin compression for construction firms. Whether evolutionary or revolutionary in nature, these forces will drive some contractors out of business. Those who thrive in the next generation will not just survive; they will master change and remodel the industry.

A few years ago, we heard everywhere about the "Perfect Storm" that had come down hard on the economy and tossed the ships of the construction industry around like so many toy boats.

We suddenly—it seemed sudden, anyway—learned the housing market was overbuilt, oversold and over-leveraged. We learned, whether we wanted to or not, about short selling, subprime lending, hedge funds, bundling, credit default swaps, margin calls, quants, derivatives and Ponzi schemes, all with the amazing abilities both to make money and to make money vanish into thin air. The bubble was so big, it covered the globe. Until it burst, most of us thought things were going well – we were in the "good old days" of the construction industry. In hindsight, we were watching the buildup of forces that would unleash an economic tsunami, the Perfect Storm that left the Great Recession in its wake. If that was not enough, there were real tsunamis, earthquakes and major storms to deal with that cost lives and the global economy untold billions of dollars, yen, Euros and Yuan. To this economic epic, add political grandstanding and deadlocks, leading to even greater uncertainties in the markets and the future of global currencies and debt. Real-life experience in this economy seems more than enough to put action movies out of business.







If the story of the beginnings of the Great Recession are starting to sound like modern history, that is a good sign. Nonetheless, we are still living through it. The forces that ripped through the economy will continue to reverberate across the globe for some time to come. The world is forever changed. Yes, there are signs that things are improving, but we still have continuing high unemployment despite more people finding jobs. Banks are making loans again, but only to the best, lowest-risk customers with more stringent regulations and equity demands.

The construction industry has shrunk 30 percent or more since its highs in 2007 due to loss of employees and less available work. Some companies have gone away; most have just gotten leaner and meaner in order to survive a highly competitive, tight market. The economic outlook calls for continued slow growth, in large part because most of the problems that made headlines in 2011, including the global debt crisis, as recent downgrades of Euro-zone credit ratings indicate, were still with us in 2012. Global financial markets are still precarious.

Owner organizations have also downsized their internal engineering and construction departments to accommodate more moderate corporate expansion plans as we discovered in the "FMI/CMAA Eleventh Annual Survey of Owners":

- More than half of all owners said they expected to either resume hiring in 2012 (10 percent), 2013 or later (14 percent), or never (28 percent).
- 28 percent of responding owners say they expect never to resume hiring.

In the view of more than half of all owners, diminished staff resources are a permanent condition. The result is that owners expect greater support from construction service providers, and they want the lowest price possible. That often means changing construction delivery methods:

- 55 percent of owners describe their approach to construction execution as "most like design-bid-build."
- 24 percent said they took "a blended approach," and about 18 percent said their approach was "most like design-build."
- For large projects, however, the dominance of design-bid-build seems to be eroding, with only 47 percent of owners reporting using that method, compared to 24 percent reporting a blended approach, and 21 percent saying their approach was most like design-build.

For owners, it is a buyers' market bonanza where purchase of construction services is beginning to resemble online purchasing, like Amazon, Groupon™, eBay® or even the Chicago Mercantile Exchange. The information revolution has given purchasers more information than ever, and large

owners are more sophisticated, with a ton of technology at their fingertips.

Thus, there is growing pressure to look at construction as a commodity purchased on the open market for the lowest bid.

Is it the future of construction to battle it out in bidding wars or to become another product sold on eBay? Likely not in the near future, but there is a growing sense that the road out of the Great Recession will not land us back in some imagined "normal" state. The Perfect Storm and its aftermath have changed the course of the future for the world and for construction. We are not going back to the market of 2007. There are a number of economic forces coming together to put increasing pressure on margins and, in many cases, change how construction gets done. Whether one thinks of these changes as evolutionary or revolutionary is academic, but to ignore change in favor of "doing what we've always done" is naïve and dangerous for a company's continuing existence.

The industry upheavals have put a severe strain on contractor profit margins, which in better times typically range between 2 and 5 percent. More recently, studies have shown sharp drops in profitability for contractors, approaching a meager 1 percent, and negative numbers becoming more frequent. Those results are unsustainable for the health of the construction industry. The question at this point is not whether or not contractors will go out of business in this economic environment, but how many and how soon? Then there is the other side of the coin; even in these tough conditions, there are contractors making money. How do they manage this countertrend? For one thing, they are firms that are not content to sit on the shore and watch the world go by.

Is Construction a Commodity?

Although we don't expect to see construction procurement go the way of eBay anytime soon, there are already reverse auction sites for construction procurement. To say the least, this practice has not been endorsed by major contractor organizations. Savings to owners have not been demonstrated, and there are a host of problems associated with the open-bid approach.

Construction is different from products and services sold online. Most contractors, and even most owners, would say construction services are not commodities. Buildings and the construction process are too complex to be considered

West Penn Hospital Oncology Department, Pittsburgh PA

commodities. Construction is a professional service requiring different mixes of skills, capabilities and technical specialties that make each service provider unique.

A commodity is defined as a product or service that is relatively the same no matter the source or provider. Commodities are "fungible"; that is, one product can be exchanged for another. Most commodities are traded on an open market where the price is largely decided by supply and demand. (However, speculators temporarily boosting demand or suppliers reducing output until the price goes up can artificially influence both supply and demand, for instance.)

The contractor's perspective includes the fact that each contractor is unique with services differentiated from its competition. For instance, contractors have different experience levels, safety records, abilities to get the project built faster, or better customer relationships and communication systems, to name just a few areas of differentiation. The owner looks at the project and says, "Here are the bid package and drawings." The contractor that can deliver on the details of the contract for the lowest price wins the job. That simple, right? No, of course not, as anyone who has entered into a construction contract will tell you. Otherwise, it might look more like a simple purchase order — x bushels of wheat at current market prices for May delivery.

One major area of choice for owners with a project and contractors offering services is seen in the area of delivery methods. The choices and variations of delivery methods have increased considerably over the last two decades. If low bid/

... the return to something more like the Master Builder concept protects owners from process inefficiencies and contractors playing games that add cost to the project and the risk of going over budget and schedule.

For large projects, however, the dominance of design-bid-build seems to be eroding, with only 47 percent of owners reporting using that method, compared to 24 percent reporting a blended approach, and 21 percent saying their approach was most like design-build.

design-bid-build appears to be more prevalent these days, it may have more to do with lack of information or just the idea that owners are going to take advantage of a desperate contractor market and push for the lowest price. Multiple options exist, including design-bid-build (D/B/B), design-build (D/B), construction manager (CM), construction manager-at-risk (CM/GC) with a guaranteed maximum price, or, the more recent addition, integrated project delivery (IPD). Optimally, the owner will make an educated choice to address the specific need.

One of the reasons there are so many delivery methods available is that the more traditional D/B/B approach was not yielding the desired results. D/B/B has a tendency to be contentious, pitting owner against contractor as one tries to outsmart the other, often ending in court cases.

This may not be the situation with every D/B/B project, but the current cut-price market has greater potential for contentious change orders, poor quality and unsatisfactory results.

Over the past few years, we have heard contractors and even some owners caution against blindly focusing on low price for construction. Responding to our recent survey on construction delivery methods, one contractor commented:
Bidding has become stupid with contractors pricing at extremely low levels. Why? To keep their men working and maintain cash flow.

Owners are very aware that this is a good time to get the lowest price for projects, but some are cautious:
Everyone is doing more with less, less human resources as well as lower profit margins. The economy has produced a great bidding environment for owners relative to pricing; however, it does not come without risks – mainly quality of work and subcontractor solvency. A significant value is placed on contractor pre-qualification with the hopes that the subcontractors selected will last throughout the project.

Despite what most owners know by experience and, for many, what their favored delivery method would be, we have found more owners, at least temporarily, have returned to something more like D/B/B. According to our survey of owners, nearly 55 percent have gone that way for project execution. (See Exhibit 1 on page 16) However, when asked which construction procurement method they used, nearly the same amount selected low bid compared to select bid, and 29 percent still chose negotiated project procurement. (See Exhibit 2 on page 16) These figures indicate that the majority of owners still recognize some differentiation among delivery methods and contractors. Low-bid procurement does not guarantee best value or even lowest price at project completion.

The pressure from owners to treat construction procurement as a commodity continues in structures that are characteristically not as complicated to build, have more or less standard designs and prototypes, and many builders have the capability and expertise to build them, thus making the market highly competitive. Examples include:

- Housing (residential and multifamily)
- Warehouses
- Chain stores/retail
- Office buildings (excluding high-rise, skyscraper)
- Lodging
- Schools

To say that the above list more closely fits the definition of a commodity is to say all housing, warehouses, etc., are the same or nearly so. However, building structures in each of these categories can have a wide range of special designs and features. Owners can also have different needs, like scheduling concerns or site requirements. Some contractors will be more experienced and capable than others, depending on the special requirements.

Even those owners wanting to treat construction services as commodities when in the purchasing phase want unique buildings, something that sets them apart from the competition.

That's the case for community schools and housing. Commercial owners want their buildings to be differentiated from the competition to offer their own unique experience or support their brand in some way. But need and price can alter some of these differentiators. Sometimes a good, serviceable building will suffice when a community is facing a sharp increase in student population without a significant increase in tax income. A store chain may be able to modify vacant buildings to suit its needs. Companies keeping expenditures low may decide that this isn't a good time to build a building with marbled halls and customized offices. In tough times, owners may be willing to modify their needs and desires in order to get the building at a price they feel is affordable. First, they want it all, and they will try to get it by looking for the lowest bid from contractors.

Construction projects that would not readily fit any description of commodity might include those that are characteristically complex, have unique designs, include innovative technology, present difficult building conditions, or are mission-critical or significantly large in scope, such as:

- Medical buildings
- Research facilities
- Power plants and other utilities
- Bridges
- Oil platforms
- Chemical plants
- Stadiums
- Museums
- Concert halls
- Water and wastewater plants
- Highways and roads

Building types not as likely to be treated as commodities are still subject to owners looking for the lowest bid, but the bidders must be pre-qualified. Savvy owners are looking for best value. Among the reasons for this include the cost of poor quality and missed schedules for large projects. If a contractor fails in the middle of a stadium or power plant project, the cost in lost box office receipts or production is extremely high. Structure failure in any of these projects is potentially catastrophic. The risks are too high for owners to take the chance that the lowest bid is not the best-qualified bid. Owners building most any type of project should feel the same way. But when times are tough, they are willing to take the chance that the contract will protect them from risk; and contractors hungry for business will cut prices even at a loss.

Reducing cost by soliciting the lowest bid in a design-bid-build delivery method is not the only way owners are seeking to reduce the cost of construction, but it still predominates, according to comments received from panelists of FMI's Nonresidential Construction Index Report. In the first quarter of 2012, we asked panelists what they are seeing owners do to reduce and control project costs. There are a range of things owners are doing to reduce costs, but most of the comments from construction industry executives focus on changing delivery methods and pressuring contractors to get the lowest price possible. Among the most questionable methods, several contractors note the increase of bid shopping. The following is a sample of comments on what owners are doing to control costs:

- Cost is not an issue to owners. Bids are coming in well below estimates due to excessive competition and lack of

backlog from some contractors.
- Rebidding multiple times to shop contractors.
- Bidding in the street so they get low numbers.
- Becoming CMs themselves and using multiple primes.
- Change comes slowly in the Northeast. We are seeing more competitive lump-sum bidding and less CM-at-risk.
- It has become a much more mixed result where certain owners who are more inclined to seek true life-cycle value are staying with or going back to the value proposition and quality-oriented contractors who can demand a fair margin on the work. Otherwise, there are still many developers and owners who know that contractors are desperate; and if they look diligently, they can get these contractors to compete to get all subs driven to a bottom number and the GC themselves to bid with a zero fee, sometimes less, in hopes they can bargain more from the suppliers and subs after award. This has resulted in GCs defaulting, and I suspect we will see more of both GCs and trade contractor defaults this year. Buyers, beware!
- The greatest frustration is that there appears to be only nominal consideration of the risk they are accepting when they award work to substandard trades. The concept of paying for value and workmanship has gone out the window and low price wins 99 out of 100 times.
- We are seeing the public sector in our areas finally get onboard with early selection of the CM/GC.
- We have seen a huge increase in bid shopping.
- We have seen several clients that have traditionally hired CMs for CM-at-risk work, based on qualifications only; go to a system where qualifications are the first step. Then, providing fixed fee and general conditions percentages or lump-sum amount is ultimately the deciding factor. Others are hard bidding work vs. selection and negotiation.
- We are seeing heavier use of BIM and prefabrication.

Is the construction industry returning to the dark ages where relationships, collaboration and the idea of value are retreating into the shadows? Certainly, contractors and owners are taking on more risk when low price is the only criterion for awarding the contract. As commented above, "Buyers, beware!" We should also add, "Sellers, beware." Owners may be buying a Yugo when they wanted a Ford or a Lexus. The result is potentially a great increase in legal disputes and contractor bankruptcies, which is good for the legal sector, but not the best construction delivery process.

Return of the Master Builder Concept

Not all owners are moving or regressing to design-bid-build or low-bid methods of procurement. According to our recent NRCI survey, the move to design-build delivery is more prevalent; yet owners still push for the lowest price. However, owners are also more willing to consider alternative materials and methods to save money, especially as material costs have continued to rise throughout the recession—one more concern that reduces profit margins for contractors. Interestingly, there is another trend, especially for midsize and smaller contractors; owners are involving CMs and contractors earlier on in the project in the design or even pre-design phase. Along with the move toward integrated project delivery (IPD), some have likened this to a modern version of the ancient Master Builder concept.

The use of qualified owner project managers (OPM) to serve as clerk of the works—mandated on large public projects in Massachusetts, for example—adds an upfront cost that increases initial price to reduce final project cost. Further, the OPM challenges the contractor to validate all elements of a project budget, the contractor's margin and the project cost structure. The savvy contractor is learning to anticipate project audits, pre-audits and onerous review of margin opportunities. The construction industry is challenged to come to terms with an acceptable level of risk and return for the contractor to preserve long-term industry health. Without attractive margins and profits, ultimately the financial health of contracting is in question. There are limits to the margin compression squeeze being applied by buyers of construction services.

In response to the need for cost certainty and best value, the industry has developed robust and sophisticated pre-construction services. The delivery of high-quality, professional preconstruction is mandated for the owner to attain project objectives at maximum value and the E&C providers to earn respectable margins. Onerous, abusive and punitive contractual terms and pricing schemes are unsustainable. Effective "free markets" must arrive at equilibrium.

The real risk in the low-bid squeeze play is that, even though owners are taking advantage of a highly competitive market, those providing construction services will play the game and do the best they can to make up for winning the bid with negative profit projections by cutting corners, increasing the cost and number of change orders and billing for any extras possible.

Some cost recovery methods will be legitimate, some not, but the contractor wants to make money on the project. Contractors that do not play the game well risk going out of business.

This type of atmosphere of contentiousness and deception is bad for business and something the industry has been working for years to improve. Therefore, there is some real potential of the construction industry returning to the dark ages.

On one hand, the return to something more like the Master Builder concept protects owners from process inefficiencies and contractors playing games that add cost to the project and the risk of going over budget and schedule. At the same time, the move to using more design/build, CM/GC and IPD, and generally bringing the contractors and all service providers to the table prior to design and construction can reduce risk and improve project success for all involved.

Not all owners, nor all contractors, are ready for this, but for larger, complex projects, this is the future—or what appears to be one of the best possible futures—for the industry and one that ultimately can be more effective in reducing costs.

Be the Future of Construction not the Past

It does not take a crystal ball to see that the world will not return to pre-2007 conditions. It has been and continues to be a tough recession, and memories are not so short that we will see a credit-fueled building boom anywhere on the horizon. There are many trends and economic forces that are here to stay: sustainability and green construction, reduction of energy use, industrial technology use, consumer buying power and the Internet consumer market, scarcity of raw materials, and growing populations.

The beginning of the recession saw many companies hunkering down to try to wait it out; others saw opportunities for change. Competition will continue to be fierce, especially for those who follow the crowd and get in line. Owners will continue to be demanding, although we expect more will return to best value based on qualifications and experience rather than just low, low prices.

The thriving contractors of the future are dynamic innovators in all aspects of their business, making them attractive partners for the owners who need, want and value professional construction services.

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At first blush, the re-painting of a building's exterior – even a high-rise building – should be a pretty straightforward project. But when BNY Mellon decided to replace the paint on their headquarters in downtown Pittsburgh, the result was anything but ordinary. Over the course of two-and-one-half years, the planning and execution of the restoration proved to be one of the most intensive and complicated projects done in the region. And early on, the toughest thing about the job may have been the idea as much as the reality, says Bernard Koblinsky, vice president at BNY Mellon.

"The biggest challenge was getting everyone to realize that they could actually do the job," he jokes.

The origin of the project can be traced to the construction of the building in the early 1980's. Welton Becket's design for the 54-story building – which was first owned by Dravo Corp. – called for the exterior to be painted steel panels that were three stories high. The thirty-plus foot panels were coated at the factory and installed after finishing was completed. While there was probably the expectation of some field touch up from transportation or construction damage, what Mellon Bank took possession of in 1983 was a failing exterior.

"They fabricated and coated the panels back in 1981 and 1982 and it was just never done right," explains Koblinsky. "The panels were primed in the morning and finished in the evening, regardless of weather or conditions. They were doomed to fail and the paint started to peel after the first winter."

Mellon eventually sued to redress the problems with the exterior of its new headquarters, eventually winning a sizable judgment used to re-paint among other repairs. During 1995-1996 the building was painted again, including new sealants, but by the end of the last decade there was significant deterioration of the coating. BNY Mellon decided it was time to do the job thoroughly.

When the planning for the project began, Koblinsky decided that their plan would be submitted to forensic engineering and architecture firm Raths Raths & Johnson (RRJ) for a peer review. Koblinsky had a relationship there and got an important referral from RRJ.

"I know one of the principals at Raths Raths & Johnson – Kurt Hoigard – who sits on all the ANSI boards," he recalls. "I asked him for a coatings consultant. I told him I don't want a company; I want the name of a person and I want the best."

Hoigard recommended Kirk Shields, a coatings engineer for Greenman-Pederson Inc. (GPI) in Pompano Beach, Florida.

"The coating had reached the end of its productive life and became brittle. The paint was deteriorating about as you would expect," explains Shields. "The coating gets brittle as it ages and the thermal shock of the freeze/thaw cycle causes the paint to pop off at the weakest point, which is the middle of the panel. On the BNY Mellon exterior, the large, flat panels flexed with the change in temperature but the paint did not flex with them."

The dynamics of the building weren't going to change, since the exterior panels and windows were not going to change; therefore, Koblinsky wanted to do everything possible to optimize the painting so that BNY Mellon could get the maximum life cycle from the project. Since removing the exterior panels to paint in a factory-controlled environment wasn't an option, Koblinsky chose to painstakingly plan for all the variables that could impact the work. And, unfortunately the painting conditions weren't the only variable to be considered.

The most obvious issue was the fact that the removal and coating were going to take place on a 54-story building in a city with a changing climate, one that is often inhospitable for a process that works best in warm and dry weather. The building height meant that worker safety was going to have an even higher profile than the quality of the work. BNY Mellon Center's location on the middle of Grant Street meant that thousands of pedestrians would walk beneath the jobsite and thousands of cars would drive by it each day. Across the street from the building is the Omni William Penn Hotel, whose guests expected some relief from construction noise at bedtime. And the BNY Mellon Center itself was an occupied office building, with both BNY Mellon employees and tenants entitled to a space that did not disrupt their work.

The best equipment in the market was a system of ultra high pressure (UHP) lines that delivered 40,000 pounds per square inch to the surface removal tools (SRT), wands fitted with synthetic sapphire jewels that were between .008" and .035" in diameter.

During the months of planning Koblinsky got the first indications that the unusual nature of the project was going to limit the prospects for participation.

"This area has some of the largest industrial and bridge painters in the world but none of them were able to help during the planning," he recalls. "The same was true when we did the architectural and engineering selection. The expertise needed to undertake the project was daunting."

The latter wasn't completely true, of course. The bank had relationships with engineer H. F. Lenz Co. and DRS Architects. Lenz had done the mechanical engineering on many projects in the building since it opened and DRS had been very active in the renovation program that was being undertaken on a number of floors at that time. While this project was not going to involve a broad scope of work, several key issues needed solutions to be designed.

When the project was put out to bid in early 2010, BNY Mellon invited four contractors to price what it considered a well-planned solution.

To take the paint off the building, the only safe method to employ was high-pressure water blasting. The best equipment in the market was a system of ultra high pressure (UHP) lines that delivered 40,000 pounds per square inch to the surface removal tools (SRT), wands fitted with synthetic sapphire jewels that were between .008" and .035" in diameter. The system – manufactured by NLB Corp. – was built upon pumping equipment that was housed in the garage level two to control the sound and consisted of 16 risers that ran up the inside of the building and exited through the exterior to connect to the water blasting tools.

Water used in the removal process was collected, filtered and treated by a system from Alar Engineering. Like the UHP system, the water processing system was located inside the garage.

Craig Trabold was one of the engineers running the project for H. F. Lenz. His firm was responsible for specifying the equipment used. Trabold admits that he had no prior experience with such a project but that the equipment was widely used in marine applications for ship cleaning in dry dock. He describes the difference in a vertical urban application where overspray isn't an option. "The surface removal tools had a six inch circulating tool with jets that blasted the paint," he explains. "Around the perimeter of the tool is a 15 inch vacuum that holds the tool to the building. As the water is pushed onto the building the vacuum captures the excess water, including paint chips and metal, and collects it in a mixing tank. The water is filtered and recirculated back into the removal system."

Equally important to the project was the solution for accessing the exterior. BNY Mellon chose Tractel Inc. "They are the premier company for motorized staging equipment and the only one to do it to 800 feet," says Koblinsky. He was unwilling to settle for using Tractel's staging alone. H. F. Lenz designed structural steel bracing for the staging that was used to hang both the staging and hose system. The 245 lineal feet of staging was attached using 30-year old access points for the window cleaning system and was moved with a cable system that also included redundancy. Although the safety codes would have allowed three cables for the staging, BNY Mellon added a fourth cable at a cost of $100,000. What Koblinsky refers to as "the Lamborghini of staging systems" was over-engineered to ensure that the workers on the exterior of the building remained safe.

Specifications for the removal and painting were done initially by Pittsburgh-based consultant KTA Tator, who was asked to approach the project because of their forensic experience with coatings failure lawsuits. Then the project went to GPI to fully develop the process for removal and re-coating. Throughout the planning process, Raths Raths Johnson was asked to peer review the progress.

DRS Architects had the task of assembling the engineering and technical specifications into a usable set of bidding documents. Jack Jasneski, the project architect for DRS, says the preparation took him in a direction that was uncommon.

"Architects don't usually get involved with how to put the job together. We design the project," he says. "On this job we had to first figure out how to get the work done. The big thing on this was how the whole thing came together from an organization standpoint. By the time the work was all broken down almost everything that was going to be done had been discussed."

When the project was put out to bid in early 2010, BNY Mellon invited four contractors to price what it considered a well-planned solution. One of the contractors asked to bid the job was Burchick Construction. The company had renovated one of the floors in the building the year before and Koblinsky had added them to their regular roster of bidders. Burchick wound up as the third low bidder on the exterior remediation project bid, well above the low bidder. But their proposal reflected an approach to the project that would be critical a year later.

In spring of 2010, however, BNY Mellon awarded the project to another bidder, with the expectation of having the project completed during two painting seasons. Almost from the beginning the job bogged down.

"Tornado season in the Midwest produces rain in the Ohio River Valley," explains Koblinsky. "That spring [2010] there were four times as many tornadoes as normal."

The additional rain meant that fewer days were available to paint the building. It also meant that the stripped or primed metal panels were often exposed to wet weather for longer than the specified exposure period, meaning that bare steel or primer was oxidizing before finishing took place. In those situations, panels had to be re-stripped before moving ahead. As inconvenient as the weather was, the real delays were coming from problems in the approach to the project. Many of those issues were ones raised by Burchick in their original proposal.

"Our estimate started with the schedule. That drove everything so then we tied the scheduling to estimating, what could and couldn't be done" explains Joe Burchick. "We broke the building down into 30 foot chunks with three rows of windows. We took off all the work to be done on a section and then applied that to the whole building."

That approach wasn't at all extraordinary. A thorough estimate for any project, especially a repetitive one, is developed similarly. The problem for Burchick Construction was that its estimating also factored in premiums for many of the kinds of general conditions activities that a painting con-

tractor would not have been used to pricing. The extraordinary measures that the owner and design team had taken to ensure safety, quiet and a usable building during construction were all significant additions to the costs of stripping and repainting. Burchick also felt that normal production rates would be dramatically eroded by the weather and by the unusual level of detail and quality assurance for the finishing. When the bids rolled in from the painters in spring 2010, their numbers were between seven and eight million dollars. Burchick's estimate for the same work was twelve million. They refused to accept the subcontractors' estimates and their original bid reflected that.

As they scoped out the subcontractors during that first bid, Burchick's estimators asked questions about how the painters were pricing the unusual measures being taken and realized that those conditions weren't being accounted for in the bid. "We concluded that the schedule from the painters and the owner wasn't feasible, based on the tools available at the time," says Burchick. By the end of the painting season in 2010, it was clear that Burchick had been correct.

Instead of reaching the 40 percent benchmark that was set for the end of year one, the project was only seven percent completed – and a significant amount of that work needed to be re-coated. In addition to the concerns Burchick had raised at the time of the bid, progress had also been impeded by high downtime. The cleaning equipment, hose system and surface removal tools were constantly breaking down. Using the SRT equipment proved more difficult than expected because the exterior of the building had a number of panel and column profiles and each required more effort to clean than was expected. At the end of the season, the project's original contractor was well behind schedule and their lump sum contract was not going to work.

Bernie Koblinsky decided in November that he had better look at alternatives. He had built a reputation for accomplishing difficult projects and was determined that this project was going to succeed. He contacted Burchick to discuss the project's problems and the possible solutions. Koblinsky says he appreciated that Burchick had told them the truth, even if it wasn't what the owner didn't want to hear, and the fact that he was willing to learn what could be done.

BNY Mellon agreed to hire Burchick Construction in January 2011 to complete the project during the two upcoming painting seasons. As part of their agreement, the bank changed the form of the contract from a lump sum to a cost plus basis. Just as importantly, a new painter – Courtman Painting - was brought in and that contract was also done as a cost plus subcontract to Burchick. At the same time, the responsibility for the activities that were the source of delays was shifted to Burchick Construction. Burchick set about identifying opportunities to accelerate schedule or save money.

One of the first things that they concluded was that the 40-pound SRT equipment was too heavy for workers to use without fatigue that significantly diminished productivity. Burchick floated the idea of having custom tools made and Koblinsky responded by paying to have two custom SRT's built. The tools were made by specialty fabricator Hall Industries from Ellwood City. They were duplicates of an SRT that was fabricated to match up to one of the exterior profiles and to travel along supports that attached to the building. Productivity for the stripping increased dramatically as soon as the tools were put to use. Based on the success of that tool, BNY Mellon had another four tools made to fit each distinct profile of the façade. Each tool cost roughly $30,000 each, meaning that the company invested $300,000 for the five tools and their backups.

"The customized tools used hydro and air technology to eliminate the human element," says Burchick's project manager Dave Meuschke. "They produced superior results for productivity and removal immediately." With 550,000 square feet of exterior to be painted, those gains made a big difference to the schedule.

A number of procedural changes were also made that either increased the speed of the work or eliminated down time. The Operating Engineers had an agreement to work on One BNY Mellon Center's maintenance so Burchick hired them to oversee the maintenance of the tools. The pumping and water processing equipment were also proactively maintained, which eliminated almost all down time except planned outages. The high-pressure lines were replaced in a way that reduced leaking and failures at the fittings. Four hours each day were devoted to repairing

"They produced superior results for productivity and removal immediately." With 550,000 square feet of exterior to be painted, those gains made a big difference to the schedule.

the tools and the pumps were torn down every 500 hours. Similar aggressive maintenance and inspection schedules were implemented for the scaffolding and staging. It became Burchick Construction's responsibility to create an environment where as few interruptions took place to hold back the painters – and to maintain it.

"That was the key to the project. The first contract had assigned all the responsibility for maintenance of the equipment to the painter and the equipment was always breaking down," says Meuschke. "Joe [Burchick] was convinced that we needed outside experts to maintain the equipment and keep it all up and running"

"We had to separate the activities like safety management, equipment and tool maintenance from the painter's responsibility," says Burchick.

Even after the all the changes to improve the processes were implemented, it wasn't as though it would be all smooth sailing. "You could only work when the wind was

25 miles per hour or less. Work was dependant on temperature and humidity conditions. You had to work within specific ranges," says Meuschke.

"My lasting memory is the dynamics of the project, that it changed complexion on a daily basis," recalls Trabold. "It was just a painting job. How hard could that be? Well, when you start with all the crews, the shifts, multiple inspections, recoat times, windows that you have to recoat, humidity, storms that are coming up, what was the production rate last night? The list goes on and on."

By the fall 2011, it was apparent that the changes in direction and process and BNY Mellon's willingness to invest in a new team were paying dividends. The Burchick/Courtman Painting team was able to bridge the gap between the progress of the previous year and the original schedule. To ensure safety and progress, Burchick and BNY Mellon replaced the cabling on the scaffold and hoist system and parts of the high pressure hose system in the off season, even though there had been no evidence of fatigue. Burchick continued making solid progress throughout this past summer and completed the project at the end of September 2012.

"Accolades should go to Bernie Koblinsky for having the vision and the will to invest in doing things right," says Joe Burchick. "It was the perfect example of a true team of professionals – owner, contractor and engineer – working together to solve problems. It's how every job should go."

"The amount of detail in the project was amazing," says Jasneski. "And Bernie's expertise in managing the details was unbelievable."

From start to finish the attention to detail that Koblinsky gave the project helped focus all the team members and it was critical to making sure that each issue was planned thoroughly. Even after the project encountered problems in the first summer, BNY Mellon and Koblinsky chose to dig deeper into the problems and find solutions rather than enter into a lengthy exercise in blame or litigation. Perhaps because of the lessons learned in year one, Koblinsky remained engaged in the day-to-day issues.

GPI's Kirk Shields says that Koblinsky was immersed in the project throughout. "In my twenty-some years of projects, he was the most involved of any owner ever, particularly one that had no prior experience with coatings," he says.

Given all the problems that were solved during the project, it may be a surprise that Bernie Koblinsky doesn't talk first about the quality or productivity of the work.

"I'm really proud of the safety on this job," he says. "We only had two or three minor incidents due to carelessness of the people injured. That doesn't happen by luck. It was one of the best teams I put together in 30-plus years and Joe was a big part of it. Individually, incrementally everyone added something to the project." The result of the work is fine by Koblinsky also. "We've been through two freeze/thaw cycles and the paint is OK. It isn't going to fail." BG

PROJECT TEAM

BNY Mellon	Owner
Burchick Construction	Construction manager
H. F. Lenz Co.	Structural/mechanical/electrical engineer
DRS Architects	Architect
Greenman-Pederson Inc.	Coatings consultant
KTA-Tator Inc.	Coatings consultant
Courtman Painting	Painting contractor
SSM Industries	Plumbing
K & I Sheet Metal	HVAC
Franklin Electric	Electrical
Hall Industries	Specialty fabrication
G. Kidd Inc.	Miscellaneous steel erection
Tractel Group	Swing stage equipment
NLB Corp.	High-pressure water
GapVax Inc.	Industrial vacuum & dewatering
Alar Engineering	Water filtration

R.I. Lampus Company

One of the oldest businesses serving the construction industry in Western PA is concrete block maker R. I. Lampus Co. When you talk with the company's current president, Don Lampus Jr. you get the distinct impression that he doesn't regard 88 years in business as a particularly unusual accomplishment. In part, that's because the construction industry seems to engender an unusual number of multigenerational businesses but it's also because the Lampuses and their management team take it as an article of faith that they will always have to innovate and change. Even after 88 years, much of their business probably feels new.

The current generation of managers at the company credit Don Lampus Sr. for the dynamic mindset at R. I. Lampus, pointing to his tenure running the company as a time of new products and creative ways to grow the company. In fact, it was shortly before Don Sr. became president in 1971 that the company began to expand its product lines. When asked about what motivated his drive for a new approach, Lampus offers a simple explanation.

"Because we were failing," he laughs. While there is doubtless a kernel of truth in that explanation, there was also something more intentional to his methods.

The business Don Lampus Sr. was learning and beginning to lead as the 1960's wound down was not radically different from the business his father had founded in 1924. While in truth the business had made a number of changes over the years to improve technology or expand capacity, R. I. Lampus was still making block after 50 years and Don Sr. understood that the slow concrete block business they were experiencing in the late 1960's wasn't going to improve and that they would have to change to thrive.

Ralph Ira Lampus and William Harry Lampus were the sons of a blacksmith, a profession that was not long for this world in the 1920's. The two brothers purchased the T. C. Campbell Co. and began making cinder blocks – primarily for the coal mines – in a garage in Springdale. Before the company was a decade old the Great Depression drove William to leave the business but divine intervention of sorts allowed R. I. to survive and created the foundation for the future.

"My grandfather was awarded a large church, I believe, somewhere near Pittsburgh and he had so much production that it got him through the Depression," says Don Jr. "And after that he continued to expand and bought more pieces of equipment and grew the business."

As the Depression wound down, Ralph Lampus bought new equipment that grew his capacity to produce what had become concrete blocks by 1935 and began accumulating vacant lots and houses throughout World War II as his business grew. He built the R. I. Lampus West Plant in 1946, a facility that boosted his capacity to 4,800 blocks per day and he eventually grew to be the largest block manufacturer in the region. For the next two decades the company served both the residential and commercial markets successfully and Ralph Lampus was content to continue as a manufacturer of concrete block. Don Lampus Sr., however, decided that the 1970's had to be a time of diversification for the company.

In 1970, he had managed to introduce a different product into the Lampus line, that of making metallurgical briquettes. Steel or iron manufacturers use ferroalloys or silicon carbide to alter the chemical composition of their finished products. Lampus was able to use those metallurgical alloys as aggregate in their existing block equipment to bond the alloys into a briquette that could be added more easily to the steel manufacturing process. The new product also conformed to Don Sr.'s adage that you shouldn't try to do something more than 50% different from what you are doing now.

"We were really slow in 1969 when we were approached about getting into the metallurgical business," Don Sr. remembers. "I thought, well we're not doing anything else right now so we may as well try it." The early success gave Lampus the confidence to look for other diversification opportunities and the metallurgical product grew to be one of the company's three main operating divisions.

Within a few years, some market intelligence from Europe led Lampus into the landscaping business that it is well known for today.

"Don Sr. was a force in the national trade association, held several national positions there. Because of his work with the National Concrete Masonry Association (NCMA) we were exposed to some of the new things that were happening in the landscaping and paver industry," explains Bob Welling, vice president of marketing.

"A fellow named Paul Lenchuk was running the national association [NCMA] and had seen concrete pavers in Europe," says Don Sr. "He asked me to travel to Europe with him to see whether or not pavers had application in the U. S. I thought it was a good opportunity for us to expand our products."

R. I. Lampus entered the paver business initially as a distributor, importing product from Canada in 1975. Again, their early results encouraged Lampus to invest and in 1976 they became the second U. S. company to manufacture interlocking concrete paving stones, trademarking the Omni-Stone brand in 1983. Concrete pavers were the company's entrée into landscaping products. That product line has grown over the years to include the Versa-Lok segmental retaining wall and other concrete landscaping and outdoor living space products. The landscape division is the third of the Lampus divisions today and R. I. Lampus is the only remaining manufacturer from the original group in the 1970's.

Much of the innovation of the last 20 years has been focused on the development of products more than new lines of business. Lampus has introduced a variety of wrinkles on its basic concrete block products as the market has demanded, producing colored architectural units, split face block, sound absorbing and insulated blocks. They continue to work on adding recycled materials into their mixtures and developing products that are more sustainable.

Since 2007, the company has been led by Don Lampus Jr., with Don Sr. as CEO. The company's management team includes

Bob Welling, Andy Burkhart ,vice president of sales and Bill Stevens, executive vice president/CFO. Their focus is different from the approach Don Sr. took in the 1970's and 1980's but they feel the same commitment to evolving the business.

"Today it's not so much diversification as it is acquisition. We need to grow. We have what we feel are three very solid businesses and we want to grow all of them," says Don Jr. "There is a continuous improvement program to decrease costs and improve quality. We have a new product committee that meets regularly to discuss what new products are coming out and what trends we see coming."

In recent years, Lampus started a wet cast operation that allows them to create faces and shapes for concrete landscaping blocks that closely imitate natural stone, but with predictable dimensions and sizes. Their Rosetta collection of retaining walls, steps and outcroppings are examples of the wet cast process. So is a new line of products introduced in mid-2012 under the Lampus Lifestyle brand. The Lifestyle lines are geared towards higher end outdoor living spaces and represent a departure for R. I. Lampus.

"Sr. came in one day and basically challenged us to have a product you can sell all over the country," says Don Jr. "That challenge resulted in the pizza ovens."

Using the wet cast concrete 'stones' Lampus has developed a full-size wood-fired pizza oven for outdoor kitchens and living areas. The ovens are sold nationally and compete with other gourmet living items marketed directly and on the Internet. Welling says that the Lifestyle line is aimed at a different consumer from their main product lines and that the way they are going to market is a significant departure.

"We're pursuing products with a higher price point. Normally we're good at making high volumes of products that are low cost," he says. "If you are selling across the country on something that costs $5,000 the shipping costs aren't as noticeable as on a concrete block that costs maybe $2."

Using the Internet as a marketing channel is part of a progressive strategy that has taken the Lampus management team into territory that was unfamiliar, at least a few years ago. They place a heavy emphasis on using their website to distribute information needed to buy or install their products, even offering installation videos or instructions that are accessed by icons on the product web page. Lampus strategy sessions focus on social media and search engine optimization, topics that weren't exactly on the radar just a few years back.

Bill Stevens says that Lampus relies on strategic thinking throughout the organization to remain competitive. "It's not just at the top but from top to bottom, right down to the work floor" he says. "We can't always grow sales like we want to but we can grow the bottom line through strategies that cut costs or improve processes to make us more competitive."

Stevens points to acquisitions like Rennekamp and Parkway Block in 2008 as an important strategy for the future. "We looked at two or three this year. Even though none of them came to fruition I expect we'll continue to look at a couple of opportunities each year."

Beyond acquisitions, Lampus also looks for opportunities to add value to their current customer relationships. For example, the company started distributing brick three years ago to offer a fuller line of products to their customers. With a sales force of 15 representatives that have an average of more than 15 years experience, R. I. Lampus is willing to promote their products to architects and engineers for specification and to think outside the box to support customers. One of those innovations was the launching of Masonry Basement Advantage – a Lampus unit that installs concrete block foundations – in response to concerns of their homebuilder customers that they were unable to find skilled labor for new home foundations.

Bob Welling feels that commitment to marketing and customer service helps attract opportunities because manufacturers of new products will bring new products to Lampus because of its leadership. This leads to distribution or licensing opportunities that multiply Lampus's own innovation efforts.

R. I. Lampus Co. has evolved again in the new century, bringing fresh business practices and an open mind to building up the diversification that Don Lampus Sr. made part of the culture. His son realizes that embracing change doesn't mean throwing out the baby with the bath water when it comes to other important tenets of their business.

"One thing I'm especially proud of is the longevity of our employees. There's a plaque with the names of our retirees in the lobby and 25 years is the norm," says Don Lampus Jr. "I think that's a tribute to the things my father and grandfather did, how they treated the people who have worked here." BG

Company Facts

R. I. Lampus Co.

816 R.I. Lampus Avenue
P.O. Box 167
Springdale, PA 15144
(P) 412-362-3800
(Toll free) 800-832-7210
(F) 724-274-4033
www.lampus.com
rilampus@lampus.com
150 employees

Legal Perspective

Construction Law 2012: The Year in Review

By D. Matthew Jameson III, Esq.

Statutes and court cases in 2012 changed the environment for firms who own, design or build construction projects. The following developments were significant for construction law.

Mechanics' Liens: Good News for Contractors; Bad News for Construction Lenders.

In Commerce Bank/Harrisburg v. Kessler, 46 A.3d 724 (Pa. Super. Ct. 2012), the Superior Court held that a bank's mortgage is not entitled to "super-priority" under the Mechanics' Lien law unless all of the proceeds from the mortgage "are used to pay all or part of the cost of completing erection, construction, alteration or repair of the mortgaged premises." This means that if any proceeds from a mortgage is used for "soft costs" (e.g. – taxes, closing costs, advertising, etc.) of construction, the "super priority" for the entire mortgage will be lost and a contractor's lien will have priority over a bank's mortgage if construction started before the mortgage was recorded.

Mechanics' Liens: Is a Move to the Ohio Model on the Way?

Currently pending before the Pennsylvania Senate Labor and Industry Committee, House Bill No. 1602 (the "Bill"), if and when enacted, would add new notice requirements to the Lien Law. The majority of the Bill focuses on the creation of a new lien notice system for project owners and subcontractors to follow. In order to manage and facilitate the new notice requirements, the Bill calls for the creation of a "State Construction Notices Directory" ("Directory") website by July 1, 2013. The Pennsylvania Department of Labor and Industry will be responsible for the Directory. The Directory will serve as the database for owners to file a "Notice of Commencement" and subcontractors to file a "Notice of Furnishing." These two types of notices are critical creations of the Bill, and appear to be modeled after the process that has been in place in Ohio for years.

These new notice requirements seek to address the longstanding problem in Pennsylvania of owners and contractors not knowing the identity of subcontractors or material suppliers furnishing labor or materials for a project. As a result, an owner or contractor often did not even have knowledge of the identity of a potential lien claimant, let alone the fact that they possessed a claim, until receiving a notice of intent to file a lien. The Bill provides the owner with the right to file a Notice of Commencement with the Directory before work on an improvement begins in order to identify all subcontractors and material suppliers that may have lien rights through their subsequent required filing of a Notice of Furnishing.

Mechanics' Liens: Labor Unions' Right to File a Lien as a Subcontractor

In Bricklayers of Western Pa. Comb. Funds, Inc. v. Scott's Development Co., 41 A.3d 16 (Pa. Super. Ct. 2012), the Superior Court held that (1) the Lien Law's substantive provisions of the Lien Law (as opposed to its procedural provisions) must be liberally construed to effect Lien Law's remedial purpose and (2) labor unions fell within the definition of "subcontractor" under the Lien Law, and therefore had the right to file a mechanics' lien claim.. On November 28, 2012, the Pennsylvania Supreme Court granted Scott's Development Company's petition for allowance of appeal. Therefore, in 2013 the Supreme Court will address whether the Superior Court interpreted the Lien Law too liberally and whether a labor union has the right to file a mechanic's lien claim under the Lien Law.

General Contractor's Use of a Subcontractor's Quote Does Not Create a Contract

In Ribarchak v. Monongahela, 44 A.3d 706 (Pa. Commw. Ct. 2012), the Commonwealth Court held that a subcontractor (Ribarchak) could not assert a breach of contract claim against a general contractor (or the owner) based on the fact that the general contractor used the subcontractor's quote (and identified the subcontractor) in its bid to the owner. Furthermore, even though the contract between the owner and the general contractor required that the general contractor substitute any subcontractors within thirty days after contract award date, the owner decided to permit the general contractor to make a substitution five months after the award, and the Court held that Ribarchak was not a third-party beneficiary of the 30-day substitution provision and therefore could not pursue a claim against the general contractor and/or the owner. This case means that absent a general contractor's express acceptance of a subcontractor's bid, there is no contract between the subcontract and the general contractor.

Public Works Contractors Now Required to Use Federal E-Verify System

Pursuant to the Public Works Employment Verification Act (Senate Bill 637), as of January 1, 2013, all contractors and subcontractors on every public works project, including any state, county, municipal or school project, are required to

verify employability through the federal government's online E-Verify system, an Internet-based system that allows businesses to determine the eligibility of their employees to work in the United States. Under the new law, before being awarded a public works contract, a contractor will be required to provide the public body/owner with a verification form acknowledging its responsibilities in relation to verification of employment eligibility through the E-Verify Program. Subcontractors on the project must also provide a verification form prior to commencing work on the project.

In order to ensure compliance, the Secretary of the Department of General Services will conduct complaint-based and random audits of public works contractors and subcontractors. Penalties for violations of this Act range from public warning letters, to various periods of debarment depending on the number of violations, to civil penalties.

Qualifying Statements in a Proposal Rendered the Proposal Non-responsive

In Pepco Energy Services, Inc. v. Department of General Services, 49 A.3d 488 (Pa. Commw. Ct. 2012), the Commonwealth Court held that the Department of General Services ("DGS") properly declared Pepco Energy Services, Inc.'s ("Pepco") proposal to DGS non-responsive based on certain qualifying statements contained in its bid. DGS had issued a Request for Proposal for a Design-Build Contractor for a Combined Heating, Cooling, and Power Plant project to serve the State Correctional Facility in Montgomery County (SCI-Phoenix). In its proposal, Pepco conditioned its proposal on having the opportunity to negotiate certain terms of the agreement with DGS prior to being selected. After seeking clarification of these qualifications from Pepco, DGS rejected Pepco's proposal as being non-responsive. Pepco pursued a bid protest and ultimately appealed to the Commonwealth Court based on the language in section 513(g) of the Procurement Code, which states that the "responsible offeror" that submits the proposal that is determined "to be the most advantageous" to the owner "shall be selected for contract negotiation." 62 Pa. C.S. § 513(g).

The Commonwealth Court agreed with DGS and ruled that Pepco's attempt to negotiate terms of contract prior to selection rendered its proposal non-responsive. This decision represents another step by the Commonwealth Court to fairly implement the request for proposal process contemplated by the Procurement Code.

Public-Private Partnerships Now Permitted on Road Construction Projects

On July 5, 2012, Governor Tom Corbett signed legislation that authorizes public-private partnerships ("P3") for road, transit and other transportation related projects.

The Pennsylvania P3 Act, 74 Pa. C.S. §§ 9101-9124, applies to "transportation facilities," which includes typical transportation structures such as bridges, roads and parking lots, but also includes multimodal facilities, airports, terminals and ports, together with their associated structures. Under the Act, the rights for use or control of a P3 transportation facility are transferred from PennDOT to another public owner or to a private development entity.

The development agreement can include the following services: (1) operations and maintenance, (2) revenue collection (including tolls), (3) design and/or construction (including design-build), (4) development and other activities that enhance traffic flow, reduce congestion, or improve safety, and (5) financing. The Act also authorizes any other "innovative or nontraditional project delivery method or agreement or combination of methods or agreements that the public entity determines will address the transportation needs of the

Commonwealth and the public entity and serve the public interest." 74 Pa. C.S. § 9108. It certainly appears that the legislature was allowing public-private partnerships to attempt innovative ways to address Pennsylvania's infrastructure crisis.

P3 projects will be subject to approval by a newly-created Public-Private Transportation Partnership Board (the "P3 Board"). The P3 Board will have seven members: the Secretary of Transportation, the Secretary of the Budget, a member appointed by the Governor and four legislative appointees. The Board is responsible for evaluating and approving P3 projects. P3 projects can be presented to the Board by both public and private entities and proposals may be submitted on an unsolicited basis. The Act provides little guidance for the standard by which projects will be evaluated, stating only that projects can be approved when the Board finds that the project is in the best interests of the Commonwealth and the public entity that is the owner of the facility. The General Assembly has retained the power to rescind the Board's approval of a project that would be owned by the Commonwealth, but must act within 20 calendar days or 9 legislative days, whichever is longer.

Conclusion

As can be seen from the above discussion, 2012 brought numerous construction law developments. In 2013 we expect case-law and statutory developments in the area of mechanics' liens, along with a decision from the Superior Court in the construction defect insurance coverage case of Indalex Inc. v. National Union Fire Ins. Co., Allegheny County Court of Common Pleas No. 06-021147 (Judge Wettick March 8, 2012).

For the past ten years, as a service to its clients and prospective clients, the law firm of Babst Calland has provided a complimentary "year in review" breakfast seminar which provides an overview of the prior year's significant developments in the area of construction law. The seminar reviewing 2012 developments will be held on Wednesday, February 27, 2013 at the Doubletree Hotel in Green Tree. To receive an invitation to this seminar, please contact Matt Jameson at mjameson@babstcalland.com. BG

POWERLESS: WHY BUSINESSES CAN'T EXECUTE

By Mark Bashrum

The gap between strategy and execution appears to be widening due to a toxic cocktail of scarcity, demographic shifts, and regulatory expansion. Companies should develop people and cultivate a culture focused on executing business strategy.

THE PROBLEM

Delivering on strategy is becoming more difficult as execution know-how is threatened by workforce reductions, the retirement of skilled project-focused employees, and the debilitating requirements of compliance initiatives.

WHY IT MATTERS

Advancing the organization means developing new products, finding new markets, and building enabling systems and infrastructure. To deliver desired outcomes, all of these initiatives depend on project-focused competencies and a culture of execution.

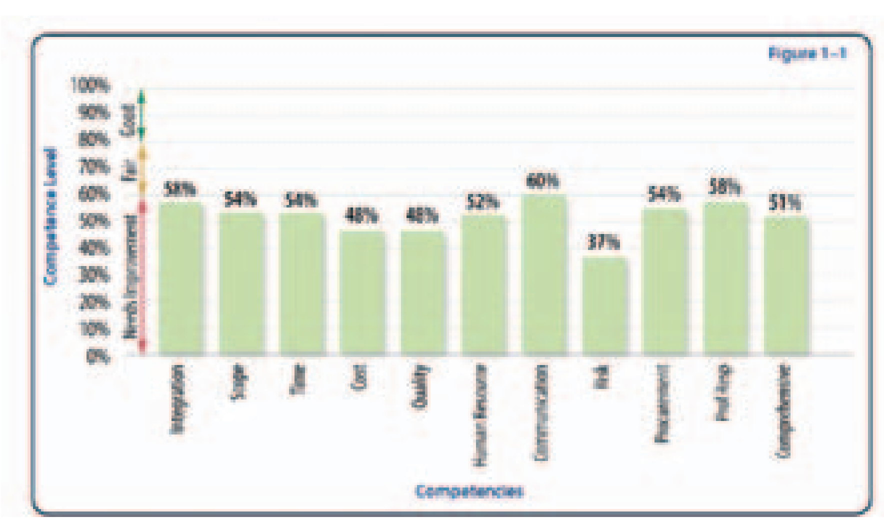
What to do about it:

- Vigorously develop project-focused resources capable of aligning strategic objectives with business outcomes.
- Utilize highly experienced resources in the coaching and mentoring of next generation executors.
- Build a culture of execution supported through effective centers of excellence that provide structure and instill discipline in the process of execution.

Delivering on strategy has always been difficult. Status quo has a strong inertia and even when the vision is willing, the organization often is not. According to Harvard Business School research, 90% of well-formulated strategies fail due to poor execution. Fortune magazine concurs. Its survey of Fortune 500 executives found that 82% of Fortune 500 CEOs feel their organizations did an effective job of strategic planning, yet only 14% of the same CEOs indicated that their organizations did an effective job of implementing the strategy. For most executives, this is nothing new. What is new, however, are the added hurdles created by a very demanding business environment.

Many of the organizational competencies acquired over the past decade geared toward improving agility and execution have been eroded away by harsh economic realities and the resulting environment of scarcity. Often, those individuals once responsible for championing programs to implement and sustain process improvement, change management, and project management competencies are no longer with the firm or are dispersed across a newly reorganized and often fragmented organization. Unfortunately, these are not one-and-done efforts and each requires consistent and continuous sponsorship and support to sustain their benefits.

Along with organizational improvement efforts, many of the support structures meant to reinforce a culture of execution have also been disbanded or diminished. A recent survey of more than 3,000 project-focused employees, conducted by ESI International, has revealed that over the past year, project management offices (PMOs) have seen a substantial reduction in number, size, and influence. In many cases, this leaves the development, training, and reinforcement of project management best practices, methodologies, and systems without a home.



With few exceptions, most industries are slipping over the edge of a cliff when it comes to the aging of their workforce and the inevitable loss of critical human capital. It is not just domain knowledge walking out of the door; it also includes the highly-skilled and experienced project and program managers who are responsible for aligning organizational strategy with project outcomes and delivering new products, new markets, and new systems on time and on budget.

Tough regulatory requirements associated with new legislation are also impacting many verticals. Healthcare, pharma, and financial services have all seen a barrage of compliance mandates over the past few years, which are diverting their

TABLE 1: STATED PROJECT PERFORMANCE VARIANCE BETWEEN TOP AND BOTTOM QUARTILE LEARNERS*

best and brightest resources to meet hard deadlines that carry heavy punitive consequences for non-compliance. It is a classic case of urgency over importance, which is likely to leave a dead zone of inactivity in the execution of needed strategy.

How can organizations counter these trends and begin the process of rebuilding their stable of organizational competencies? What steps can they take to ensure that they have the horsepower to execute on future strategies and organizational objectives? How should they approach and support a culture of execution? What can be done now, in an environment of scarcity, to prioritize organizational development efforts?

ESTABLISH A BASELINE

Tired but true—it starts with people. All of the structure, systems, and methodologies in the world are not going to matter much if fundamental human competencies are not in place. Determine the skills and competencies required to execute effectively in your environment and assess your people to understand how they measure up. Pay particular attention to those project-focused employees who shoulder a majority of the responsibility for executing key initiatives. These roles include business analysts, project managers, program managers, and key project contributors from the business units. Once a baseline is established, you have a point of reference to measure the effectiveness of your development efforts and can easily identify the development priorities that are likely to give you the biggest bang for your effort. Figure 1–1 provides a sample of how competencies might be measured for project-focused teams.

BRING THE ORGANIZATION UP TO A BASE LEVEL OF COMPETENCE

Creating a foundation of understanding is essential to ensuring that individuals share a common platform from which to build skills. Data shows that establishing even fundamental competencies in project-related skills can have an immediate and measurable impact on the business. The data represented in Table 1 shows responses from several thousand project managers and supervisors, and quantifies the impact of fundamental project skills on a variety of desired business outcomes associated with delivering strategy.

A study of 5,700 project professionals and their managers revealed that those project managers ranked in the top quartile for learning effectiveness vastly outperformed those in the bottom quartile when it came to delivering key business results; providing further evidence that professional development does drive execution.

CREATE COACHING AND MENTORING PROGRAMS

Once talent walks out the door, it is gone forever. There is no substitute for experience; however, experiential-based learning is the closest proxy. Leverage highly skilled resources while you still have them by establishing a formal coaching and mentoring program that is focused on building the next generation of leadership. Culture is not distributed through email, but rather learned through action. There is no better way to communicate your corporate culture than through the actions of those delivering against corporate objectives. Ensure that mentoring programs are integrated into your onboarding efforts so that newbies are immediately immersed in a culture of execution and have the benefit of a coach from day one.

REBUILD AND RE-ENGAGE YOUR EXECUTION SUPPORT STRUCTURE

Organizational structures such as PMOs and business analysis centers of excellence play a critical role in ensuring that execution is supported by a culture of discipline and rigor. Though typically created with good intentions, over time, it is all too easy to lose sight of the critical role these structures play in providing the methodology, systems, and training required to sustain an environment of execution. Start with inventorying and assessing your current support structure and look for ways to enhance and empower these organizations.

FOCUS ON THE BUSINESS IMPACT OF DEVELOPMENT

Organizational or individual development only matters if it is relevant, applied, and delivers a measurable impact on the business. Since the end game is to impact the bottom line, it is critical that development efforts focus on measuring business outcomes rather than on the quality of the program. While this may be intuitive for business leaders, it may require a change in mindset for those responsible for delivering development initiatives.

As with any meaningful business metric, it is important to continuously monitor progress, so that real-time changes can be made as needed. You would rather know about a lapse in project execution as it occurs rather than realizing it after the wheels have come off.

ROI is the best unit of measurement when it comes to ensuring that development efforts are delivering results. Ensure that those facilitating development use appropriate techniques for measuring results. For specifics on how to ensure an effective ROI approach, download ESI's training ROI white paper: http://www.esi-intl.com/~/media/Files/Public-Site/US/Research-Reports/ESI_ROI_study_LandD

Keeping execution aligned with strategy has always been one of the most difficult challenges in running a business; however, in the current environment the task seems more daunting than ever. As with most challenges, though, it comes down to ensuring the basics are in place. Those key professionals in your organization who are responsible for advancing your strategy through new products, new markets, and new systems must have a solid foundation of competencies and need to be supported by a culture and structure that drives execution.

Mark Bashrum is Vice President of Corporate Marketing and Strategic Communications for ESI International.

MORE INFORMATION
If you would like more information about this study or ESI International's learning programs, please contact us at esi-info@esi-intl.com.

Master Builders' Association
of Western Pennsylvania, Inc.

SAVE the DATE

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 28, 2013 • 5:00 to 9:00 P.M.
Heinz Field East Club - $25 Per Ticket

Event includes two drink tickets and strolling buffet.
For ticket information, please call the Master Builders' Association at 412.922.3912, email jobrien@mbawpa.org or visit www.mbawpa.org.

Event details to be posted first on the Evening of Excellence group on LinkedIn.
To locate the group type the following in a search on LinkedIn: Evening Of Excellence.

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See you on February 28th at the Evening of Excellence!

MBE/WBE Company Spotlight

MMC

MOBILE MEDICAL CORPORATION

Mobile Medical Corporation

By Jon O'Brien

Cindy Latsko and her company, Mobile Medical Corporation (MMC), have played a part in taking the Western Pennsylvania construction industry to the next level as they administer the region's Labor-Management Drug-Free Partnership. But MMC's success didn't take place overnight. Her entrepreneurial story began in 1982, when she and her husband opened a medical practice that offered a walk-in occupational service and minor emergency care. In the late 1980s, they started a drug testing service. This was at the tail end of Nancy Reagan's "Just Say No To Drugs" campaign-days and businesses started requiring their employees to be drug tested. This added service resulted in a modest increase in business, but they were still small time, with annual sales in the $70,000-range.

In 1990, things began to change for Cindy. Looking for a fresh start after a divorce, she launched Mobile Medical Corporation. MMC was still a general industry medical practice, but the company began working with members of the insulators union. The Insulators Local Union 2 began using MMC for physicals and drug testing when required for a project. The relationship built with the Insulators led to MMC working with IBEW, then eventually the Master Builders' Association and IMPACT.

"It was just amazing how things played out," said Cindy Lasko. "I was in a small business roundtable group, where I received mentoring from established business leaders of the time and I was encouraged to find my niche. We were a good, reliable company that offered affordable medical services that were valuable to our clients - we found our niche. But we were also fortunate to be at the right place at the right time - the union construction market was ramping up its requirements and our relationships within the construction industry brought our company to the table."

This relationship with the union construction market was very beneficial to MMC. However, MMC did not sit back on cruise control. Cindy got to know her clients, to understand what they go through and wanted to see if there was a way for her company to help her clients be more productive. As a result, it led to MMC expanding its services to on-site nursing services, security clearances and other collaborative tools such as the soon-to-be released Smartphone app that will allow contractors to verify a worker's drug-free status and training certifications.

CINDY GOT TO KNOW HER CLIENTS, TO UNDERSTAND WHAT THEY GO THROUGH AND WANTED TO SEE IF THERE WAS A WAY FOR HER COMPANY TO HELP ...

"The construction industry was in need of the MMC's services at the time," said Jack Ramage, Executive Director of the MBA. "We were in need of one service that everyone could utilize to verify a worker's drug-free status. At the time (in 1998), the MBA sat down with the various building trades unions to try and organize a system that was difficult to manage – each of the various trades and many contractors had their own medical programs. The MBA wanted one, top-

MMC CEO Cindy Latsko (right) reviews test results with staff members.

notch drug-testing program that was universal across our region's construction industry and Mobile Medical stepped up to the challenge."

The expanded services resulted in MMC expanding. They set up offices throughout the country in places such as Cleveland, Baltimore, New York City, New Jersey and Sacramento, CA. "Expanding was definitely a challenge. It involved a lot of travel, which means you give up a lot and you have to learn to balance family life and your career, not to mention in small business you need to make sure your small team can share the responsibilities," said Cindy. "I was lucky to have such great supporters that encouraged me to grow and succeed. Along with my clients, I'm indebted to some great people that cheered me along the way, like Bob McCall (of the MBA), Bill Ligetti (of the Ironworkers Employers Association), and Marianne Karg - all of them are family to me. Marianne was my first employee and when I spoke to her about the business, both launching it and expanding it, her response was always: 'do it.' And another person who greatly supported me was my daughter (who is not employed at MMC). We speak often and we bounce ideas off of each other."

Cindy likes to reflect on her conversations with her daughter. They speak often, almost daily. Her advice for her daughter when it comes to operating a business is kept pretty simple, but it worked out great for MMC: 1. work on a good business plan; 2. do plenty of market research; and then 3. go for it - jump and don't look back.

Looking back, Cindy is proud of what she has accomplished with MMC. She's quick to point out that part of her success is a result of finding mentors. She joined a small business roundtable facilitated by Duquesne University and was afforded many resources with this group. She highly suggests anyone with the entrepreneurial itch to reach out to a similar group. It was here that she was counseled by an advisory group of accomplished professionals from various aspects of business that volunteered their time to offer advice. "I met with various people with different specialties from IT to marketing to legal. This group was instrumental in getting me to where I am today. I learned so much; like things you might think as minor such as how to manage business meetings with agendas and meeting minutes. Most importantly, the point of finding your niche in the business world was driven home and I think this point kept me focused, which made MMC successful."

Jon O'Brien is director of communications for Master Builders' Association. BG

Company Facts

Mobile Medical Corporation

Cynthia Latsko, CEO

2413 Lytle Road

Bethel Park, PA 15102

Toll Free: 1-888-662-8358

Local: 412-835-8358

Fax: 412-835-0829

www.mobmed.com

Trend to Watch

Did the Election Matter?

As far back as April of 2012 there began to be a self-imposed moratorium on development and construction that was attributed to the uncertainty of the November election. While owners were a bit fuzzy about the exact remedy that the election was going to bring, it was clear that private enterprise favored a changing of the guard and there was expectation that a Romney election would loosen the bonds on construction projects.

One month before the election, in fact, BuildZoom conducted a survey of 237 licensed contractors and found that 74 percent preferred Mitt Romney for his handling of the economy and believed he'd be better for construction. So, now that the Obama administration has been given another four years, how has this unfavorable result impacted construction and development?

"It is incredibly modest," says Kermit Baker, chief economist for the American Institute of Architects. "Things look the same now as they did on November 5. There are no dramatic changes as to what we can expect."

"The election doesn't affect our forecast as much as you would think; it affects it as far as the impact on the economy but there is a lot that is baked in the pie already," echoes Bernard Markstein, chief economist for Reed Construction Data.

Baker and Markstein were two of the panelists – along with Associated General Contractors chief economist Kenneth Simonson – in a November 8 webcast hosted by Reed on the outcome of the election. Dr. Baker was only partly joking when he stated that the biggest economic impact of the election was the $6 billion spent by the political parties on campaigning. "The second biggest impact is that the election is no longer an excuse for delaying decisions," he says.

Once the smoked cleared after Election Day, the final results were remarkably unremarkable. Democrats slightly eroded the Republican majority in the House but remain nearly 20 Representatives shy of taking control. The Democratic gains in the Senate were also minor, with 53 Democratic senators (plus two Independents who caucus with the Democrats) creating a majority that cannot break a filibuster. While the biggest Democratic victory of the night was Pres. Obama's re-election, the continued gridlock in Congress assures that his agenda for the next four years will not be easily implemented.

Here are some of the key initiatives for which the president has indicated support that will affect the construction industry: Part of the president's proposal for reducing the deficit was provision for increased spending on highways and bridges, both as economic stimulus and job creation.

His plan to increase taxes on high earners – and in particular to reset capital gains and dividend rates back to 30 percent – will negatively impact expansion plans and commercial real estate investment.

Pres. Obama has twice raised the fuel efficiency standards for auto manufacturers and has set a goal of one million electric cars on the road by 2025 (there were 30,000 in 2012). More measures to decrease the use of gas and diesel are likely.

The Affordable Healthcare Act is set to be more fully implemented – although it remains unfunded – adding costs to businesses and dampening demand for business expansion.

Having a divided Congress means that more political compromise will be needed for the president to push through his most urgent proposals. At minimum, the Republican majority in the House means that his proposals that are unfavorable to the Republicans – and business generally – are less likely to pass. These dynamics should limit the increases in taxes for business and keep legislated additional regulations on business less onerous. But it also means that increasing revenue sources that will be tied directly to infrastructure improvements are less likely and in general, the amount of federal funds available for construction will diminish in almost any deficit reduction deal.

For the most part, however, the election merely reinforced or ignored the conditions that are keeping construction and development sluggish. Tax issues aside, very little will change as a result of the election to increase federal spending on infrastructure or facility construction. Commodity prices will continue to be impacted by trade and energy policy as much as supply and demand. The distressed status of the government sponsored enterprises Fannie Mae and Freddie Mac continue to be ignored. And the regulatory morass that is Dodd Frank will continue to be implemented.

The regulatory environment has its biggest impact on construction finance. Businesses feared that a second Obama term would mean further regulations and more federal regulation in other industries. The AGC's Simonson points out that much of the regulatory agenda comes from beyond the administration's reach. "Environmental regulations, for example, are driven more by court decisions and mandates from the courts."

Simonson – who is president of the National Association of Business Economists in 2013 – also notes that the slate of tax and funding measures that were on state and local ballots will be every bit as influential on construction as the national election was. He called out California's Proposition 30, which allows school districts and other government agencies to raise $6 billion instead of cutting expenses, as one of the nation's largest referendums.

"[Proposition 30] gives California the ability to raise taxes, which will allow construction spending to remain on track but there's still the question of whether or not the overall California economy will be able to recover," he says.

Those ballot measures being considered in November totaled over 500 bonding or revenue issues, worth roughly $35 billion to fund construction of education, infrastructure and environmental projects, according to The Bond Buyer. Voters approved 80 percent of the measures, adding up to $30 billion in funding. While the voters seem to be showing surprising tolerance for government spending at the local level, it's worth noting that the volume of measures put forward were half of the $67 billion put on the ballot in 2008.

Among the big referendum items approved were Proposition 30 and a half-cent sales tax increase in Arkansas, which will raise $1.3 billion for construction and improvement of a four-lane highway system connecting the state. Voters rejected a proposition to extend a one cent-per-gallon sales tax for transportation projects in Arizona that expires in 2013, and voters rejected similar taxes for transportation improvements in Memphis, Los Angeles, Alameda County, CA and Alachua County. FL.

For Pennsylvania voters there were no such measures on the ballot. Moreover, the fiscal environment in the state for the past few years has already dampened public construction, meaning there were very few local elections which turned on build/don't build candidates. Leaders in the construction industry see the impact of the elections, and government in general, as diminished by comparison to other factors.

"I don't think the election is going to have a major impact on construction, as far as who's in the White House because I think the private sector for our region will drive the market," says Jack Ramage, executive director of the Master Builders' Association. "Government is doing nothing to address infrastructure. The funding mechanism is the gas tax and that's broken. They are not getting enough to maintain roads let alone adding to them."

The main result of November's federal elections is that the balance of power remains unchanged. This status quo should limit the growth of social programs or slashing of federal budgets but it will also mean making meaningful reforms very difficult. Steering the nation away from the 'fiscal cliff' was the first test of the new government. The lessons learned from that difficult experience offer a guide to how productive or obstructive the government will be until the 2014 elections. BG


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INDUSTRY & COMMUNITY NEWS

Young Constructors Raise Funds for Kids

The MBA's Young Constructors held their sixth annual holiday event on December 12, raising over $4,000 for Toys for Tots and the Mario Lemieux Foundation. The YC had exclusive use of The Hard Rock Café for the event, which attracted 275 people.

Jonathon Plisko from Specified Systems with PBX's Jaci Yunker and Bubby Mroskey from Burchick Construction (right).

G. M. McCrossin's Erin O'Donnell and Paul Martin with Jeffrey Sassic from Blumling & Gusky (right).

The MBA's Jon O'Brien (center) with Marines at the Young Constructors holiday event for Toys for Tots and the Mario Lemieux Foundation.

Builders Exchange Honors Tom Milletary

The Pittsburgh Builders Exchange honored the late Tom Milletary with its annual Tink Bryan Award at their annual banquet at the Rivers Casino in November. Milletary was an executive with Easley & Rivers Inc. and was very involved in industry and community activities until his death.

Tammy Milletary and husband Mike Norman accept the Tink Bryan Award on behalf of her father Tom. With Tammy are (from left) Dick Rivers of Easley & Rivers, Matt and David Bryan from Frank Bryan Inc., PBX executive director Del Walker, PBX board president Mark Edgar from Mosites and past president Joe Burchick.

PBX board members Bill Wilson of Specified Systems (left) and Lee Totty from Yarborough.

dck worldwide's Johnathon Dindek, Joe Deluliis and Joe Zukowski.

Dustin and Gordon Giffin with Mark Vater of A. J. Vater Co. (center).

Constructors Run for Wounded Warrior

The Constructors Association of Western PA (CAWP) Constructors Leadership Council put together a team of 92 participants for the 3rd Annual 5K/5-Mile Run/Walk for the Wounded Warrior in Pittsburgh's North Park on November 3. In addition to the participation, CAWP's CLC raised $3,000 in donations for the Wounded Warrior organization.

Some of the 92 CAWP member employees and families gather before the Run/Walk for the Wounded Warrior.

Employees from Swank prepare for the run/walk.

Massaro Serves the Neighborhood Academy

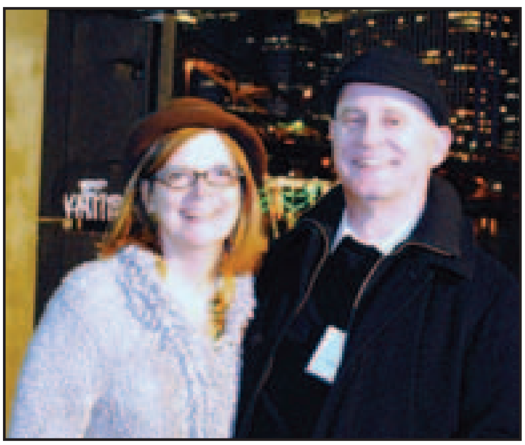
On Friday, December 14, Massaro Corporation hosted the annual holiday lunch for the students at The Neighborhood Academy. A group of Massaro employees utilized the on-site kitchen to prepare and serve the students and faculty before leaving for the holiday break. Everyone enjoyed themselves – the holiday spirit was certainly alive in the school cafeteria!

(From left) Rig Riggins, president & CEO YMCA of Greater Pittsburgh with PJ Dick CEO Clifford Rowe Jr. and YMCA board chairman Robert Cottington at the YMCA's annual Season of Giving Gala. Rowe was honored at the event which raises money for YMCA programs throughout Pittsburgh.

Chapman Properties CEO Steve Thomas with Kevin Krasne (right) of Allegheny Center Associates at the Developers' Showcase.

Jendoco's Domenic Dozzi, Pierre Brun and Robert Lloyd with CBRE's Rob Blackmore (second from right).

GBA's Sean Luther (left) with Jendoco's Scott Koontz.



NORESCO's Danelle Ardell with Bob Kobet at the GBA Light Up Night Cruise.

AWARDS & CONTRACTS

Rycon Construction was awarded a contract for the new Cinemark 12 Cinema at the Monroeville Mall, a 53,000 build out of space within the existing mall.

Rycon Construction, Inc. was awarded a $40 million construction management contract to renovate the Shoppes at Parma in Parma, Ohio. The multi-phased project includes a new Dick's Sporting Goods store, junior anchor stores, Marc's grocery strip mall renovation, Walmart expansion, five outparcel sites for restaurant/retail/offices and a renovation of a four-story office building. Richard L. Bowen & Associates is the architect on this major project which is scheduled for completion in the fall of 2015.

Rycon's Special Projects Group updated the Hard Rock Café in Station Square. Work included new paint, an updated bar and seating area, new flooring and other miscellaneous improvements.

At the new Dick's Sporting Goods' Headquarters in Coraopolis, Rycon's Special Projects Group is renovating the entire second floor of the east wing. Construction is scheduled for completion by late January.

Carnegie Mellon University selected F. J. Busse Co. as contractor for the A-Level renovations at Porter Hall.

Marks-Landau Construction, a wholly owned subsidiary of Landau Building Company, is serving as the Construction Manager/General Contractor for a Hybrid Operating Room, Control Room and Equipment Room renovation to 17,200 square feet of existing shelled space at Mon General Hospital in Morgantown, WV. Marks-Landau Construction is also constructing the Hazel Ruby McQuain Birthing Center at the same hospital.

Landau Building Company is renovating the Cardiology Center at Weirton Medical Center. Work will encompass the Special Procedures Room and Chest Pain Center.

Brentwood Borough selected Allegheny Construction Management as the design/build contractor their new 12,000 square foot facility for the Department of Public Works. Allegheny will work with Integrity Design for the architecture.

Gurtner Construction Co. was awarded a $3.65 million contract for the general construction portion of the $9 million press box and field house project at Greater Latrobe School District. The architect for the project is Axis Architecture.

Massaro Corporation is the apparent low bidder on the Advanced Engineering Research Building to be constructed on the Evansdale campus at West Virginia University. The 95,000 square foot, 4-story building is slated to begin early 2013. Stantec is the architect on this project.

Massaro Corporation was the low bidder for the renovation of 20,000 square feet that comprise the 5C nursing unit and family birthing center at St. Clair Hospital in the South Hills of Pittsburgh. This renovation project is slated to be complete in Spring 2013. VEBH is the architect on the project.

Oakview dck, a dck worldwide company, was awarded a contract to build the new self-cleaning ultraviolet (UV) disinfection structure for the city of Hickman, Nebraska. In addition to the structure, the scope of this $669,000 project includes all piping, valves, concrete, a fiberglass Parshall flume metering manhole, flow meters, mechanical, electrical, fencing, grading, seeding, and landscaping.

Oakview dck, a dck worldwide company, has been awarded its 43rd project from Wal-Mart. The $566,000 project is at an existing Wal-Mart in Beatrice, Nebraska, and involves correcting an issue with stormwater run-off that created a 20-foot gully.

The city of Cambridge, Iowa, awarded a contract to Oakview dck, a dck worldwide company, to improve the city's water treatment plant. The $250,000 project involves removing and replacing the iron removal system.

Mosites Construction was the successful contractor on the $900,000 altar renovation at St. Louise de Marillac Church in Upper St. Clair. The architect is Astorino.

Seton Hill University selected PJ Dick Inc. to provide pre-construction services for its $15 million Natural Health Science and Technology Building, a 52,000 square foot expansion and renovation project. The architect is MacLachlan Cornelius & Filoni Architects.

PJ Dick is the successful contractor on West Virginia University's $25 million Student Health/CPASS Building at its Evansdale Campus. The architect is Alpha Associates.

Industrial Scientific selected Mascaro Construction as construction manager for their new $45 million, 330,000 square foot campus in Robinson Township. The project is being designed by IDC Architects.

Volpatt Construction is the successful contractor for the First National Bank branch renovations in Monroeville. Design 3 Architecture is the architect. BG

FACES & NEW PLACES

dck worldwide is pleased to announce that Brian Contino, Vice President, Operations will be taking on an additional role as Senior Vice President & Integration Officer of Summit dck, a dck worldwide company. Brian will be responsible for the operational and business integration of Summit dck with dck's processes and practices. He is a Licensed Professional Engineer in Pennsylvania and Maryland and is a LEED Accredited Professional who brings to this position a history of successful project and management experience, and over 19 years with dck.

dck worldwide is pleased to welcome Elizabeth A. Bowers to the company as Small Business Administrator. Her primary focus is to use her expertise to move dck forward in meeting and exceeding its Small Business contracting and compliance goals companywide. Ms. Bowers brings to dck more than 30+ years of experience in both private and government contracting. Most recently, she served as the Western PA Region Representative for the PA Department of General Services Bureau of Minority and Women Business Opportunities. Prior to this, Ms. Bowers was the owner of EBCS, a company that specialized in Small Business contract compliance, claims consulting, cost estimating and constructability review, and marketing/planning/business development consulting.

Rycon Special Projects Group has added Sheila Budner as an administrative assistant. She brings 25 years of construction industry experience to Rycon.

Laura Wilson joined Rycon's Building Group as an estimating assistant. She brings seven years administrative experience to the Rycon team.

Cordelia Elias joins Maiello, Brungo & Maiello, LLP as an associate. She will focus her practice in the areas of general and commercial litigation and school and municipal law. Prior to joining the firm, Mrs. Elias represented a variety of state government agencies and private entities in litigation matters in connection with the Americans with Disabilities Act (ADA), Individuals with Disabilities Education Act (IDEA), and Civil Rights for Institutionalized Persons Act (CRIPA). BG

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Louis Plung & Co. LLP
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Pittsburgh Business Times
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Closing Out

Sustainable Prosperity for our Region: Enhancing Opportunity, Strengthening our Communities and Energizing Tomorrow's Economy

By Charles E. Bunch

Our region is making progress. Through the Great Recession and beyond, our economy has outperformed that of the nation as a whole, and we have attracted global attention and significant business investment. In 2012, Site Selection magazine ranked our region third in the nation in the total number of significant business attractions and expansions, showing that business decision-makers' interest in Pittsburgh remains strong.

At the same time, the Allegheny Conference recognizes that our region still has much work ahead. People and places have been left behind despite our economic recovery, and there is an emerging skills gap between the needs of employers and those looking for work. To fully realize our potential, we must address these disparities.

In pursuit of our agenda of Sustainable Prosperity for everyone who lives here, the Allegheny Conference is focusing on three strategic priorities: Enhancing Opportunity by building on our strengths to connect businesses and individuals to opportunity; Strengthening Communities by removing governmental barriers that prevent communities from realizing their potential; and Energizing Tomorrow's Economy by seeking competitive tax and regulatory policies and reinforcing our region's leadership as the new Center of American Energy.

Five important challenges will top our priority list as we head into 2013. We have built a strong foundation to tackle these challenges. We have the tools we need. Now we must find the will to act.

Closing the skills gap

In the aftermath of the Great Recession, with unemployment at unacceptably high rates, employers in our region have largely been able to find the skilled workers they have needed to grow their organizations. But that is changing and a skills gap is emerging. Thousands of jobs are unfilled across the 10 counties, and a recent report by the Allegheny Conference and the Energy Alliance of Greater Pittsburgh indicates that tens of thousands more jobs are likely to become available between now and the end of the decade in 14 key energy-related occupations. Industry must create awareness of this opportunity and partner with schools engaged in workforce development if increasing demand is to be met.

Securing long-term, comprehensive transportation and transit funding

Allegheny County and metropolitan Pittsburgh averted a crisis this summer when Port Authority management, labor and state, county and local governments together crafted a temporary solution to keep the buses and trains rolling into 2013. But it is only a one-year fix. If the Commonwealth does not develop a permanent solution for the broader transportation challenge that also includes deteriorating roads, bridges, rails and ports, we will find ourselves in the same position this summer. In the meantime, this uncertainty has a chilling effect on business location decisions. The Governor and the legislature need to take up the recommendations of the Transportation Funding Advisory Commission and develop a solution.

Putting more pad-ready sites in the pipeline

Our region is running low on "shovel-ready" sites. Over the past decade, with the support of the Commonwealth's "Business in Our Sites" program, we were able to secure state investment in infrastructure that prepared thousands of acres of business sites for development. Located in all 10 counties, many of these sites are already fully occupied. Without shovel-ready inventory, employers will go – and in some cases already have gone– elsewhere. Given the special challenges of our terrain and the additional expense of replacing aging infrastructure, this is an issue we must address.

Increasing venture capital investments in Pittsburgh companies

Over the past generation we have invested in the innovators and entrepreneurs pouring out of our region's 36 colleges and universities to create hundreds of new companies in our key industry sectors. That's because we have a strong network of support organizations that work with entrepreneurs and early-stage companies, among them Innovation Works, the Pittsburgh Life Sciences Greenhouse, the Pittsburgh Technology Council and the Idea Foundry. To turn innovative ideas into new businesses, we rely on the availability of venture capital. Of late that has been in increasingly short supply, especially home-grown venture capital funds that are more likely to keep startups in our region as they grow. It is critically important to identify new sources of such venture funding.

Making our municipalities more fiscally secure through pension and binding arbitration reform

The Commonwealth is home to one-quarter of all the municipal pension plans in the nation, many of which are chronically underfunded. Pennsylvania's one-sided binding arbitration law perpetually escalates the cost of public safety services. Pension and binding arbitration reform can help secure the fiscal sustainability of our municipalities. Without such reforms, our local governments will continue to reduce services and raise taxes as they struggle to meet the basic needs of their residents and businesses.

We're making progress but our competitors are not standing still. Competing regions are working just as hard to improve their economies and quality of life. We must continue to hone our competitiveness if we wish to build upon the foundation we have established. The good news is our region is operating from a position of strength. By working together, we can succeed.

Chuck Bunch is chairman and CEO, PPG Industries Inc. and chair, Allegheny Conference on Community Development BG


setting the
performance
standard
for problem solving