Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

MAY/JUNE 2016

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Publisher's Note

I had the chance to consult recently with the company that was the first customer of the Pittsburgh Construction News. By consult I mean they bought me a cup of coffee and listened to my free opinions (and if you do the math you'll realize they overpaid).

The company is a soon-to-be second generation subcontractor. The founder was our first customer back in 1994 and his son is trying to figure how to make his way towards the future of our industry. Over the years the company has been busy and slow, gone through spells where it bid separate prime public jobs and developed a strong business in healthcare and higher education work. Healthcare and higher ed are in a bad cycle right now and the owner is trying to develop a strategy that is sustainable through ups and downs.

That's a tall order isn't it? Construction is a cyclical business. There isn't really any getting around it. Demand for buildings comes from somewhere (job growth, enrollment growth, federal grants or a new industry, for example) and owners respond by building more or better space. After a few years, more space exists than there is demand and construction slows down. After another couple years, something spurs demand again and the cycle regenerates. During a 35-year career I've seen any number of strategies employed to beat the cyclicality of construction. Few work.

I have a lot of sympathy for my old customer's plight. It's a good company that does good work but the market is moving against it at the moment. The same can happen to any company in the construction food chain but tough times seem to be harder on subcontractors and suppliers.

The feature in this edition of BreakingGround is focusing on the business of the supply chain. That loosely covers subcontractors, suppliers, manufacturers and all those businesses that are two or more steps removed from the owner. I have another old friend and customer who always compared being a first-tier subcontractor to being the second dog in the dog sled team. Being a subcontractor is like being the second dog in a sled team. Unless you're the lead dog, the view never changes.

Over the past decade or so the view has unfortunately changed for most in the supply chain and it hasn't gotten better. A very hard recession lingered for half a decade. Some would argue it's still lingering. The once-booming natural gas industry hit a rough patch in 2014. Companies that were prospering suddenly got letters informing them that to remain a valued vendor they would need to whack their price by 20 (or 30) percent. Payment cycles lengthened again.

While opportunities were harder to come by, labor became tighter. Demographics and the lure of industrial jobs that used construction worker skills combined to make a smaller pool of workers. For subs, whose labor accounts for half their business, this development adds another layer of challenge.

So you can understand why my former customer wants to find a better strategy than his father was able to employ. I don't envy his position. A specialty contractor with good people can look to grow its service business. That puts it much closer to the money and shifts the owner's question from how much to how soon. Of course, doing maintenance work is different from plan and spec work. You need people with different skill sets. Workers have to be sales people and diagnosticians. Getting into that side of the business means investing and having patience before the returns on investment come.

The other viable option is to get smaller. It's a reality that most specialty contractors will face that option when works slows. Either through layoffs or attrition, you shrink your workforce and overhead. You wait out the slowdown. But nobody takes on the risk of ownership of a business so they can get smaller. It happens. A lot. But it's not usually one of the goals of entrepreneurs who start businesses in the first place.

By this time I don't recall what sort of advice I felt comfortable giving my first customer. There aren't any easy answers in these kinds of situations.

Of course, that's true of the supply chain in any industry. For a couple of decades now we consumers have been operating under the illusion that we can get high quality stuff for less and less money. We don't take off the consumer hat when we go to work so that mindset bleeds into procurement. Supply chain management and logistics are now hot career fields. While there are certainly efficiencies to be found in managing what we buy better, let's not kid ourselves about this. Much of the cost savings gained in supply chain management happens at the expense of someone downstream. We ask our vendors for concessions. Then we ask them for favors. And then we wonder why business is such a hassle.

There aren't any bad guys here. General contractors face the same kinds of pressures to squeeze costs from their clients, who in turn face pressures from stockholders or tenants to cut their expenses or rental rates.

It will take an about face in societal attitude for this downward spiral to change. Perhaps the long-awaited boom for natural gas or high tech will alter supply and demand enough that people in our industry will begin to say no. Until that happens, work will be hard. How's the saying go? If it wasn't, everyone would be doing it. I'm not sure that my first customer is finding solace in that saying right now.

Jeff Burd

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REGIONAL MARKET UPDATE

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A survey of general contractors in Western PA may have revealed the prevailing economic sentiment for the region – and the nation – as the weather warms in 2016.

The Commercial Contractors Condition Index (C3) results from a survey of the 32 general contractor members of the Master Builders' Association (MBA). The survey asks four questions and aggregates the response to reach a GPA-like score on a scale 1.0 to 4.0. The C3 index released on April 12 gave the regional construction economy a tepid 2.25 score. The grade was actually an increase from the previous quarter but the details reveal a bit more about the psyche of the construction industry, which seems to be symptomatic of the view of the overall economy.

Three of the questions are fairly objective. The survey asks for a score on the bidding climate, backlog and current business conditions. The fourth question asks for the contractors' projections for the coming month. Contractors reported an increase in bidding and backlog – generally the two most influential factors in how contractors view the market – as well as a dramatic jump in the grade for current conditions. When asked to judge their projections for the coming months, contractors had a negative response compared to the start of the year.

MBA's Jon O'Brien reported that the negative sentiment on projections ran contrary to the positive grades for work in the pipeline and under construction. He sees the pessimism as part of a larger trend of concern about the overall economy and caution about national elections. O'Brien cited a PNC Economic Outlook Survey, which showed 43 percent of business owners have concerns about the U.S. economy, the worst results since 2012. Concerning this year's elections, 53 percent of businesses are not satisfied with potential candidates addressing key issues for business owners.

While politics may have a souring effect on the general mood of business owners, a deeper dive into the businesses involved in construction reveals that the number one concern is the indecision of project owners. General contractors, specialty contractors and suppliers are unanimous in reporting that they have spent more time pricing projects that haven't gone ahead than in any time in recent memory. That indecision contractors are feeling is showing up in the data as well.

Some $678 million in contracting and construction starts occurred during the first three months of 2016. That volume is down only slightly from the $705 million started in the first quarter of 2015 but more than 20 percent of the construction in the first quarter of 2016 was projects that were awarded before the end of the fall of 2015 and had not been released. Taken in conjunction with the $793.7 million in starts in the fourth quarter of 2015, the activity in January through March

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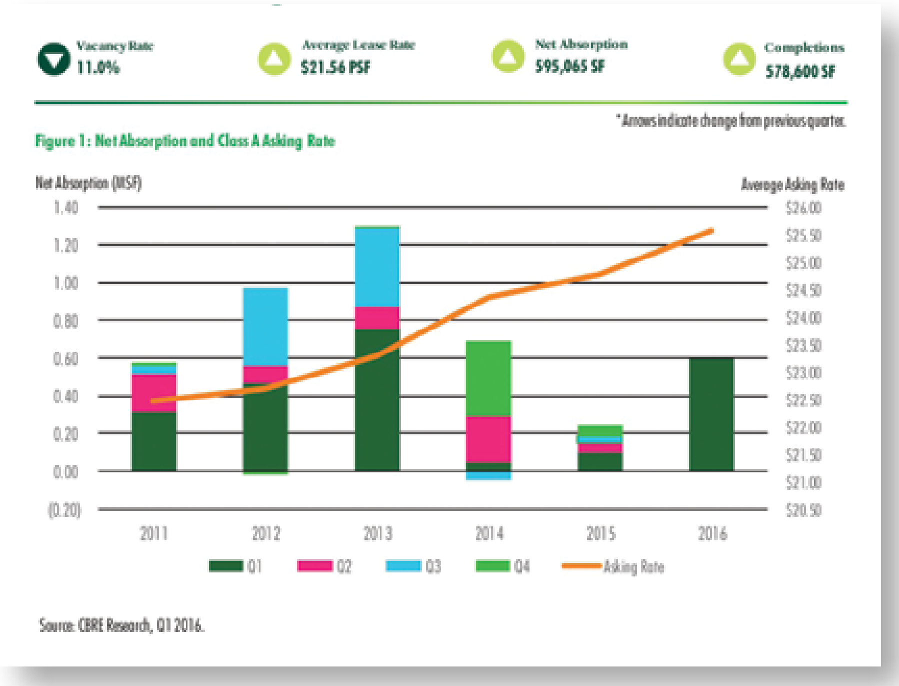

Image courtesy CBRE

bodes well for a strong year, especially in light of the booming activity in the industrial sector. Based on the bidding in quarter one, however, the volume of work should be higher.

	#SFD	#SFA	M/F	Total
Total Pittsburgh MSA 2015:1	399	175	408	982
Total Pittsburgh MSA 2016:1	412	163	0	575
% Change	3.3%	-6.9%	-100.0%	-41.4%

The absence of any new apartment starts in the first quarter brought the new construction totals down, although construction of homes for sale were even with 2015.

With the start of the $500 million Tenaska Energy combined cycle power plant in South Huntingdon Township in Westmoreland County and the activity at the Shell Franklin Plant site in Monaca, construction volume for the full year should exceed the $3.4 billion started in 2015. If the start of 2016 is any indication, it's also likely that the number of projects built will be fewer than in 2015.

A note on the cracker plant: it's becoming clearer that construction of the project may be disconnected from the announcement of the final investment decision. Shell's fourth quarter earnings announcement included a report on its capital plans for 2016, which showed the "Pennsylvania" project coming off hold after the first quarter of the year. After a round of bidding on more packages in March and April, however, construction beyond what was already committed was put back on hold, probably until early 2017.

At the end of the first quarter it was clear that the prevailing trend in the housing market had changed. Some 433 permits had been issued for single-family detached homes, an increase of 8.5 percent over the first quarter of 2015. That number of new single-family homes, combined with 166 attached single-family homes, represents new construction that is in line with the volume of new homes since 2010. The big departure from the trend was in the apartment market. During the first quarter there were no permits issued for new multi-family projects, which reflects the change in sentiment about apartments from lenders and developers in the region.

Many lenders have been concerned at the number of apartments coming into the market over the past 18 months, especially since absorption of units has remained roughly the same. The number of multi-family units started since 2013 is nearly 7,500. That's a pace that's three times the annual average for the years 2000-2010. Some 4,800 units remain in the

The number of multi-family units started since 2013 is nearly 7,500. That's a pace that's three times the annual average for the years 2000-2010.

development pipeline but lower absorption rates and softening rents will likely put many of those units on ice, at least for 2016.

Pittsburgh Homebuilding Report had forecast a decline in apartment starts to 2,544 and an increase in single-family starts to 2,280 for 2016; however, after the first quarter that forecast for apartments looks optimistic. A deep dive into the development pipeline shows that projects representing around 3,000 units have slowed, with no schedule for starting at the moment.

Through March, the underlying economy of metropolitan Pittsburgh remains solid but unspectacular. The PNC Financial Service Group's report on the first quarter highlighted the offsetting influences of continued expansion of hospitality, construction and services to the economy weighed against the headwinds of manufacturing and energy. PNC maintained its forecast of 1.5 percent job growth for 2016 and put forward conservative but steady increases of around two percent for household income and home prices through 2017.

Employment news was also slow and steady – not exactly what business and civic leaders want to hear. The most recent months' data underscore the danger of observing employment trends month-to-month. According to the information aggregated by Pittsburgh Today, employment in the seven-county metropolitan statistical area (MSA) grew by more than 19,000 jobs to 1.163 million from February to February. The following month the year-over-year difference was a tepid 2,000 more jobs. Seasonality can play a role in these monthly swings, as can adjustments by the Bureaus of Labor Statistics, but the story below the headline data is pretty much the same as it has been since 2014: small losses in manufacturing and natural resources (+/- 0.5 percent) are matched by gains in hospitality, construction, financial services, or information technology.

BENCHMARK	Jan-March 2016	Jan-March 2015
Total SFD units	415	399
Total SFA/Multi-unit	163	583
Total residential $$	$152.8 million	$200.6 million
Total non-residential $$	$678 million	$705 million
K-12 additions/renovations	$146.5 million	$15.4 million
Higher Ed construction	$186.7 million	$33.8 million
Hospital construction	$16.7 million	$41.2 million
Hotel construction	$28.4 million	$12.2 million
Industrial construction	$16.9 million	$280.1 million
Office construction	$99.6 million	$53.8 million
Retail construction	$19.6 million	$65.4 million

The consistent gains in the labor force were the most encouraging bits of information, as that suggests that discouraged unemployed workers are returning to the marketplace or that new workers are coming into the region. Either bodes well for a market that is poised to see better job growth as energy markets improve and/or emerging technology companies mature.

In its Pittsburgh Market Outlook, PNC points to the re-balancing of the supply and demand for natural gas as a trigger for more rapid job growth in resource development, manufacturing and construction. Those days appear to be beyond the 2017 forecast window.

Evidence that either oil or gas demand is catching up with supply is nowhere to be seen, although the price of oil has rebounded more than 60 percent since its low point in January.

Evidence that either oil or gas demand is catching up with supply is nowhere to be seen, although the price of oil has rebounded more than 60 percent since its low point in January. What has been observed is the purchase of assets by companies with dry powder or better balance sheets. Like in all cyclical businesses, recovery in the oil and gas industry is led by smart money being deployed to buy assets on the cheap. It's worth remembering that smart money is also patient money. The increase in the pace of acquisition may be a good sign but recovery may still be years away. What will help hasten that recovery is growing demand. From that perspective, the recent sales of liquid natural gas from the Marcellus to European consumers is encouraging and a validation of the importance of the Mariner pipeline completion.

The strongest sector for construction demand – commercial real estate – continues to experience good conditions. Pittsburgh's office market experienced a very strong first quarter of 2016, with a big jump in absorption of both new and sublease space. According to two of the largest real estate companies, the first quarter saw the largest amount of positive absorption in three years. CBRE reported net absorption of 595,065 square feet and an overall vacancy rate of 11 percent. Newmark Grubb Knight Frank, which has a different research methodology, reported net absorption of 431,620 square feet and a vacancy rate of 16.9 percent. Both companies reported significant declines from the end of 2015.

Within the office market, Burns & Scalo Real Estate Services announced plans for five buildings in three different office parks, for a total of almost 500,000 square feet. At Oxford Development's 3 Crossings, Rycon Construction is set to begin construction of the new 140,000 square foot Riverfront East headquarters for Burns White. Oxford reported on April 7 that it intends to start on a spec office building at 3 Crossings, the 120,000 square foot Riverfront West, in September. On the build-to-suit front, Michael Baker Jr. Inc. is reported to be considering a 125,000 square foot building at the former Civic arena site and Kennametal is

Submarket Statistics by Subtype

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	QTR Absorption (SF)	YTD Absorption (SF)	Class A Vacant (SF)	Class A Vacancy Rate
General Industrial	80,152,225	287,500	5,751,792	7.2%	129,338	129,338	151,900	1.3%
R&D/Flex	10,337,140	0	1,381,898	13.4%	79,234	79,234	534,974	12.8%
Warehouse/Distribution	42,215,221	868,374	3,897,340	9.2%	71,573	71,573	906,492	5.1%
Pittsburgh	132,704,586	1,155,874	11,031,030	8.3%	280,145	280,145	1,593,366	4.7%

Image courtesy Newmark Grubb Knight Frank.

interested in a 250,000 square foot headquarters at the Almono site in Hazelwood.

Dynamics in the industrial segment of the market were opposite those of the office market, with much more new speculative construction increasing the vacancy rate and dropping rents slightly. The increased inventory of Class A industrial space will likely take a year or so for the market to adjust. Indications in the first three months are that demand for Class A space will be there to support the new space but at the cost of greater vacancy in older space. Once the spec space is completed, the major industrial projects for 2016 appear to be build-to-suit projects like Ensinger Plastics' 250,000 square foot building at Chapman Southport and Philips Respironics new 260,000 square foot warehouse in New Stanton, a project which has not been officially announced yet by developer Exel Logistics.

In the hospital, higher education and K-12 markets, a bevy of headwinds exist that will keep construction depressed in 2016. PA's budget problems and a push to reform PlanCon have limited K-12 construction, although a handful of large projects have bid this winter and spring. Hospitals continue to struggle with operating deficits and an uncertain reimbursement landscape. UPMC should release a 40,000 square foot medical office building in Hampton Township to bid but its other major capital project, the new hospital in Pleasant Hills, won't hit the streets until at least 2017. New management at Allegheny Health Network has slowed the pace of capital spending while it reevaluates priorities; however, the healthcare provider seems poised to do significantly more construction once that process is completed. Demographics and economics are creating tough times for higher ed, especially for the many small private colleges in Western PA.

As April turns into May the construction market in Pittsburgh resembles the economy. There remains much potential for construction in 2016 but the likelihood is that this year will have more potential than growth. The top line construction volume for the full year should top the volume of 2015 but that will be due to a handful of very large projects. Politics have created a measure of economic uncertainty. For the Pittsburgh market, the remedy has been growing users of space. Those users will hold the key to the second half of 2016.

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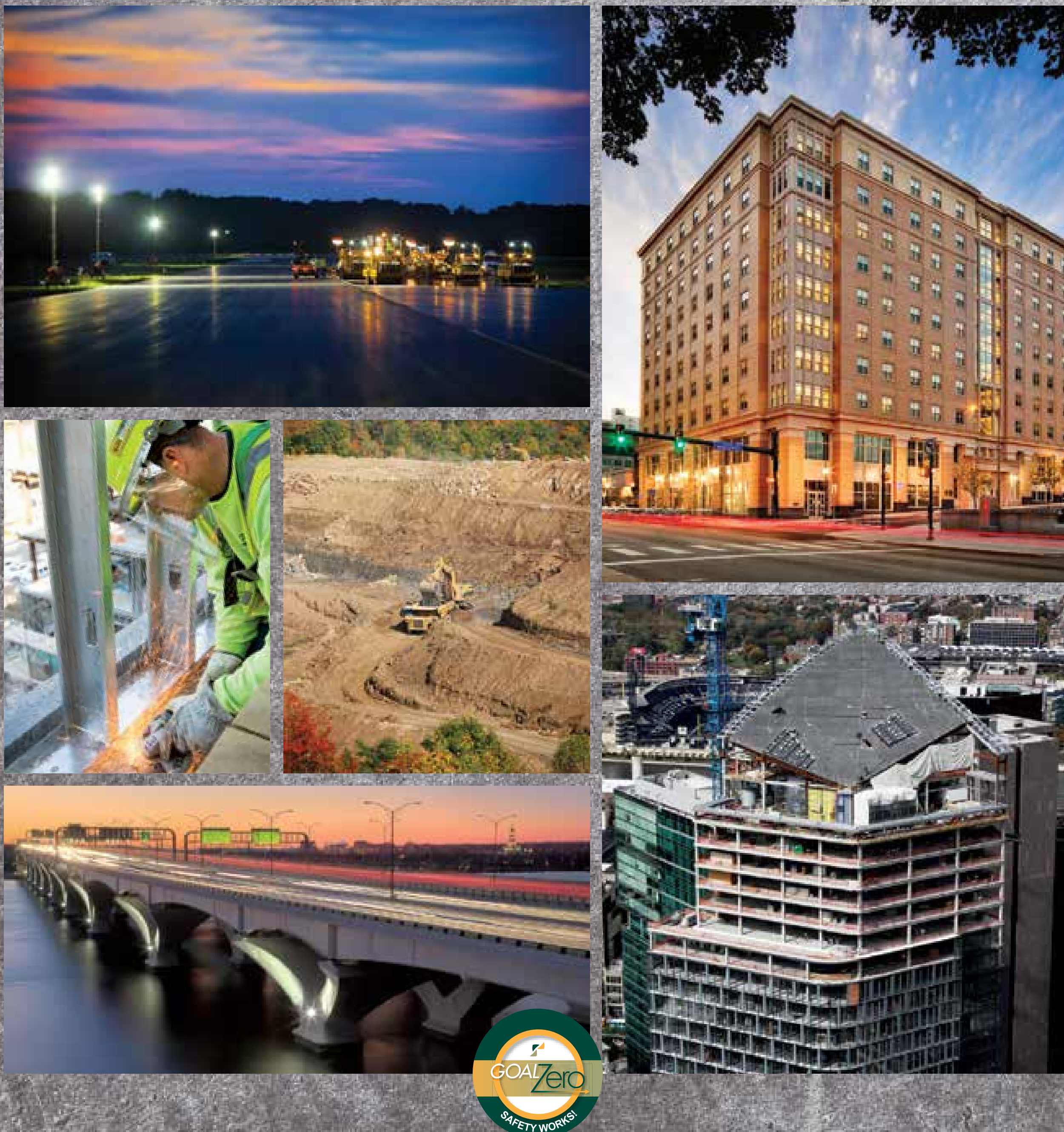

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NATIONAL MARKET UPDATE

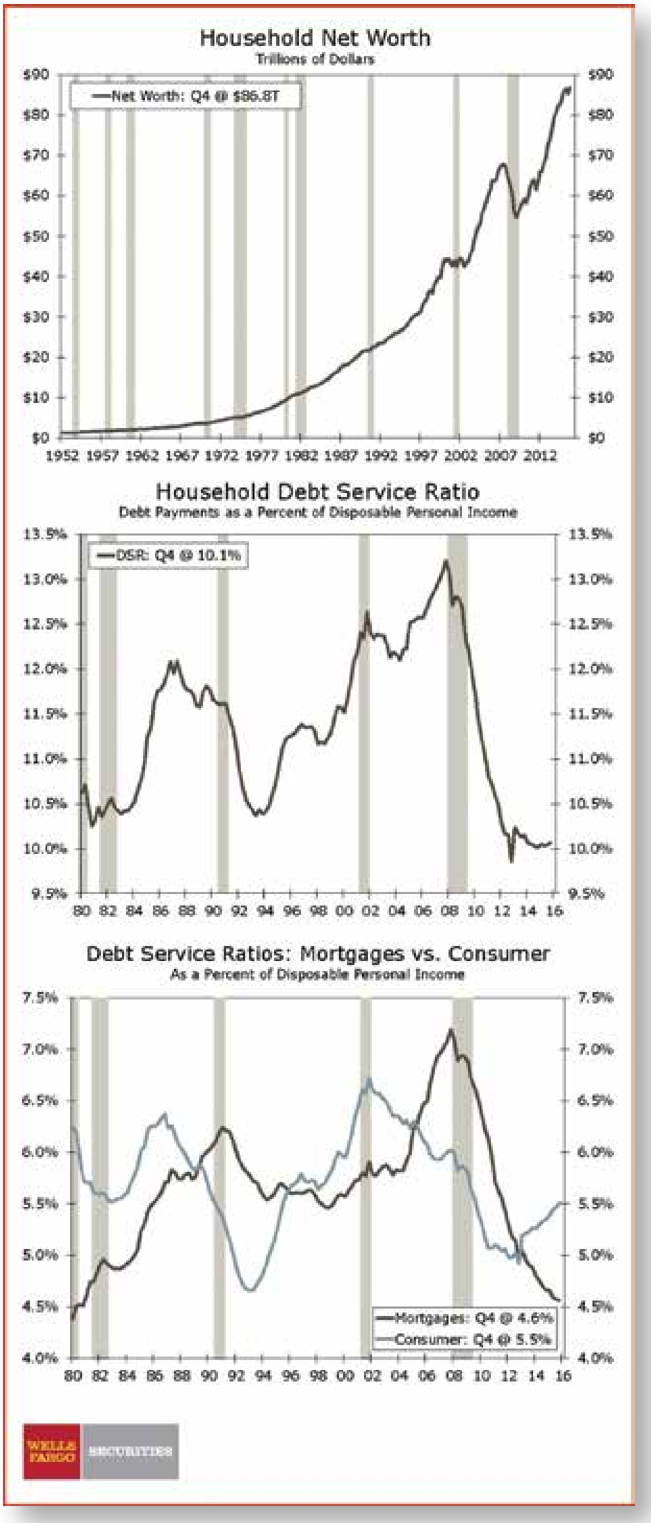
Virtually any discussion of the U.S. economy after the first quarter is somewhat gloomier than the outlook from six months ago. Growth in domestic product output is lower – with forecasts for 2016 being trimmed to two percent or less – and the outlook for the global economy offers little hope for a change in trend. This gloomy forecast hasn't reached U.S. employers thus far.

As of the latest employment data from April 1, job creation remains solid and well above the rate of population growth. According to the Bureau of Labor Statistics, there were 215,000 more jobs in March than February. That follows a February that showed a revised growth of 245,000 jobs and a revised January figure of 168,000. The six-month average moved upward again to 209,000 jobs.

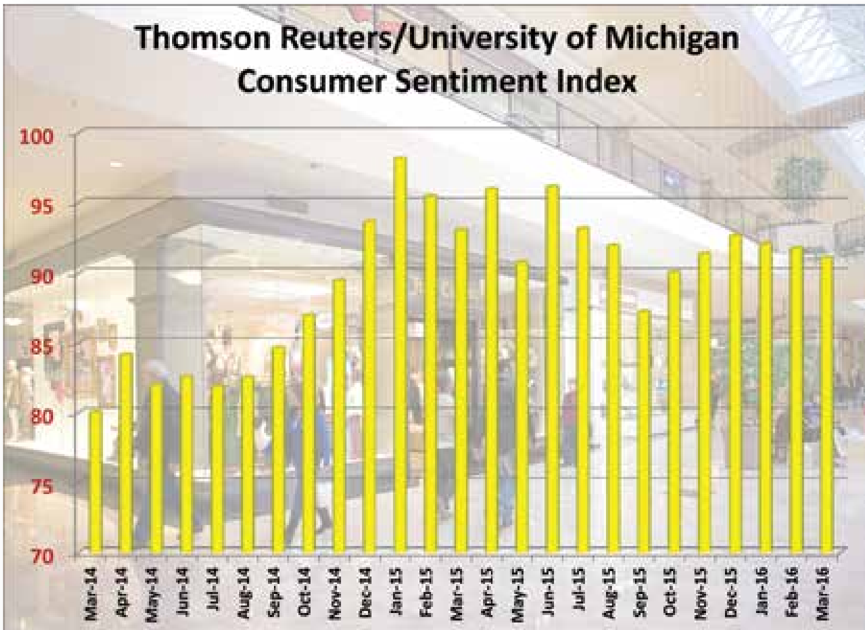
The March data also showed continuation of the trends that have been in place for more than a year. Declines in manufacturing and natural resource exploration were offset by strong gains in construction, hospitality and education. The healthcare sector also saw another solid increase in healthcare employment (37,000 jobs), with both ambulatory care and hospitals adding to payrolls. Continued hiring in healthcare is a signal that providers are beginning to understand the reimbursement landscape under the Affordable Care Act.

The consumer balance sheet is in better shape than at any time in the last 40 years. Household wealth was at $86.8 trillion dollars at the end of 2015. That's eight times the wealth in 1980.

While corporate profits continue to tighten because of higher labor costs and a stronger dollar, corporations are increasing capital expenditures. That fact sends the signal that companies have sufficient confidence in the economic outlook to invest for growth. At the same time, the low cost of borrowing is also an incentive. More capital expenditures are being funded by credit than internal cash flow. That creates a risk if Fed policy switches to more rapid tightening but the odds of a steep increase in rates have declined since January 1. Moreover, corporations are taking advantage of the flat yield curve to borrow for longer terms.



Consumer balance sheets are healthier than at any time since 1980, with debt leverage at all-time lows. Source: Wells Fargo Economic Group



Consumer sentiment remains at cyclical high levels.

Long-term credit has risen to nearly three-quarters of the share of all credit. In the current rate environment, borrowing over longer terms helps mitigate the risk of sudden rate hikes and shifts the costs of current improvements to the future.

Construction activity remained strong in the first quarter, perhaps reflecting the favorable long-term credit environment but also suggesting that demand for space remains stronger than supply.

The Census Bureau reported on April 1 that construction spending in February totaled $1.144 trillion, up 10.3 percent from February 2015. Public construction was up 9.2 percent year-over-year. Highway and street construction played a significant role in the uptick, rising 25 percent from the previous February. Educational construction increased 5.2 percent. Private residential spending rose 11 percent. Against a backdrop of more skepticism about the health of the multifamily market, construction nonetheless increased 24 percent. Private nonresidential spending rose 11 percent over the 12 months. Within nonresidential construction, commercial office spending spiked 31 percent year-over-year; healthcare edged up 4.7 percent; power plants increased by 5.9 percent and retail/warehousing rose 9.9 percent.

March's housing starts surprisingly declined to an annual level of 1.089 million units but analysts shrugged off the unexpected decline, noting that revisions would be expected in May and that the overall trend remains upward. February's housing starts were revised upward, showing a 6.9 percent jump from January to February and 32.7 percent from February 2015 to February 2016. The Census Bureau report on March 16 also showed single-family starts rising 7.2 percent and 37 percent, respectively. The March 16 report foreshadowed the April 1 report on multifamily spending, with starts up 17 percent year-over-year. Building permits for multi-family units were off the year-over-year pace but multifamily permits for January and February combined (55,500) continued to outpace starts (47,000), suggesting more projects may begin soon. Single-family permits increased 17 percent.

The increasing health of the residential construction market is encouraging but the volume of units started remains well below the historical norms. Likewise, sales of existing homes remain muted by historical standards. The inventory of homes for sale continues to shrink. Homeowners are therefore seeing property values rise, with home values climbing more steeply in markets like Southern California, Las Vegas and Florida, where big declines were felt during the housing crisis. All of this suggests that homeowners and consumers in general have been more conservative about paying down debt than was previously thought and have eschewed the use of their home equity for consumption or depreciating assets.

Credit for consumers is exceptionally strong. Job growth and wage gains that are increasing are providing top line strength for consumers. The consumer balance sheet is in better shape than at any time in the last 40 years. Household wealth was at $86.8 trillion dollars at the end of 2015. That's eight times the wealth in 1980. Mortgage debt service declined to a ratio of 4.5 percent of income. Total household debt service ratio was at 10.1 percent, the lowest since prior to 1980. With more than 70 percent of U.S. economic output coming from the consumer, these ratios bode well for the economy and help explain why the U.S. economy is outperforming virtually all global economies.

A look at the segregated gross domestic product (GDP) for 2015 reveals how important and healthy the U.S. consumer is in 2016. While the overall GDP growth number for 2015 was 2.6 percent, GDP from final sales was 2.9 percent. Output earmarked for inventories was only 0.2 percent and the negative net imports – primarily due to a weak dollar and weak global economy – reduced GDP by 0.6 percent.

March's consumer spending numbers were about even with the pace of GDP growth. The month-to-month change was slightly negative, with growth over 12 months at 1.7 percent. The headline spending number was muted significantly by what is a 15.6 percent decline in gas station sales. That decline probably boosted retail sales of building materials and hardware (10.8 percent), health and beauty supplies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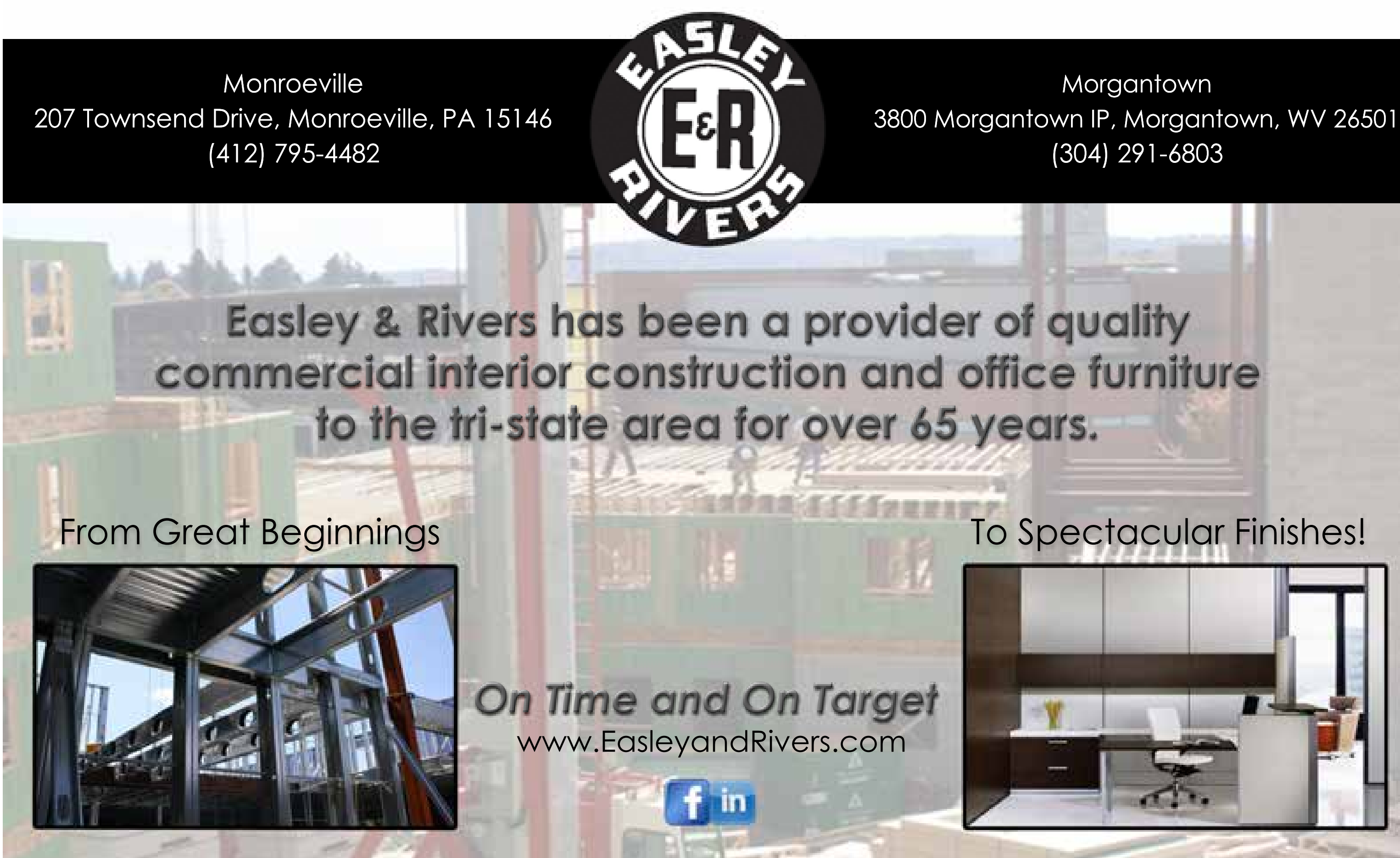
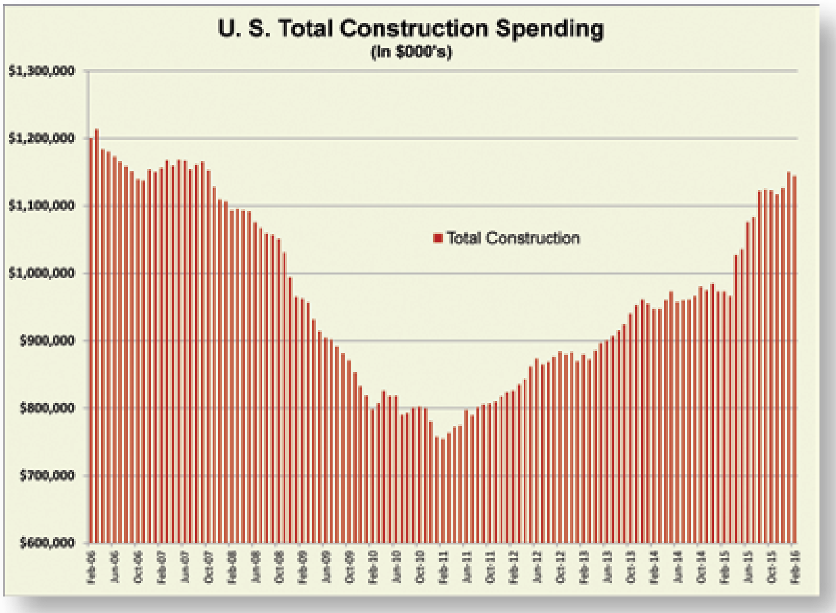


Better consumer finances are one reason why retail construction is outpacing expectations. CoStar research finds that the pace of new retail construction is trailing the pace of population growth for the first time in 35 years.



(6.3 percent), food and drink sales (5.5 percent) and non-store retailing (6.5 percent).

Better consumer finances are one reason why retail construction is outpacing expectations. CoStar research finds that the pace of new retail construction is trailing the pace of population growth for the first time in 35 years. Brokers are reporting that the pipeline of retailers looking for space is exceeding the inventory, making the case that many classes of retail are actually "under-stored."

Real-estate research firm Cushman & Wakefield reported that total U.S. net absorption of office space slowed by 59 percent in the first quarter from the previous quarter to 9.7 million square feet, but that tenant demand for space was keeping pace with new construction. The report noted that the share of office under construction was two percent during the previous year, compared to 2.5 percent prior to the 2008 recession and 4.3 percent prior to the Dot.com bubble recession of 2000. Kevin Thorpe, Cushman & Wakefield's chief economist said, "The reality is, the office sector is under-building relative to office-using job creation."

Newmark Grubb Knight Frank (NGKF) also reported slower absorption in the first quarter but saw the vacancy rate decline to 13.7 percent. That's down from 14.4 percent a year earlier. Rents increased 4.2 percent compared to the first quarter of 2015. NGKF also reported that available sublease space had declined to 1.8 percent of the total inventory, well below historical norms and lower even than the 2.7 peak during the recession.

Similar dynamics mark the industrial real estate space. According to JLL, net absorption increased 4.7 percent in the first quarter of 2016, which was the 24th straight quarter of positive absorption. Vacancies fell to 6.3 percent and rents grew by 4.5 percent. Growth in online shopping and fulfillment is driving construction of new warehouse facilities. JLL forecasts that the industrial vacancy rate would remain below 6.5 percent in 2016, even with 131 million square feet of new spec space under construction.

In all three of the major commercial real estate categories – office, industrial and retail – growing construction numbers have yet to outpace the key demand drivers. That suggests that commercial construction will remain a vibrant sector into 2017.

Reports on state and local taxes for 2015 showed that government entities are seeing solid growth in revenues again. Census Bureau data on property taxes revealed that property owners paid $519 billion in taxes in 2015, an increase of 3.9 percent. According to the Rockefeller Institute of Government, the total revenues for all 50 states combined rose 6.8 percent in 2015. Many states continue to run deficits or are still recovering from deficits run during the Great Recession, so some share of the increased revenues will be used for sins of the past; however, there are also sufficient tax streams again to see public construction begin to recover. That sector of the construction industry has lagged well behind the rest of the market once the spending from the 2009 stimulus receded. A return to the level of public spending that was typically invested in capital projects would be a welcome boost to an improved national construction market.

The tale of the first quarter tells us that businesses are investing less in equipment and structures. Uncertainty that normally accompanies national elections is somewhat exaggerated given the unusual and negative nature of the 2016 campaigns. Consumers thus far have been immune to these concerns and continue to carry the lion's share of the economic burden. In an environment where most segments of the market have seen under-building during this expansion cycle, the construction industry should weather the uncertainty of an election year better than it did in 2012. BG

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WHAT'S IT COST?

The data on construction costs at the end of the first quarter was a continuation of the narrative that has existed for the past 18 months. Gradually improving business conditions and tighter labor supply are pushing installed prices higher, but not enough to offset the prices of most building products and materials. Global demand, particularly from the emerging markets and China, has slowed enough that commodity prices remain lower.

This is especially true for all energy prices. Year-over-year prices through the first quarter remain down as much as 25 percent. Even though the price of oil has rebounded to the low $40s per barrel range, the price of diesel and its derivatives (like asphalt, lubricants and roofing) are low by historical standards. Low prices for natural gas are driving more manufacturing and power generation to switch to gas, which in turn drives down costs for finished goods.

These market dynamics mean that regional pricing will be more volatile, as the factor pushing prices higher – labor – varies market to market. As the construction season swings into high gear, markets with tighter workforce supply may see subcontractor prices jump quickly.

Data from the Bureau of Labor Statistics' (BLS) April 13 report reflected these market conditions. Diesel fuel was up four percent for the month of March but down 39 percent since March 2015. Energy-dependent products had similar performance. Copper and brass mill shapes prices rose 4.1 percent but declined 11 percent year-over-year; aluminum mill shapes rose 0.3 percent in March but fell 11 percent for the year; steel mill products were up 0.4 percent for the month and down 16 percent for the full year. Materials that saw a notable year-over-year increase in price included cement (up 5.1 percent) and flat glass (5.8 percent higher).

Steel manufacturers have slashed capacity dramatically, however, and the impact is being felt. CMC Steel and Nucor each announced $30/ton increases for structural products in March. Gerdau Long Steel followed suit on April 1 for reinforcing bar. Wire mesh prices jumped five percent a week later. Continued declining capacity will accelerate the pace of increases as the summer moves along.

In his analysis of the March BLS data, Kenneth Simonson, economist for the Associated General Contractors (AGC), noted that "…overall PPI for inputs to construction rose 0.3 percent for the month but fell 1.9 percent year-over-year. The PPI for all goods used in construction climbed 0.9 percent for the month but decreased 3.4 percent year-over-year, as the sub-index for energy jumped 9.4 percent for the month but plunged 27 percent year-over-year, while goods less food and energy edged up 0.1 percent for the month but fell 0.6 percent year-over-year. The index for services rose 0.7 percent and 0.5 percent, respectively."

Another measure of construction costs, the IHS and the Procurement Executives Group (PEG) Engineering and Construction Cost Index, reported on March 23 a reading of 44.6 in March, up from 41.3 in February. The index, which is a measure of upward or downward (less than 50) pricing pressure, has been below neutral for 15 consecutive months. The change in trend and the magnitude of the jump reflects increasing prices in the underlying basic materials to go with already higher trade contractor prices. IHS notes that the factors influencing construction costs remain low by historical standards but sees future pressures influencing pricing gradually higher. BG

PERCENTAGE CHANGES IN COSTS	March 2016 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	4.0	7.0	9.0
Producer price index (PPI) for finished goods	2.0	5.0	(0.1)
PPI for final demand construction	0.1	(0.3)	1.1
Costs by Construction Types/Subcontractors			
New warehouse construction	(0.1)	(0.4)	1.3
New school construction	0.1	(0.4)	1.6
New office construction	0.0	0.0	1.0
New industrial building construction	0.0	(0.4)	1.0
New health care building construction	0.1	(0.7)	0.0
Concrete contractors, nonresidential	0.2	0.5	3.6
Roofing contractors, nonresidential	0.0	0.0	1.4
Electrical contractors, nonresidential	0.0	(0.3)	5.0
Plumbing contractors, nonresidential	(0.1)	(1.0)	(2.2)
Construction wages and benefits	N/A	0.7	2.6
Architectural services	0.4	0.6	1.7
Costs for Specific Construction Inputs			
#2 diesel fuel	4.0	(8.6)	(38.6)
Asphalt paving mixtures and blocks	(1.1)	0.6	(3.6)
Cement	0.7	2.2	5.1
Concrete products	0.7	1.4	3.0
Brick and structural clay tile	(0.1)	0.3	0.4
Plastic construction products	(0.8)	(1.2)	(1.9)
Flat glass	(0.2)	0.9	5.8
Gypsum products	(0.4)	3.2	(3.3)
Lumber and plywood	1.0	1.0	(4.3)
Architectural coatings	(0.2)	(0.3)	(0.5)
Steel mill products	0.4	(0.9)	(15.8)
Copper and brass mill shapes	4.1	3.8	(11.3)
Aluminum mill shapes	0.3	1.4	(10.6)
Fabricated structural metal	0.5	(1.7)	(3.4)
Iron and steel scrap	8.2	22.8	(23.9)

Source Bureau of Labor Statistics, Updated April 13, 2016
Compiled by Ken Simonson, AGC Chief Economist

Stretching the Supply Chain

It's likely that when the Pharoah's master builder hired a specialty contractor to do some hieroglyphic painting on the pyramids, the painter complained about slow pay. Over the years, the conditions that exist between the owners of construction projects and those suppliers at the bottom of the supply chain in construction have varied from business cycle to business cycle.

Following a recession like the one in 2009 and 2010, competitive pressures and business conditions were going to be tough for a while; but the crash and recovery are now about seven years old. For many in the supply chain, conditions in 2016 are more difficult than during the recession. Volume has improved but margins are still tight. Payment terms are slower than just a few years ago but vendors and manufacturers have tightened terms. Consolidation shrank the roster of suppliers and brought non-construction owners into the mix.

The business has become much more complicated than the days when you could respond to request for bids or call on a repeat client to get work. The workforce is smaller and shrinking. Technology is moving faster than most business owners are capable of following. Clients are loyal to budgets rather than relationships. All of these are true today. They were also true ten years ago.

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What feels different in 2016 is that the players in the second and third tiers – specialty contractors, distributors, subcontractors and manufacturers reps – have been stretched to the point of breaking. In many categories, firms are quietly going away. In a hypercompetitive environment (and you could be forgiven for lumping Pittsburgh in that category), thinning out the competition could be a good thing for the surviving businesses. At the same time, each business adds value to the industry and if the supply chain is stretched too thin, the whole market will suffer.

As corporate profit growth slows and election year politics create rhetoric that inspires fear instead of confidence, it's worth asking if conditions will make the supply chain snap.

The Curse of Supply Chain Management

In the construction industry the supply chain is not terribly complex but it is variable. Construction projects differ significantly from one to another. New buildings involve a wide cross section of the supply chain. Renovations may be just as involved or have only a few trades and a few dozen players in all. It was this variety in size and complexity that made squeezing the supply chain harder in construction, especially since supply and demand did a pretty good job of keeping everyone on their toes.

As in other industries, the construction buyer sits at the top of the supply chain. In construction that's the owner of the project, the one paying the bills. Owners hire general contractors, which in turn hire specialty contractors to perform the parts of the project the general contractor cannot. There are specialty subcontractors in many of the specialty trades. HVAC contractors may sub out the sheet metal work. Electrical contractors will hire a security or telecommunications subcontractor that is more effective than they are at those specialties. Subcontractors buy the materials for the project from distributors and suppliers, who usually get their products from a manufacturer or large wholesaler.

The Dodge Reports produced a video in the 1970s to explain what it called the "bidding pyramid" for the construction industry. The video characterized the bidding and buying of construction projects in a hierarchical way, suggesting there was order in the process. There was an element of chaos in the market even

when that educational video was made but in today's market, there are fewer direct lines in the chain. Specialty contractors may buy direct from manufacturers. Distributors may install certain products. Contractors may purchase materials separately and bid only labor to the subcontractors. The common denominator is the effort to gain an edge.

Many industries have worked hard at managing purchasing over the years. That's been especially true for industries that are raw material intensive. Items like steel or wheat are commodities with little product distinction in the competitive market. Sellers of commodities used to win by having better relationships with buyers. This often meant getting buyers better football tickets or a better night on the town than your competitor. Those days ended a generation ago.

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In the intervening years, buyers of commodities made decisions based on small advantages in price or delivery. Quality and service were givens. As business cycles boomed and busted in the 1990s and 2000s, more and more value-added things – like construction or architectural services – were treated like commodities. Online bidding and reverse auctioning entered the picture.

This period of time coincided with the expansion of big box discounters like WalMart and Target, which gave the impression that cutting prices was as easy as sending an animated icon into the aisles with a pair of scissors. Those who sold to the big boxes knew better. WalMart's demands of its vendors were legendarily brutal. And margins were legendarily small.

Construction saw the same kinds of market forces during that period from Home Depot and Lowe's, whose national expansion forced thousands of small building products wholesalers to close their doors.

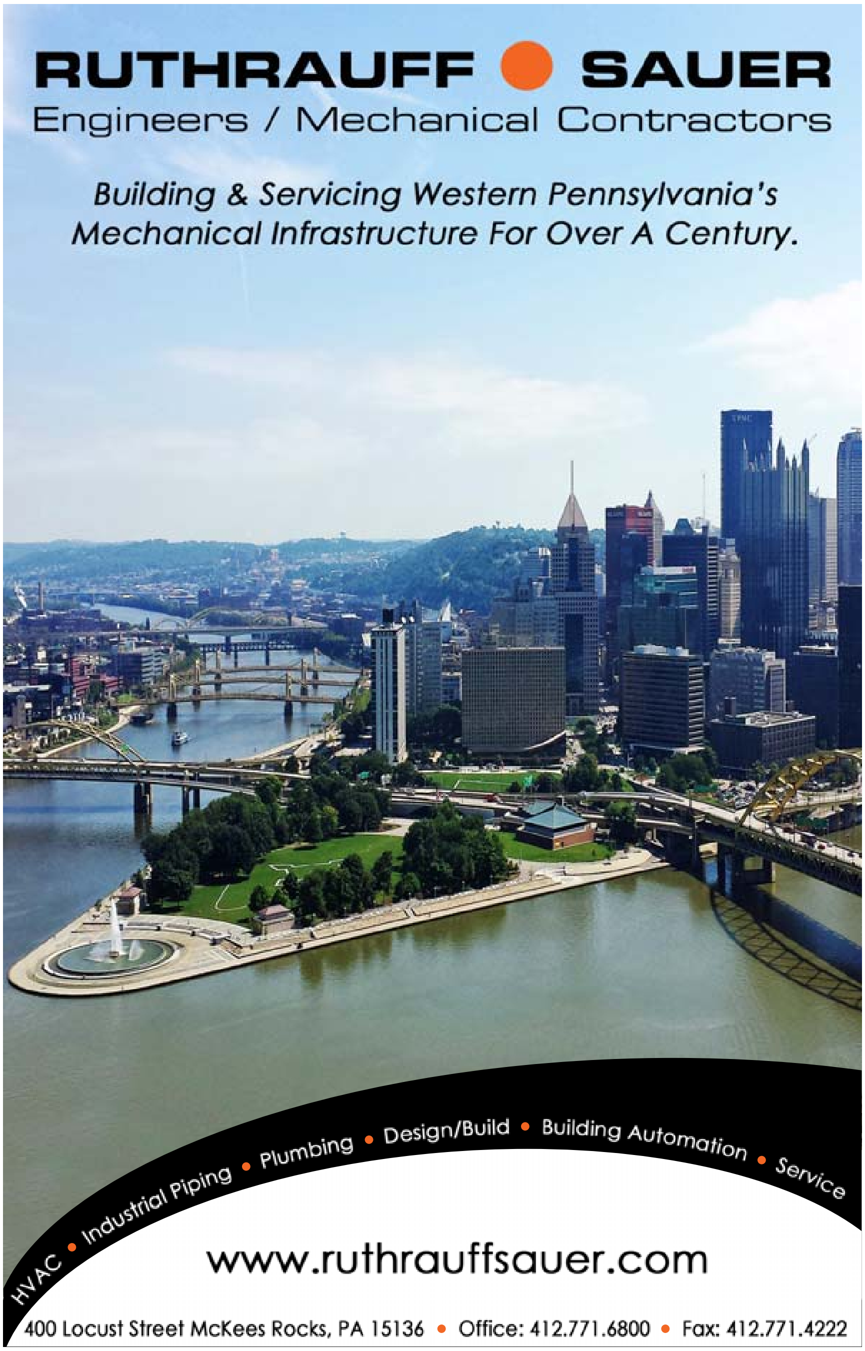
What all of these big box sellers had in common was enormous buying power. Retailers or wholesalers with thousands of stores developed their own logistics departments and provided a strong incentive for shippers to become very good at managing their logistical choices to best serve the big buyers. Big box purchasing departments could demand and get steep discounts in exchange for the huge volumes that came with the orders. Companies that wanted to better manage their own logistics and supply chain went to school on the big box retailers, along with other multinational companies like General Electric. Supply chain management became a popular college major within business schools and engineering departments, although the concepts weren't new.

Keith Oliver, a British consultant for Booz Allen Hamilton, is credited with coining the phrase "supply chain management" in 1982, but the idea of managing suppliers to get the most efficient delivery is probably a thousand years old. Accounts of Napolean's preparations for battle lead you to believe the French emperor was familiar with the subject. At the time that Booz Allen's Keith Oliver was writing about the subject, he was talking about the legitimate management of a diverse group of suppliers and transportation at a time when American manufacturing was being turned upside down and global business, particularly Japanese companies, seemed to have an upper hand in the concept of managing logistics. Concepts like just-in-time delivery were introduced to the world. Supply chain management looked at how companies could meet its customers' requirements in the most efficient way possible.

It is that last phrase that seems to be the genie let out of the bottle. There are a lot of ways for purchasing and delivery to be more efficient. In many cases, managing the logistics of purchasing involved the vendor making the buyer's processes more efficient, such as warehousing for a big customer near a plant or job site. But in common parlance, "most efficient way possible" became code for putting downward pressure on price.

The Supply Chain Stretch

Real pressure on the supply chain comes from too little cash and the fear of losing work. In construction, the pressure from slow pay builds the further away you get from the source. Pennsylvania's Prompt Pay Act and Contractor and Subcontractor Payment Act set rules about how quickly the contractor must pay its subs and vendors after it is paid. The Mechanics Lien Law further gives those in the supply chain teeth by providing a mechanism



for reaching the owner when subs and suppliers aren't paid. These laws are reliant on two things happening: First, the owner must pay the general contractor for the work completed (usually laid out in a schedule of values); and second, the subcontractor or supplier wishes to use the laws to enforce payment. It's the latter that trips up the supply chain.

Colette Nelson, chief advocacy officer for the American Subcontractors Association in Alexandria VA, describes Pennsylvania's laws protecting subcontractors' payment rights as better than average. The trouble, she says, is that few subcontractors want to endanger relations with the general contractors who give them work.

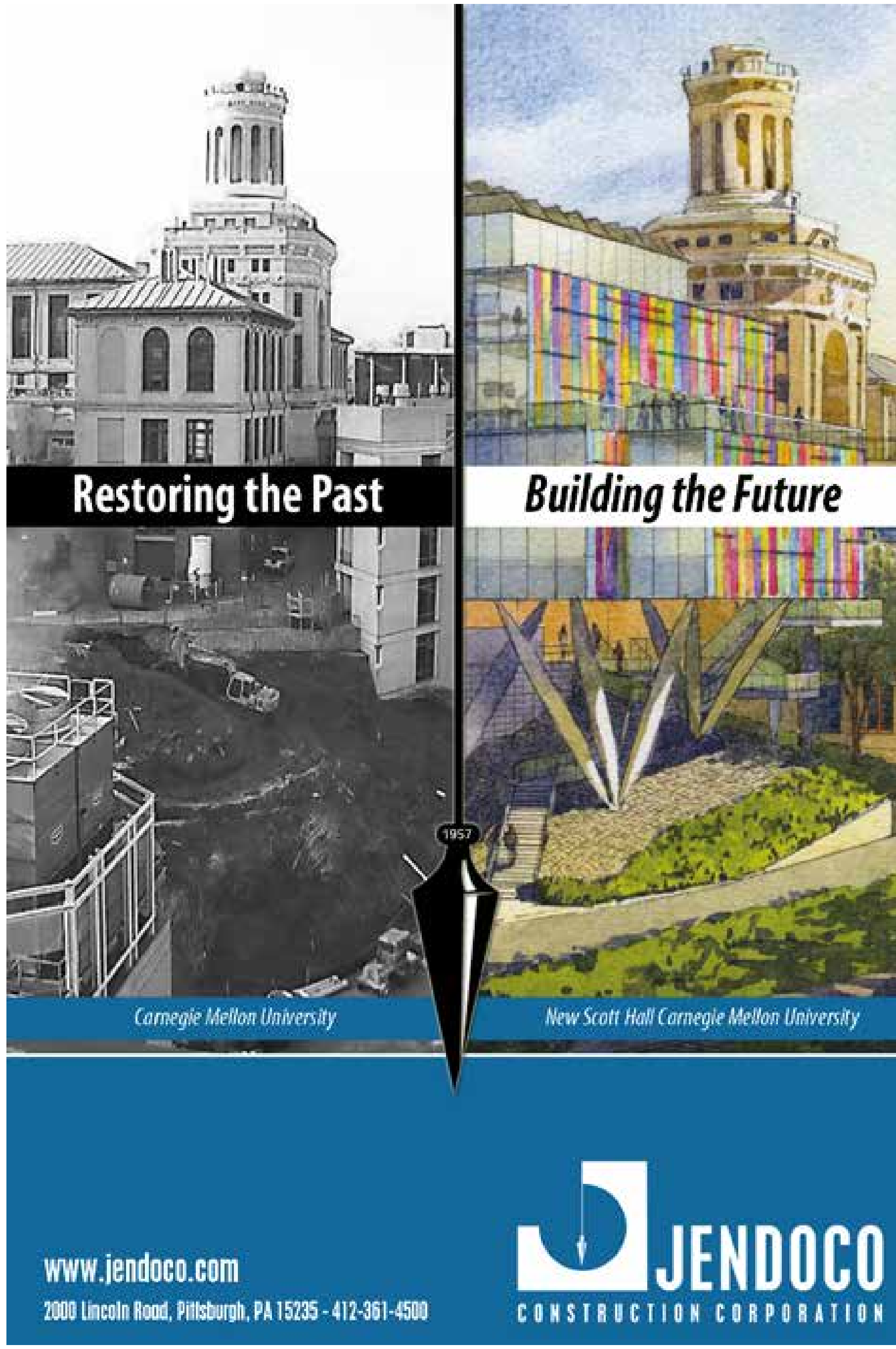
Slow pay isn't a new phenomenon. Over the years, normal payment terms declined from 30 days to 60 days. Perhaps the lag increased when interest rates spiked in the 1980s and hanging onto cash allowed businesses to earn something for their money. It's more likely that competitive pressures created a situation where the slower pay that resulted from poor cash flow during a downturn remained after the market recovered.

Two things seem to be different now. Long-time owners of specialty contracting firms are unanimous that pay cycles jumped a month in the middle of 2015. Clients that paid in 60 days were now paying in 90 days. At the same time, suppliers to the construction industry have become more aggressive about being paid in 30 days. Each of these market forces are pulling in opposite directions and the result is a noticeable shakeup in between them.

The makeup of the manufacturers and distribution channel has changed significantly since the Great Recession. Manufacturers got smaller when the downturn hit. Fewer people were in the marketplace every day. Building product manufacturing is a global business. When the smoke began to clear in 2010 and 2011, there were companies with dry powder and companies in distress. As could be expected, there was a dramatic increase in consolidation activity over the next few years. That meant many manufacturers were part of bigger companies. It also meant that many were owned by private equity investors with little or no construction industry experience.

"20 years ago manufacturers were highly engaged with local projects and specifications. Now they have shortened their outreach to the user. They have no boots on the ground. People like us became the voice of the manufacturer to the market."

"From our point of view, manufacturers – because of technology adoption – have stepped back from where they were twenty years ago," observes Bill Wilson, owner of Specified Systems Inc., a specialty window and curtain wall contractor. "Twenty years ago, manufacturers were highly engaged



LEED isn't going away. It will not be many years before owners who think they can't afford LEED-certified buildings demand them.

November 2006

Apartments are the hottest thing in the market.

March 2012

Where the danger lurks is in the large institutional buyers who had sub-prime mortgage-backed securities packaged in their portfolios.

May 2007

The creation of jobs in the energy sector is still at the early stages, but the recognition of the prominence of energy as an economic driver may not be.

November 2009

It's likely that BIM will be the next big technology tool to break through the barriers of acceptance.

January 2007

What seems equally obvious is that any expansion of footprint for healthcare providers is going to be away from major campuses.

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with local projects and specifications. Now they have shortened their outreach to the user. They have no boots on the ground. People like us became the voice of the manufacturer to the market."

The size and type of ownership of manufacturers makes it less likely that companies will be willing to finance a construction project by extending credit. Absent the local relationships with manufacturers, specialty contractors find themselves with little room to negotiate extra time. The lengthening of payment cycles and shortening of credit cycles stretches the contractors in between, creating what Wilson refers to as a "capitalization nightmare."

"Where the scenario gets interesting is that the supply side would like to see 30-day payment in an industry that bills once a month," he says.

Depending on what share of the specialty is material versus labor, the specialty contractor can be left to cover more than half the project before seeing the first dime.

In a mature geographic market like Pittsburgh, where many more projects involve renovation projects, there are more short duration jobs. That puts more pressure on the capital of the specialty contractor. Depending on what share of the specialty is material versus labor, the specialty contractor can be left to cover more than half the project before seeing the first dime.

"Roughly 70 percent of our cost is spent off site. If it's a smaller job, we're going to have almost all of it built by the time we start," explains Gordon Giffin, founder of Giffin Interior & Fixture Inc. "Our vendors give us 45 days. At 60 days they stop shipping. I have to finance that job."

Giffin has invested millions in his shops to get to the point that most of the work he does can be done in a controlled environment by sophisticated equipment. It gives Giffin greater control over quality and schedule, with fewer hours spent fitting and building casework in the field. But it also means that the company spends more up front on projects. Bill Wilson estimates that 65 percent of his $15 million in sales is product, meaning that someone is looking to get paid for 65 percent of his work within 30 days. That's often within the time that his first bill is even processed. Even specialties that are more labor-intensive are feeling the stretch – or squeeze.

Jack Scalo owns Cuddy Roofing and Burns & Scalo Roofing. Roughly half of his costs are in the labor needed to install or repair the roofing. Even without pressure from manufacturers, Scalo feels the pinch.

"We try to aggressively manage our accounts payable but when I do an analysis of our payables, it's 25 percent of our revenue," Scalo asserts. "If we weren't a well-established, 60-year-old company I'm sure we'd have credit issues."

The roofing business is one that has seen dramatic consolidation and attrition since the recession of 2009. At least seven roofing contractors have closed their doors since the downturn and at least two others appear to be winding down. The distribution channel in the roofing industry has also been rife with consolidation. Pittsburgh is a market that has seen the impact of that consolidation, as long-time suppliers Cassidy Pearce, North Coast Roofing Supply and McClure Johnston were all purchased by national distributor Beacon Roofing Supply Group. Beacon is one of the three largest wholesalers, along with ABC Supply and Allied Building Products. Among them, the three distributors account for 13,000 employees and over 11,000 vehicles. That's an enormous share of the total U.S. market.

Scalo says that the consolidation has been something of a double-edged sword, but ultimately should help with the competitive landscape for roofers.

"The local distributors were like lines of credit for companies with problems. They helped support those companies because of the long-term relationships," he notes. As the national players acquired the local companies, credit policies were stricter and hurt those roofers who were struggling. It will be harder in the future for struggling companies to maintain credit with publicly-traded distributors that are focused on delivering growth.

Stretching the supply chain makes it that much tougher for companies to grow. Without a way to grow, businesses are going to find it tougher to keep up with the constant creep of expenses. Well-run specialty contractors have owners that have vision for their businesses, owners who think beyond the details of their trade. To do that, businesses must have the working capital and cash flow to invest beyond their inventory and payroll. That's difficult if their capital is being used to effectively finance projects from the supply chain.

"We always had situations where certain projects stretched out payment but now it seems like it's being done by design," notes Wilson. "The attitude seems to be, why pay the bank when we can manipulate the supply chain and they will accept it."

Moving the Pendulum Back

None of the changes that have stretched the supply chain today happened unilaterally. Buyers can only get concessions from sellers who agree. Part of what has advanced the role of supply chain management over the past three decades has been the reaction of the supply chain to several severe business cycles. Concessions or deals made when times are tight are tough to unwind when business recovers, unless the sellers are willing to walk away from the business. What has happened in the oil and gas business since late 2014 is a good example of what can happen in tight conditions.

During the drilling boom from 2009 to 2013, buyers of materials and services in the Marcellus Shale weren't asking how much but when. Exploration slowed prior to 2014, but after the oil price collapsed in the third quarter of that year, the market in Western PA changed drastically. Energy services giants like Baker Hughes and Halliburton (which later bought Baker Hughes) told their supply chain that cuts of up to 30 percent were expected for

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firms to continue to do business. Those requests didn't come with an associated cut in service. Vendors were simply expected to reduce their price and react accordingly. There was little negotiation and little push back because those in that industry wanted to keep the business.

"You're dealing with purchasing departments whose existence depends upon saving money," says Chris Schweiger, sales manager for Laurel Aggregates. "And they know they are your best customer."

Of course the difference between energy and construction is that vendors had their day in the sun during the boom times. In 2010 or 2011, vendors who didn't like a deal walked away from it because there were plenty of others to chase. That kind of mentality only existed in Pittsburgh's construction market during a brief period between 2006 and early 2008. But there are some trends that suggest that aggressive procurement could wane.

The most pressing of these is the tightness of labor. For the time being, efforts to recruit more skilled workers into the construction industry are lagging the accelerating retirement rate. Should the current trend continue or should there be an upswing in big projects, the net effect will be the same as having a lot of work. The lack of human resources will force subcontractors and suppliers to say no.

"The days are long gone when you can put an ad in the paper and get workers," says Jack Scalo. "Workforce issues are the reason you can't grow a business and in business you either grow or die."

Should a tight labor market become a short labor market, companies that are slow will lose workers to those that are not. That won't be desirable for the company on the short end of the stick but becoming a smaller company will limit the opportunities to chase projects, including those that a slow company might be tempted to take too cheaply.

Another reason that the supply chain has accepted tougher conditions is that some portion of the businesses that provide specialty contracting or supply services lacked the sophistication to fully understand its costs. There are specialty contractors that were founded by owners who were very good at the technical aspects of their work but aren't business people first and foremost. They don't have the analytical skills to understand what the total costs of capitalizing their work are. It's not easy or intuitive to grasp what the impact of a slow-paying customer is on a business. The evidence of the past few years, however, is that contractors and vendors who are unsophisticated are being weeded out.

For contractors that find regional market conditions unfriendly, working in other markets is a solution. Todd Mikec, president and CEO of Lighthouse Electric, has invested heavily in technology and people to do projects where design-assist specialty contractors are brought in during the planning phases. Lighthouse has worked on projects like that in Pittsburgh but to find more design-assist work, the company is working with customers from out of town.

Mikec speaks almost wistfully about a future market where specialty contractors can add value to the planning process. He's positioned Lighthouse Electric for that kind of environment, even if he's not sure when it will arrive.

"Pittsburgh's a market where new things arrive more slowly but this is happening in other markets right now," he says.

While owners would seem to be the villains in this stretching of the supply chain, it is the project owner that will ultimately suffer most from a broken supply chain. There is anecdotal evidence that owners are beginning to understand that a functional supply chain is in his or her best interest.

"We recently had a car and truck dealer who called all of the subcontractors after he paid the general contractor," relates Gordon Giffin. "The dealer was friends with the general contractor and he insisted all of the subs were customers of the dealership. He didn't want them shopping elsewhere for their vehicles."

In the final analysis, the fate of the supply chain is in its own hands. Many of the decisions that vendors and contractors have made over the past couple decades in Western PA seem self-destructive to those in less competitive industries. Perhaps the current squeeze will be the medicine that the second and third tiers of the industry need to look at the costs of doing construction more realistically. For certain, if labor tightens businesses will have to think about saying no more often. In some ways it is that simple.

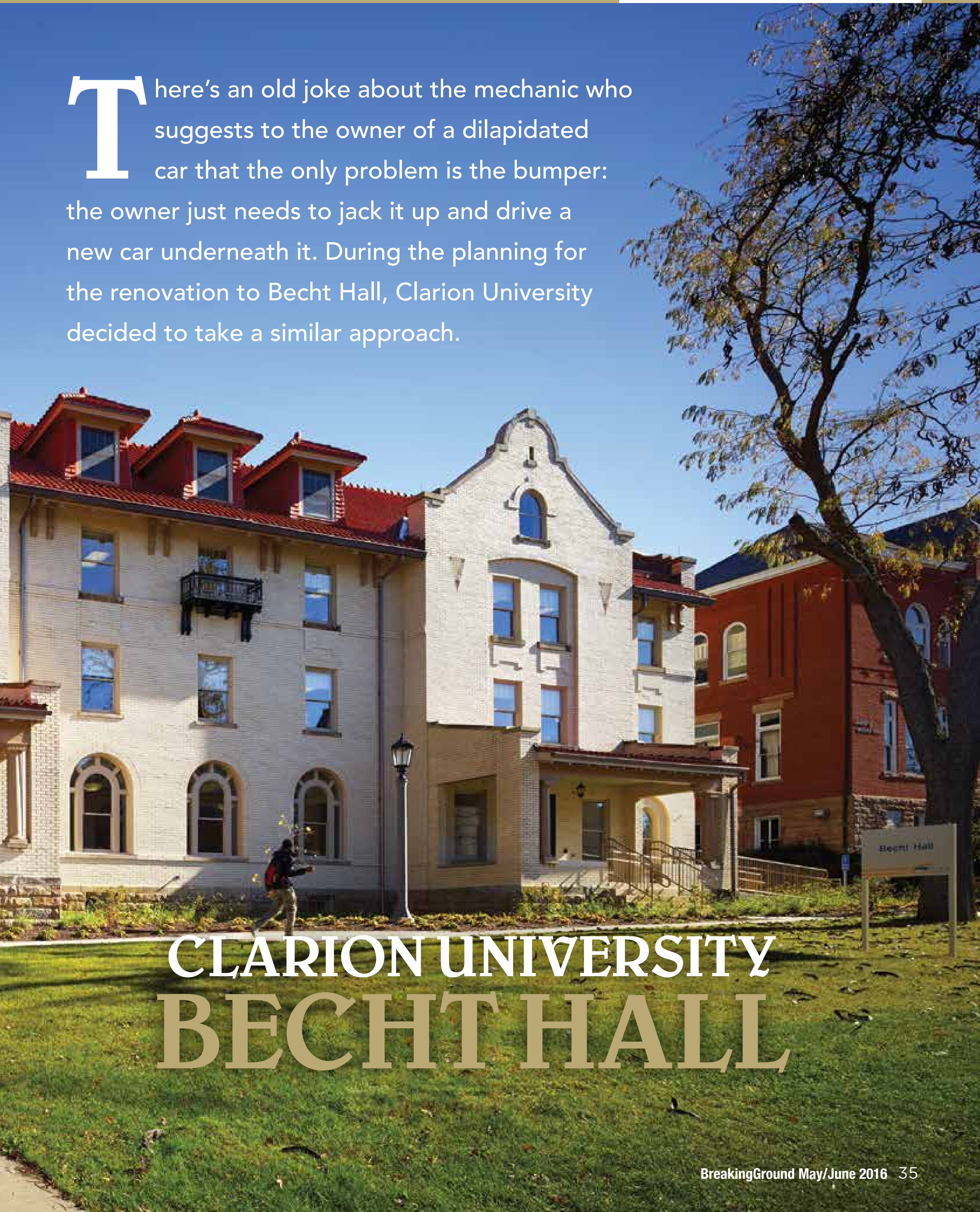
Bill Wilson says that Specified Systems has been paring back what it considers to be customers over the past couple of years, looking not only at the practices of the general contractors but also at how fair the project owners are that his customers serve.

"We treat people who pay their bills on time differently from those who don't," says Giffin, noting that he has to pass along the cost of carrying projects to those who don't.

Scalo sees a parallel between the decisions business owners must make as a specialty contractor today to those of the last recession. "For the most part, roofing is an unsophisticated industry," he observes. "The recession put a dent in everyone. You had to make tough decisions about overhead and 401-K plans. The guys who put their heads in the sand aren't here anymore." BG

Photo by Massery Photography.

There's an old joke about the mechanic who suggests to the owner of a dilapidated car that the only problem is the bumper: the owner just needs to jack it up and drive a new car underneath it. During the planning for the renovation to Becht Hall, Clarion University decided to take a similar approach.



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J. George Becht Hall was opened in 1908 as a dormitory. The 53,000 square foot building is a timber-framed brick structure with a clay tile roof. By the mid-2000s, when Clarion University proposed the project to the PA State System of Higher Education (PASSHE), Becht Hall was largely unused except for some offices on the lower floors. The face of public higher education changed drastically after the project was proposed. Enrollments fell. PASSHE experienced severe budget tightening. Becht Hall's renovation was delayed during planning.

During the extended planning period, Clarion's facilities staff experienced turnover. There was a certain amount of indecision about the wisdom of renovating the old building versus demolition and replacement. Two factors seemed to sway the decision to renovate. First was the fact that the Department of General Services allocation was for a renovation and wasn't going to be easily revised or increased. The second factor was the advocacy of Tom Jamison, who was the interim director of facilities and who had accomplished a very similar project during his tenure at California University of PA. Rather than working with the existing structure or doing a controversial demolition and new building, Jamison pushed for creating a 100-year structure within an existing 100-year building. It wasn't the architect's first choice.

"We resisted it. We didn't like the idea," chuckles Kevin Wagstaff, partner at PWWG Architects. "We thought it was going to be extremely expensive and difficult to do and we were very apprehensive about doing it in a multi-prime scenario."

Regardless of how the project was going to be accomplished, Becht Hall's new use was part of a trend in higher education to bring more services to students. The so-called "student success" centers bring the services for financial aid, scheduling, tutoring, remedial learning, health, career counseling and non-traditional learning together under one roof. At Clarion University, most of the services designed to help student succeed were in place. They just weren't in one place.

"Consolidation was the main objective for the project," says Eric Martin, current director of facilities operations for Clarion University of PA. "The services that the students needed – financial aid or the health center or whatever – were scattered all over campus. I don't think the students knew where all of the facilities were located or even how to find the services in some of the buildings."

What the extra planning time provided was a keener understanding of how to communicate the project's scope within the confines of the separate prime bid system that a PASSHE project required. The success of the project was going to turn on how the contractors would manage the project, since so much of the restoration would be a mystery until demolition was completed. Wagstaff explains that the normal plans, specs and notes wouldn't suffice.

"We had to work a lot with the structural engineer to figure out how to put together bid documents to own the process of ripping out the old structure and putting in the new structure that wouldn't jeopardize the shell. This is something structural engineers don't deal with all that often," he says. "We had to walk the fine line between engineering and means and methods that a contractor would typically do. Where we ended up was Hope Furrer's office wrote a narrative that said here's one way you could do this to ensure that the masonry shell was properly shored. But it wasn't prescriptive. You didn't have to do it that way but we concluded that we had to have a description of a method to make it clear that you had to do the shoring. Just a note that said to shore the structure was insufficient to give a bidder an understanding of just what it was going to take to do it correctly."

Wagstaff admits he had concerns about putting such a job out for public bid. The timing of the project helped. By mid-2013, when Becht Hall bid, the construction market had not recovered from recession yet.

"I was really nervous when this went out to bid. I feared it would come in too high but it was bid right after the Great Recession or during it," he notes. "I think we benefitted from that. We had good contractors who wanted to do this job and we ended up with a good contractor who got the job."

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The contractor that was the low bidder, Uhl Construction Co., assessed the opportunity with the mindset that Wagstaff describes, although even Uhl says that there were limits to how hungry the company was at the time.

"If it had been a DGS job we probably wouldn't have bid it," says Dave Hengelsberg, who ran the project for Uhl Construction. When asked why his company did pursue the project, Hengelsberg candidly replies, "We needed the work. This was summer of 2013. We had work but we didn't have that large anchor in our backlog."

Uhl didn't pursue the project blindly, however. The complexity of the project, which the design team must have expressed sufficiently, chased away half of the contractors that pulled plans for the project. It was the difficulty of Becht Hall that attracted Hengelsberg.

"I'm the one who pushed to do it. We knew going into the prebid that the main thing about the job was putting steel inside this existing building, even if we didn't know the full extent," he says. "After the prebid I ran back to the office and said this is us. That first six or seven months was 100 percent self-perform. Everybody on the job was us. There were no subs. That just doesn't happen."

Of course under the separate prime bidding mandate, there are three other prime contractors that would be working on the project. That was a variable that Uhl could not control. In the case of Becht Hall, however, the market conditions helped attract strong mechanical and electrical contractors. The successful other prime contractors were Renick Brothers for the HVAC, Shipley Plumbing and Fuellgraf Electric. The total bids for the project came in at \$14.6 million.

Hengelsberg says that prime bidding usually results in a weak player to the team but there was relief in how Becht Hall's bidding worked.

"It was a public bid. When you throw your hat in with four primes on a job like this, you usually get one less than desirable prime," jokes Hengelsberg. "I'm sitting at the kick-off meeting with Frank Shipley and Fuellgraf, who we've worked with before, and Renick, who's outstanding, and I wondered if we were the bad contractor in the group!"

The project bid in July but the contractors weren't given notice to proceed until October. Hengelsberg jokes that the rumors were that no one associated with the project or the uni-


Photo by Massery Photography.

versity expected it to come in under budget and weren't prepared to go through with the job. Whatever the reason for the lag between bidding and construction, the delay helped Uhl.

"We were able to really game plan. We were able to start pulling this information from both PerfidoWeiskopf and Hope Furrer," says Hengelsberg.

The general contractor was responsible for figuring out the time needed for the phasing during the bidding process so that the other primes could know when they would be able to mobilize to start the fitout of the space during the 18-month job. That was a concern with the other primes, since the general could take most of the schedule and leave an unreasonable schedule for fitout. But Uhl ended up committing to a six-month schedule during the bid after doing a cost analysis and time analysis.

"When we got the job we wondered, why did we say six months? We should have said nine months," laughs Hengelsberg.

What Uhl found out straight away was that there was much that was going to be unknown until the structure of the building was peeled away. The design team was able to do investigation of what lay behind the walls and ceilings throughout the building, but with a structure the age of Becht Hall no amount of selective investigation could reveal the full scope of the structural work. The scope of work for the general construction contractor included hiring a structural engineer to verify the means and methods for the demolition, shoring and construction of the structure. The structural system was fully designed but the sequencing and method for pulling down framing and supporting the roof was essentially design-build.

"Once the phase one demolition was done, we had three or four meetings to figure out how we put the building up," recalls Hengelsberg. "How do we sequence it? We ultimately decided on seven phases, about 35- to 40-foot bays at a time. It's an L-shaped building and we worked our way around. So we would shore up, floors out, steel in, shoring down. At one point, say in phase five, we were pouring concrete on deck while we were still taking floors out."

To erect the steel inside Becht Hall, some 200 holes were cut in the roof to allow steel to be lifted into the building. For all the planning and preparation, there was little that could be done to create efficiency.

Because the first floor was adding nothing to the structure, Uhl gutted that level during the first week. Likewise the fourth

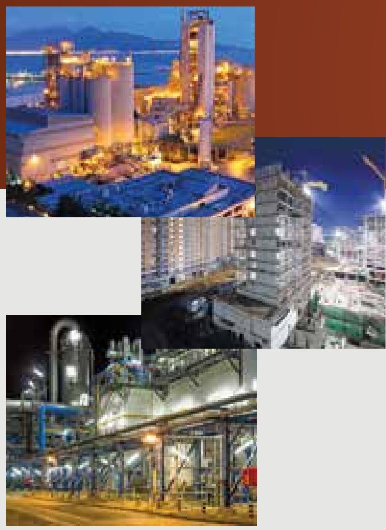

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Photo by Massery Photography.

floor was not critical to the sequence. The structure rested on the second and third floors. Once the shoring for each floor was up, Uhl could demolish the structure in that section. To erect the steel inside Becht Hall, some 200 holes were cut in the roof to allow steel to be lifted into the building. For all the planning and preparation, there was little that could be done to create efficiency.

"We kept on getting to the point where we said it's going to get systematic and it never did. All the way to the end of the building, it never got systematic. They stick built the thing in 1908 and it was modified so many times since then."

What the construction team expected to be exceptions turned out to be the rule. With the demolition for each phase, significant issues were uncovered that simply could not have been found during the investigative process. Hengelsberg tells a story about one of the change orders Clarion University issued to perform work in the dormers to reinforce the gable structures, which were not all tied to the main structure. In one dormer there was a tree trunk used to hold one hip roof. As might be imagined, neither the contractor nor engineer had a ready calculation or design solution for that problem.

Hengelsberg tells a story about one of the change orders Clarion University issued to perform work in the dormers to reinforce the gable structures, which were not all tied to the main structure. In one dormer there was a tree trunk used to hold one hip roof.

In situation like Becht Hall's, where time is the enemy of the contractor, the responsiveness of the design team and owner becomes critical. Hengelsberg notes that the work of the construction manager, Gilbane Building

"For the most part, if you look at the exterior of the building you wouldn't think it wasn't new. You know it's a 100-year-old building but it doesn't look 100 years old."

Company, made a positive impact on Uhl's ability to minimize the impact of the many unforeseen conditions.

"We had never worked with Gilbane and when we had our first job meeting I thought, this isn't how we bid the job," he recalls. "But then I looked at it as a saving grace. Gilbane had a direct line to the owner; they could get the answers. I have 30 guys here and if I have a small issue about a brick being patched or something and I'm waiting two days for an answer, I'm dying. We could work up an extra with a not-to-exceed [on the spot] but we needed answers."


Photo by Massery Photography.

The plan for the clay tile roof played out similarly to the way the interior structural conditions did. Pennsylvania Roofing Systems was Uhl's subcontractor on Becht Hall and it operated on the predetermined assumption that there would be a 25 percent loss factor for the tiles that were removed. Once the tiles were inventoried it was clear that many of the tiles that weren't damaged were also not viable to be re-used for any period of time. Since clay tile isn't a material that is stocked at the local supply yard, a process had to be developed that was fair but didn't penalize any of the parties for doing the right thing.

"Between Uhl, Gilbane and PA Roofing we developed a three-phase change order, almost an allowance, for both shapes and quantity," Hengelsberg explains. "[PA Roofing] would inventory the tiles in the yard; Gilbane would certify the quantity to be re-used and then the change order would kick in. That way new tile could be made and we always had the quantity we needed for that phase. We would get so far and the change order would kick in."

There were also many of what would be considered "normal" issues for a restoration project. All of the interior and exterior window trim was to be repainted but some of the trim had to be replaced. With lead paint on the existing trim there were plenty of decisions to be made about how much of the paint to be removed before repainting. Three steel stair towers had been added in the 1950s to bring the building up to code. The new steel structure had to tie into all of those towers rather than replacing them. The exterior skin of Becht Hall is brick and masonry re-pointing could have been done throughout but the bid called for pricing a portion of the building.

"That was a subject in an early job meeting. We said we had budget for re-pointing 50 percent of the building so where did they want to use that?" Hengelsberg recalls.

One of the objectives of Becht Hall's renovation was to achieve the highest level of sustainability possible. The bones of the building were going to make it difficult to create a high performance envelope or mechanical system but the approach focused on reuse of the existing building and the use of geothermal wells for a ground source heat pump system. That HVAC solution accommodated the tight floor-to-floor heights that the original wood framing created.

Among the sustainability highlights are:

- 60 percent of the clay roof tiles were salvaged and reinstalled.
- 75 percent of the interior and exterior window trim was reused.
- Nearly 100 percent of the heating and cooling uses geothermal sources, which come from 38 wells that are 375 feet deep.
- 6,450 bricks were salvaged and reused on the east elevation.
- All of the existing roof trusses were reused as part of the new structural system.
- 90 percent of the construction waste was diverted from landfills.

Photo by PWWG Architects

When completed, the work on Becht Hall was submitted with more than enough points to achieve LEED Silver certification.

In addition to the certification for green building, the Becht Hall project was also recognized for an exceptional safety record. In spite of the complexity and risk associated with such unusual means and methods, Uhl Construction and its prime contractor partners and subcontractors worked 8,900 total hours without a single injury.

The project was delivered on time to Clarion University, which has been pleased with the way the student success and services center has performed over the past academic year. Clarion reports that student retention is up five percent since Becht Hall opened.

"You can see when you walk into the facility that they did a very nice job," Martin asserts. "For the most part, if you look at the exterior of the building you wouldn't think it wasn't new. You know it's a 100-year-old building but it doesn't look 100 years old."

"The facility is working quite well," he continues. "We were able to consolidate virtually all student services into one building, which was the purpose of the project. It's a busy building with students in and out all day. The library is next door and a dining hall is across from it, so it's a hub for all the students needs."

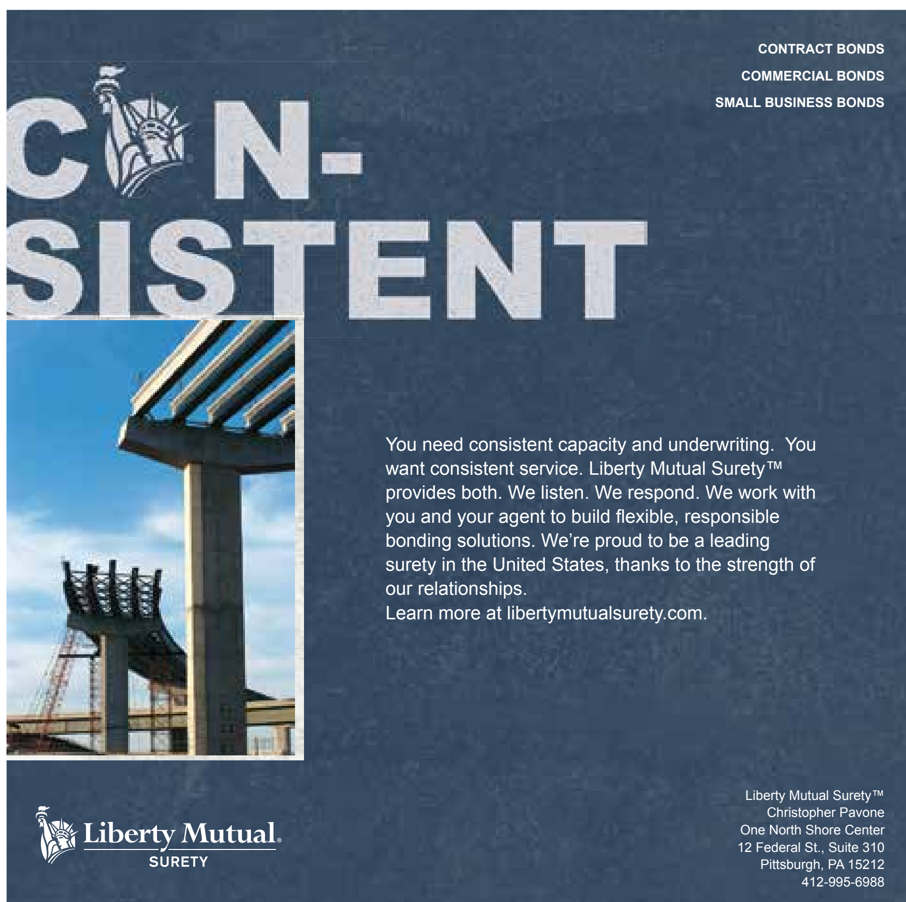
"It was one of these kinds of projects where there aren't a lot of glamorous photos but there was a lot of work to make it come together and function well," observes Wagstaff.

Uhl Construction could have reason to want to put the project behind it. Becht Hall was a tough project that the company took on knowing that there was the potential for problems. Rather than dwelling on the difficulty, Uhl celebrates the accomplishments of the collaboration. Becht Hall has already won several regional awards and has been submitted for a national award.

"This doesn't happen all the time. From a financial perspective it was not successful. From an overall project, hands down it was the most successful project we've ever had," Hengelsberg says proudly. "It was set up to be something very challenging but we completed it and we did it on time." BG

PROJECT TEAM

Uhl Construction Co.	*General Contractor*
Clarion University of PA	*Owner*
PWWG Architects	*Architect*
Hope Furrer Associates Inc.	*Structural Engineer*
Fuellfraf Electric	*Electrical Contractor*
Renick Brothers Inc.	*HVAC Contractor*
Shipley Plumbing	*Plumbing Contractor*
Marsa Inc.	*Masonry Contractor*
J. J. Morris & Sons	*Interior Contractor*
Pennsylvania Roofing Systems	*Roofing Contractor*
Fantin Flooring	*Tile & Terrazzo*
Butler Floor & Carpet	*Floor Coverings*
Vincent Cugini Company	*Painting Contractor*
Schindler Elevator	*Elevators*



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ELECTRICAL CONTRACTORS

Tony Mikec (front) with (from left-to-right) grandson Anton, and sons Neil, Todd and Mark.

More than two decades into a career that had seen him become an executive for a major corporation, Anthony "Tony" Mikec followed his drive to start his own business. In March 1984, he looked past the difficult market conditions that accompanied the decline of the steel industry and founded Lighthouse Electric Company with his three sons: Mark, Neil and Todd.

It was fortunate for Lighthouse Electric that the market had quite a bit of hard bid work, both in the public and private sectors. Experienced at estimating and operations, the Mikecs were able to compete effectively on hard bid projects and land projects they wanted to build.

"We were lucky. We cut our teeth on that public work, whether it was water treatment work or schools," recalls Todd Mikec. "Schools were big at that time. There were a lot of schools built in the 1980s. If it was a low bid job we could go get it and set the pace with that."

Changes in the local economy forced Lighthouse to find work where the value wasn't only in the low bid. Lighthouse responded to those changes by focusing more on growth, building relationships, especially with owners, and by bringing in people who could help them do a wider range of projects profitably. Midway through the company's second decade in business that strategy began to pay dividends.

Most of the talent Lighthouse has attracted resulted from organic growth that came from a methodical progression of projects during the 2000s. Gaining more expertise as the company landed progressively more complicated projects, Lighthouse Electric kept a skilled workforce employed and built a resume that attracted talented people who could plan, design and execute complex work.

"That's been a large part of our success. We have a lot of people working for us that happen to be IBEW members, but they will tell you that they work for Lighthouse Electric." Mikec says with pride. "We talk about that in our sales presentations. We have at least 100 field employees that have been with us for more than 15 years."

> *"We stepped up to the challenge. That's where the dynamics of the family business came into play. When the experts came in and said we were going to have 300 people on the project and we're going to finish on April 1, we knew we were going to have to rethink our deal.*

"We've been fortunate. I'm not going to lie about that," Mikec admits. "Even when the economy was down we were doing casinos, an ice hockey arena and ATI. So we've had those projects that could sustain the workforce."

The breakthrough opportunity was PNC Park. That project involved a public bid at 80 percent completion of drawings, which led to a paid preconstruction contract while the design was finished to 100 percent. Ultimately landing the project meant bringing the electrical portion of the work in under the guaranteed maximum price. That pushed Lighthouse's team to assist with the design and sourcing to ensure that the job stayed theirs. That experience bolstered the skill sets


Photography: Dustin Giffin

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and experience of Lighthouse's key people and gave the company the foundation upon which to build other large and complex projects.

"We stepped up to the challenge. That's where the dynamics of the family business came into play. When the experts came in and said we were going to have 300 people on the project and we're going to finish on April 1, we knew we were going to have to rethink our deal. One of the conditions was that we had a principal on the job every day. We wouldn't do that today because we have the depth, but back then we recognized that had to happen for that job to succeed, so my brother Neil packed up his stuff and moved down to the ballpark. That was the turning point for us, says Mikec."

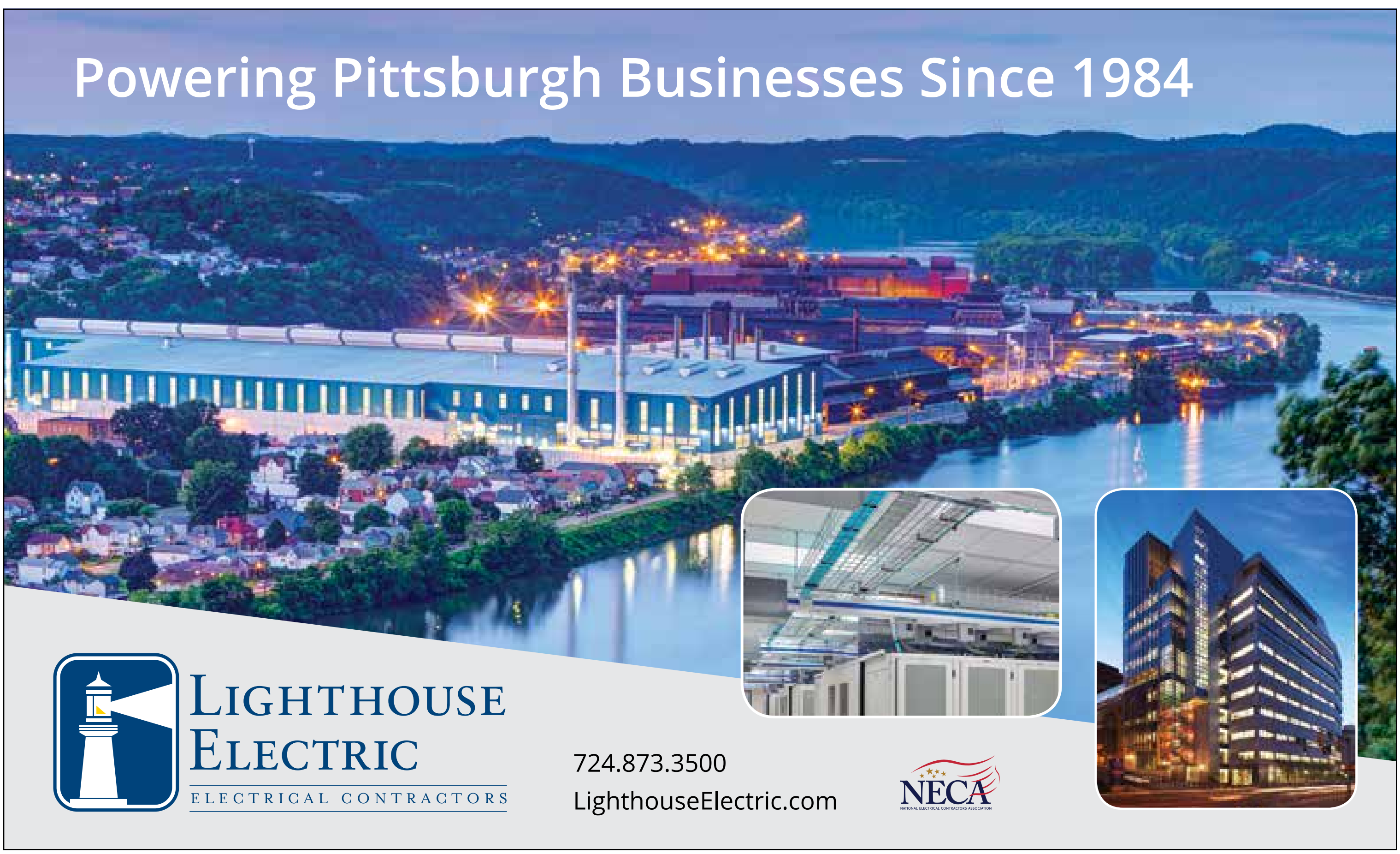
After PNC Park, Lighthouse Electric was successful at landing some of the early electrical packages on the David L. Lawrence Convention Center. That project developed in much the same way as PNC Park had, with bidding that led to design-assist work.

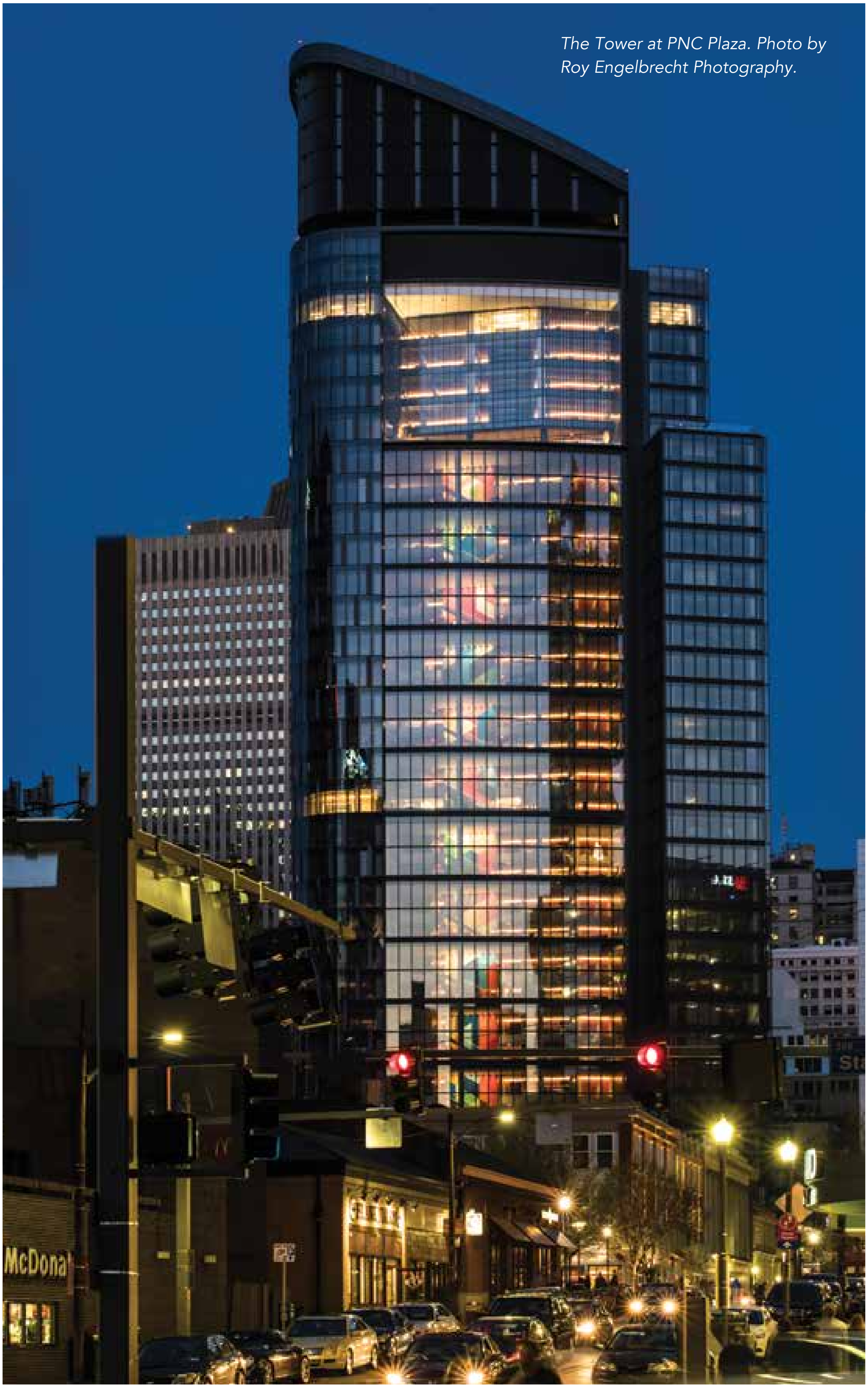
"Talk about collocation and collaborative work effort; we had one floor, Rafael Vinoly was on the floor above and Turner/PJ Dick/ATS was in the same building," Mikec recalls. "When we were talking about the lighting design and you had Rafael Vinoly designing a signature building, it was imperative that we go up to the third floor and talk those guys off the ledge because we still had to build to a budget."

Working without professional engineers on staff, Lighthouse was nonetheless able to help the consultants engaged on those monumental projects to engineer solutions for problems with constructability and budget. Part of the experience was the opportunity to work with new technologies like 3D coordination and modeling software, precursors of building information modeling (BIM). That experience put Lighthouse in the cat bird's seat to work with Penn State University on what would be its first project fully designed with BIM, the $60 million Lewis Katz Building for Penn State's Dickinson School of Law. Completed in 2008, the Katz Building checked off a big box in Lighthouse's qualifications that allowed it to compete with fewer contractors for signature projects.

It was a fairly typical contractors' decision-making process that elevated Lighthouse Electric's capabilities for BIM.

"I remember reading the specs with all this language about modeling. Not fully understanding it, we received a quote to do the modeling that was hundreds of thousands of dollars. It was a four million dollar job and I thought we should not spend that kind of money to get it on paper," Mikec recalls. "When we went to the scope review we talked about our experience with modeling. We had read about it and knew some of the right things to say. Then we came back and bought some software."





The Tower at PNC Plaza. Photo by Roy Engelbrecht Photography.

As Lighthouse was gaining experience and building its largest projects, Tony Mikec began the transition of the business. Todd Mikec was appointed president in 2002. Tony remained active in the business for another five years or so but sons Mark and Neil each took on responsibility for major portions of the daily operations. Mark is now vice president of production and Neil is vice president of development, which includes estimating.

The ownership of the company is split evenly between Tony Mikec and his sons. Todd Mikec says that there is a succession plan in place for the future that is beginning to be implemented. A third generation of Mikecs has been working at Lighthouse for a while. Having grown steadily over three decades to having 470 employees, Lighthouse Electric's management feels a responsibility to maintain that depth.

"There is definitely a focus to provide a place that is sustainable for others to work, not just for the Mikec family," explains Mikec. "I don't have to tell you that the third generation is a tough one but I like to think we have a bit of an advantage. My dad was first generation. We're second generation but we stepped into it together so we have some transition room. We're thinking about who's going to be next. So maybe if we can all play nice in the sandbox and everyone has well-defined roles and understands that there's no free lunch, we'll get to

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where we're not worried about getting from third to the fourth generation. And I think I'll be around for that."

In 2013, Todd Mikec was named CEO in addition to president and Lighthouse was split into three segments. One group is Large Projects, headed up by Jim McNary as vice president. A second group handles ongoing business accounts – repeat customers – and a third division is service. Jesse Mikec – Mark's son – runs the Accounts and Safety division and Jay Reed manages the Specialty Projects and Service group. Mark's son Anton was also promoted to chief operating officer. The reorganization gave the brothers the opportunity to manage differently, working on the business instead of in the business.

One thing Todd Mikec values is the time he spends with peers in businesses from other parts of the country. The peer group exposes him to practices that other specialty contractors are trying. He gets to see what has worked with similar companies. That exposure and the lessons learned from Lighthouse Electric's use of new technologies is behind a new initiative that Mikec believes will change how Lighthouse delivers projects for good. His hope is that the change will give the company a leg up on where he believes project delivery is heading.

"We're going to preplan and engineer what we do for our installations in the field in our office in Canonsburg for every job that we do," he states. "At ATI we started it and we ended up mobilizing that team to the site. When that job ended we needed a place to put that equipment, infrastructure and people."

Needing room for its preconstruction planning department, Lighthouse Electric undertook a renovation of its offices to create space where the work Mikec describes can be done. In half of its ground floor warehouse space a team of project engineers are working on projects being designed, planning how and where the equipment and electrical distribution for the project will be executed. The intent is to plan in the shop what will need to be done later in the field, well before the project starts.

"We've taken some of those operations that we used to do in the field and put them in a controlled environment here and we're working the plan," Mikec says. "The reason for doing that is to gain some consistency, some efficiency and a better value for our customer. And that's already taking place. There are a lot of high-priced people leaning around a print table trying to decide where to run a rack of pipe. If you're planning it in advance and you're sending the information to the field, there's no question about what you're going to get. It's taking some of the guess work out of the job."

"I would have used the term Imagineering but it was taken," he jokes.

From a first project of setting a couple light poles in a church parking lot in 1984, to being the electrical contractor on a $1.2 billion rolling mill and completing the world's greenest office tower for PNC Financial Services Group in 2015, Lighthouse Electric has succeeded in beating the goals that Tony Mikec set when he founded the company. The company has managed to keep the feel of a family business, even as it has grown. The transition from one generation to another hasn't dimmed the successes of the first 30 years in business and Todd Mikec expects the transition to a more sophisticated business will position Lighthouse for even greater success in the future.

"What we're trying to do through our preconstruction planning and engineering is really drive value and value comes in all shapes and sizes. For some people it's low dollar. For some people it's schedule. For some people it's quality. In most cases, it's all three," he says. "So the goal here is to figure out how to get that value in price and still be competitive and profitable. That's why we're in business." BG

COMPANY FACTS

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Financial Perspective

The Balance Sheet Blowup and Business Impacts of the Lease Accounting Changes

By Eugene DeFrank, CPA

Now that the Financial Accounting Standards Board (FASB) has issued its long-awaited accounting standards update (ASU) related to accounting for leases, ASU 2016-02, Leases (Topic 842), financial statement preparers and users need to understand the new lease accounting guidance, project its impact to the financial statements and then meet with business leaders to properly consider the far-reaching business impacts of the lease accounting changes.

In Brief – Current and Future Lease Accounting

Current generally accepted accounting principles in the United States of America (U.S. GAAP) require organizations to classify leases as capital leases (on balance sheet) or operating leases (off-balance sheet). The off-balance sheet accounting treatment afforded to operating leases has made such leases an attractive method of financing assets for decades. The current treatment of an operating lease vs. a capital lease also differs greatly on the income statement. Here again, an operating lease yields favorable results (straight-line rent expense) because capital leases typically result in accelerated expenses in the early years of the lease due to the recognition of interest expense coupled with amortization of the capitalized asset.

The balance sheets of many organizations will now grow dramatically, resulting in substantially more debt, which will negatively impact various financial ratios used by banks and sureties in evaluating the creditworthiness of a company.

Going forward, contracts that meet the definition of a lease will be considered either a finance lease or an operating lease. The future accounting for a finance lease is similar to the current accounting for a capital lease for both balance sheet and income statement reporting. However, although the name has not changed, operating leases in the future will be treated more like capital leases today. Albeit in the U.S., this dramatic change is essentially limited to balance sheet reporting and enhanced footnote disclosures. For future income statement reporting, FASB has maintained a dual approach, and there will be a single lease expense recognized, generally on a straight-line basis, for operating leases. This dual approach for the income statement differs from the single model for lessees mandated by the International Accounting Standards Board (IASB), which requires all leases to be accounted for as financings on income statements of lessees.

The core principle of the new standard is that a lease conveys the right to control the use of an identified asset for a period of time in exchange for consideration, and therefore creates an asset and a liability for lessees that must be reported on the balance sheet. Accordingly, a lessee shall initially recognize a right-of-use (ROU) asset and a liability for its lease obligation as of the lease commencement date for virtually all leases. The most significant consequence of this new accounting guidance is the attractive off-balance sheet financing tool provided via the current operating lease shall no longer exist. This outcome answers the SEC's chief concern regarding the lack of transparency of off-balance sheet lease obligations that was the origin for the commencement of the joint FASB/IASB project regarding accounting for leases, which dates back to 2006. The balance sheets of many organizations will now grow dramatically, resulting in substantially more debt, which will negatively impact various financial ratios used by banks and sureties in evaluating the creditworthiness of a company.

Effective Date

Public business entities are required to adopt the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Nonpublic business entities must apply the new guidance the following year (i.e., Calendar Year 2020). Early application is permitted for all entities.

Scope and Definition

ASU 2016-02 applies to all entities that enter into leases. A lease is defined as "a contract, or part of a contract, that conveys the right to control the use of an identified asset (e.g. construction equipment, real estate, etc.) for a period of time in exchange for consideration." The definition is similar to previous U.S. GAAP, but focuses more on the notion of control. The new standard identifies control as having both the right to substantially all of the economic benefits and the right to direct the use of the identified asset.

Exception for Short-Term Leases

A lessee is permitted to adopt an accounting policy, by asset class, to not recognize lease assets and lease liabilities for leases with terms of 12 months or less (including any renewal periods that are reasonably certain to be exercised). Organizations making this election will continue to account for such short-term leases as currently in effect.

Multiple Components

Many contracts contain multiple components. The standard requires the segregation of lease components from nonlease components, such as service or maintenance components. Nonlease components are required to be accounted for separately. Components are to be allocated relative to their standalone price. Lessees can make an accounting policy election, by asset class, to aggregate the nonlease components with the lease components as a practical expedient.

Finance Lease vs. Operating Lease

In determining whether a contract is classified as a finance lease or an operating lease, the criteria are similar to the current requirements for classification as a capital lease or an operating lease. There is one additional criterion that would trigger classification as a finance lease, that being, the specialized nature of the underlying asset is such that it is not expected to have an alternative use to the lessor at the end of the lease term.

Initial Measurement – ROU Asset and Lease Liability

The initial measurement of an ROU asset and lease liability is generally the same for both types of leases and include the present value of each of the following items:

1. Lease payments in non-cancelable terms
2. Lease payment terms in renewal options, if reasonably certain
3. Exercise price of a purchase option, if reasonably certain
4. Payments for penalties for terminating the lease, if reasonably certain
5. Variable lease payments that depend on an index or rate
6. Residual value guarantees (include amounts probable of being owed)

Other items included in the initial measurement of the ROU asset, but not the lease liability:

1. Any initial direct costs that are directly attributable to negotiating and arranging the lease that would not have been incurred had the lease not been executed.
2. Any lease payments to the lessor on or before the commencement date, less any incentives received.

Disclosure
The new guidance requires additional disclosures, the objective of which is to provide financial statement users with information to understand the amount, timing and uncertainty of cash flows arising from leases. The disclosures include the following items:

- Significant assumptions and judgments made in lease accounting
- Maturity analyses (including a reconciliation of undiscounted cash flows to the lease liability)
- Amortization and interest expense for finance leases, and lease expense for operating leases
- Weighted average remaining lease term, separately by lease type
- Weighted average discount rate, separately by lease type

Business Impacts

The changes required by the new lease accounting guidance could have a significant effect on many metrics that organizations utilize. Any ratio or metric that includes debt or total assets will be most prominently impacted. While the required application of ASU 2016-02 might seem to be far away, it is important to project the balance sheet impact of this new guidance applied to your current lease agreements that extend beyond its effective date.

Be sure to also consider future strategic plans and leasing considerations in the balance sheet projections. Upon determination of the projected balance sheet impacts, prepare projected calculations for compliance with existing loan covenants and other important agreements and consider how they should be amended in order to avoid triggering events of default and align with your operational and future reporting needs. It is vital that you meet with all stakeholders of your organization in a timely fashion to discuss the impacts that these changes will have on the key metrics utilized in making evaluations relative to capacity, performance, overall financial health and strategic business decisions.

Eugene DeFrank is a shareholder at Schneider Downs & Company Inc. He is a member of Schneider Downs' Construction Industry Group and chairs the company's Transportation Industry Group. He can be reached at edefrank@schneiderdowns.com.

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Legal Perspective

By Danny P. Cerrone Jr., Esq.

In 1994, Pennsylvania enacted the Contractor and Subcontractor Payment Act ("CASPA") in order to protect contractors, subcontractors and suppliers against the withholding of monies due and owed for no reason or for reasons based upon bad faith. Recently, Representative Mike Tobash (Republican-Dauphin County (Part) and Schuylkill (Part)) introduced House Bill 726 to the Pennsylvania House of Representatives to amend CASPA. The Bill could significantly impact both contracting and payment on private projects, to which CASPA applies as stated by the Pennsylvania Supreme Court, in Clipper Pipe Service, Inc. v. The Ohio Casualty Insurance Company, 105 A.3d 657 (Pa. 2015) (holding that CASPA did not apply in the context of public construction projects).

In his memorandum submitted to other House members to elicit support and co-sponsors for the Bill, Representative Tobash wrote that non-payment on a construction project "can be very problematic for a small construction-related business when payment is not received for work that has been satisfactorily completed." Representative Tobash further wrote, the Bill "is intended to strengthen the law and provide additional incentives to pay contractors and subcontractors on time, as agreed." The Bill was referred to the Commerce Committee, which has yet to act.

Below is a summary of the proposed changes to CASPA from Representative Tobash's Bill:

- If the Bill is enacted, the parties on a construction project would be prohibited from waiving CASPA or any provision of CASPA. Any contractual or other provision agreeing to such waiver would be deemed as void and unenforceable.

- CASPA provides that, unless otherwise agreed upon by the parties, interest shall accrue at a rate of 1% per month. The Bill proposes to raise the interest rate to 1.5% per month for owner payments owed to a contractor and contractor payments owed to subcontractors or suppliers.

- CASPA provides that, in addition to interest provided in the contract or under the provisions of CASPA, a penalty equal to 1% per month may be recovered for any monies that were wrongfully withheld. The Bill proposes to raise the penalty rate to 1.5% per month for owner payments owed to a contractor and contractor payments owed to subcontractors or suppliers.

- CASPA provides that payment may be withheld, if the owner provides notice of the deficiency item(s) to the contractor within seven days of the date that the invoice is received. The Bill would require that such notice must also contain "a written explanation of its good faith reason." The Bill provides that the owner's failure to provide the written explanation of the good faith reason to withhold payment constitutes a waiver of such basis and necessitates payment in full for the invoice.

- Similarly, CASPA provides that payment may be withheld, if the contractor provides notice of the deficiency item(s) to the subcontractor or supplier, and the owner, within seven days of the date that the invoice is received. The Bill would require that such notice must be in writing and provide the good faith reason. The Bill provides that the contractor's failure to provide the written notice of the good faith reason to withhold payment constitutes a waiver of such basis and necessitates payment in full for the invoice.

- CASPA provides that, if any monies are withheld as retainage, retainage shall be released within 30 days after final acceptance of the work. A contractor is required to pay subcontractors and suppliers within 14 days of receipt of retainage from the owner. CASPA also provides that the failure to pay retainage, after work is accepted, shall permit a claimant to recover interest, penalty interest and attorneys' fees. The Bill proposes two changes to CASPA's retainage provisions. First, the Bill would permit a contractor or subcontractor, upon reaching substantial completion of its own work, to facilitate the release of retainage on its own contract before final completion of the project by posting a maintenance bond with an approved surety for 120% of the amount of retainage being withheld. This would permit a contractor or subcontractor to be paid its full contract price at the time of substantial completion, if the contractor or subcontractor provides a performance/maintenance bond from an approved surety. Second, the Bill provides that the withholding of retainage for longer than 30 days, after final acceptance of the work, would require a written explanation of the good faith reason to withhold payment and, if such explanation is not provided, would waive any basis for withholding payment.

In his Memorandum submitted to other House members to elicit support and co-sponsors for the Bill, Representative Tobash wrote that non-payment on a construction project "can be very problematic for a small construction-related business when payment is not received for work that has been satisfactorily completed."

- CASPA provides that if an invoice is incorrect or incomplete, the person receiving the invoice shall give written notice of such defect within ten working days. The Bill reduces the notice period to seven working days.

- CASPA provides that an amount is not deemed to be wrongfully withheld to the extent that it bears a reasonable relation to the value of any claim held in good faith. In addition to the reasonable relation requirement, the Bill would require a written explanation of the good faith reason for withholding. Under the Bill, if both of these conditions are not met, the withholding of monies will be considered to be not in good faith or wrongfully withheld.

There are still a number of hurdles that the Bill has to overcome before it is enacted into law. We will keep you apprised of any future developments with the Bill.

Danny Cerrone is a member at Clark Hill's Pittsburgh office, where he concentrates on construction and commercial litigation. He can be reached at 412-394-7757 or dcerrone@clarkhill.com. BG

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Management Perspective

Precon or "Free-con"?

Like most trends in the construction industry, the increase in requests for uncompensated assistance with budgeting and constructability analysis started with a well-intentioned idea.

During the past 30 years or so, market forces have dramatically impacted costs numerous times. In an effort to add certainty to the planning process, owners and architects have asked general contractors to estimate and trouble shoot their plans. In many cases, this kind of arrangement became collaboration and it wasn't uncommon for owners to choose a contractor or construction manager during preliminary design with a fee for preconstruction services broken out specifically in recognition of the time needed to perform those services. Time marches on and conditions change. In a competitive market, it's more common in 2016 for several contractors to be asked – sometimes at the same time – to budget and assess a project without a contract or a fee. What was once preconstruction has become "free-construction."

The temptation to use multiple contractors for gratis preconstruction services, especially budgeting, is compelling, especially since it's often the general contractor's sales force that is offering the services. Owners need to be cautious about that practice, since the information needed to provide a complete estimate usually doesn't exist at the budget stage.

"If the owner is asking multiple contractors to give budgets, chances are that the contractors are competing for the job on the basis of the budget," says Eric Pascucci, manager of estimating at PJ Dick Inc. "The temptation is to have the low shiny number to get hired for the next phase of the project."

"It's a competitive environment instead of a collaborative team environment where you take the time to walk through the job with the owner and talk about where the problems might be," notes Pascucci. "While some owners don't like to pay for pre-construction, in the long run a good pre-con effort will save them time and money. Between the time lost and actual design costs for redesigns, good pre-con work makes a lot of sense.

Contractors are capable of providing input on a wide range of subjects during the early stages of the project. Because they are in the market every day, contractors know where variations in labor or availability of components are affecting construction at the moment. Their experience may make them aware of site conditions that the owner or designer may not know exist. There may be elements of the design that are driving costs or significant missing details that will have a big impact on price that won't get discussed in a perceived competitive environment. Some of that relates to the time that can be devoted at the early stages but the process also offers an incentive for competitors to use a strategy that gets the job now and kicks the problems down the road until after the project has been won.

"It's a competitive environment instead of a collaborative team environment where you take the time to walk through the job with the owner and talk about where the problems might be," notes Pascucci. "While some owners don't like to pay for pre-construction, in the long run a good pre-con effort will save them time and money. Between the time lost and actual design costs for redesigns, good pre-con work makes a lot of sense. We believe that a single, engaged contractor becomes more invested and more willing to expend the necessary resources to delve into details, chase down questions or think through the whole project when they are a true partner with the owner."

"We have selected the construction manager by competition in the past but I don't think competition at that stage gets the best results," says Scott Pollock, vice president of development for Oxford Development Co. "We prefer to select by interview to get the best fit for the project. We can get a better feel for what the contractor knows about the job and what its relationships with the trades are."

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Pollock notes that developers are competing now with different conditions. Oxford has worked frequently with the ERECT Funds and is committed to using contractors with union affiliations on those projects. It is competing with developers – especially those from out of state – who don't have the union commitments. He says that proving the validity of the pro forma in the early stages is critical to the project. Bringing a contractor in for budgets during design accomplishes that.

"We try to work to get cost certainty as early as we can. As much as I'd like to get to design-bid-build, this way works," Pollock says. "The other factor is that design could be as much as 12 percent of the budget. To spend 85 percent of the design budget before you have certainty is scary."

One of the misconceptions about budgets is that there isn't much cost associated with preparing them. In part the misconception stems from the thinking that the contractors already have the estimating resources and this is just one more estimate. That belies reality and the way most contractors (and designers) should account for costs, with the overhead associated in all activities recognized. Just as inaccurate is the assumption that the budget shouldn't take time because the amount of information is so limited. Dom Dozzi, CEO of Jendoco Construction, begs to differ.

"I love the idea that it's 'only' a schematic estimate, with five or six sheets of drawings. We have to spend way more time on that than if we were handed a complete set of documents to bid," Dozzi explains. "We have to lean on a lot of people to budget a project properly. Subcontractors have to provide a lot of information. We may have to do our own foundation design or structural calculations. There are so many things that have to be assumed that there is a great chance for us to miss something important."

Dozzi allows that since Jendoco also develops real estate he may have a stronger sense of responsibility about budget preparation. He knows what it's like to find out in construction that there are costs that weren't considered during budgeting. In the final analysis, the purpose of all the planning and budgeting is to identify all of the problems and costs associated with them. The savings that result from that process should more than justify preconstruction fees.

"With Walnut Capital, we're involved in every one of those meetings. We suggest how many test borings should be drilled. We'll show them on the drawings where to punch the holes," asserts Pascucci. "Walnut gets it. They may not want to pay for extra borings but they understand it's better to invest another $2,000 now to save $100,000 in uncertainty in the budget."

The role of the specialty contractor in budgeting an early design is critical to a good estimate, even for those general contractors who have mechanical and electrical estimators. But specialty contractors are in a precarious position when asked to do a budget for a contractor. Without a contract or assurance of landing the project, the specialty contractor is often spending resources on a project that it will not build. Subcontractors with better estimating talent will obviously get more requests for budget assistance; yet that doesn't mean that those companies will land anymore work as a result. In fact, knowing the project well can become a disadvantage if the project goes to competitive bidding. For specialty contractors it's a dance between customer service and wasting time.

"Nobody minds doing 'free-con' if they get work out of it eventually. If I price up ten jobs and get one nice job, I'm okay with that," admits Dave Casciani, vice president of business development and estimating at McKamish Inc. "If a general contractor wants to ask for free budgeting, they need to make sure that we get a project from them at some point."

Some specialty contractors are willing to provide assistance but are wary of the level of detail to provide at the early stages.

"We get called to budget, budget and budget again. We do it to stay in the good graces of our customers," says Fred Episcopo, president of Wyatt Inc. "I try to throw the onus back on the general contractor. I ask for quantities rather than doing a full takeoff. If they don't have a takeoff, I'm less willing to help."

Like Casciani, Episcopo expressed concerns about quid pro quo in a competitive environment, acknowledging that one of the risks in providing free preconstruction estimates is that the general contractor will forget that Wyatt helped out. His more pressing concern is that the preconstruction work can lead to a disadvantage when pricing the project later.

"Often the guy who didn't budget the job ends up as the low bidder. Many times our competitor is low because I know something he doesn't," Episcopo notes.

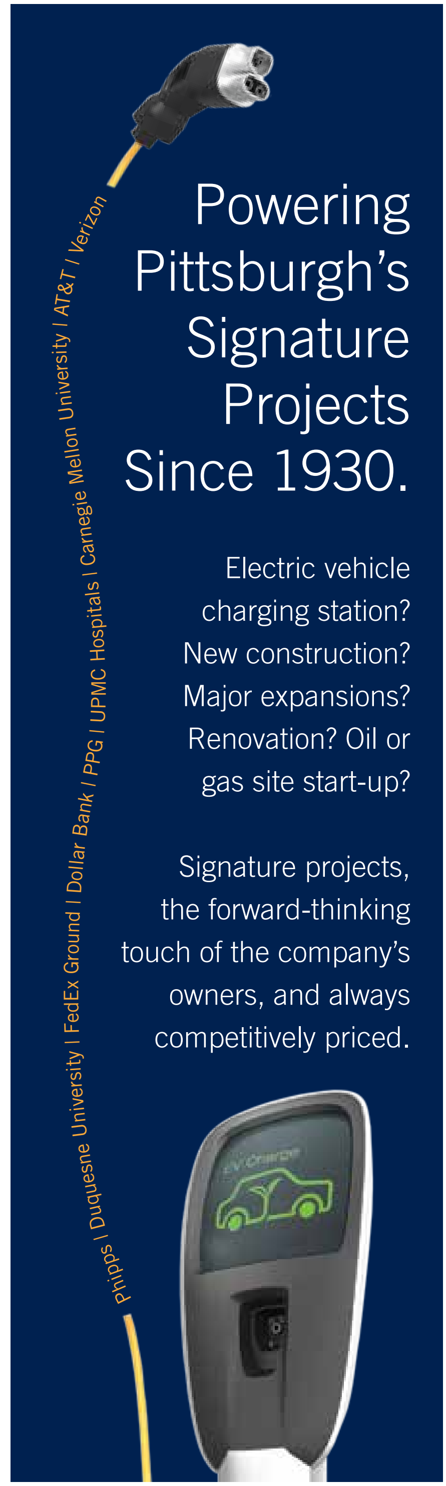
The disadvantage to which Episcopo refers is a concern among most specialty and general contractors. Information learned during a design-stage pricing exercise doesn't always make its way onto the construction documents. Moreover, the experience of working with a repeat client can add knowledge of the client's expectations for quality or conditions that go beyond what can be documented. Armed with that knowledge, the contractors that prepared budgets will add costs for items that aren't in the bidding documents. Competitors that don't possess that inside knowledge won't allow for the extra costs associated with things that will come up on the job later. The successful contractor may then make less money but for the contractors that did budgets – and lost out because of it – the project is just a lost opportunity.

Virtually every executive who is asked to provide preconstruction services agrees that some form of compensation would ease their concerns. Most understand that providing budgets or preconstruction services doesn't guarantee a contract but feel that even a small fee would be an incentive to give the client the services he or she wants. And all agree that the opportunity to hard bid the job competitively later isn't adequate compensation. Contractors seem to be willing to continue to do "free-con" but it seems it would be in the owners' best interest to offer some compensation, if only to get the attention of the contractors.

"If I ask a contractor to give me a free estimate just to give him a chance to bid the job, I don't think I'll get their best effort," asserts Pollock. "Eventually you fatigue the folks you ask."

Perhaps the advancing technologies for design and information will allow owners to get the level of pricing needed to satisfy lenders and investors without putting contractors through the budgeting exercise. Building information modeling has values built into the database for both time and cost, giving architects and owners the chance to keep market-based data for any design element. Of course, the validity of that data will only be good if the designer or owner is close to the marketplace. If not, getting help from the market in the form of budgets from contractors will still be a strategy to employ. In the final analysis few contractors seem to be ready to close the door on such help; it's the quid pro quo for the help that makes the difference in how they feel.

"At the end of the day, if we get the job everyone forgets how much we spent doing the budget," chuckles Casciani. BG



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MBE/WBE Company Spotlight


Edwin J. Peoples

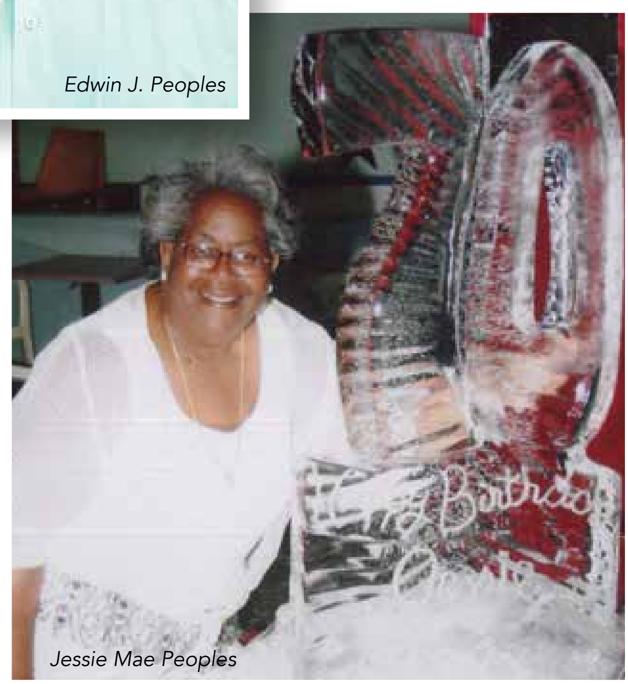
Jessie Mae Construction

Edwin Peoples is looking for a chance to get started. A veteran of 34 years in the construction industry, Peoples founded Jessie Mae Construction in late 2014 to honor his mother after her passing in July of that year.

Long-time Pittsburgh sports fans may recognize Peoples' as the "super sub" from the 1976 PIAA Basketball championship team of Fifth Avenue High School. Known as Cool Breeze, Peoples played all five positions on a team that included Sam Clancy, Bill Clarke, David "Puffy" Kennedy and Warner Macklin.

Most of Peoples' career has been spent in the field, 23 years of which were as a laborer, carpenter and foreman for Odell Minnifield Trucking and Construction, a long-time MBE contractor in Pittsburgh owned by the late Odell Minnifield Sr. From 2004 to 2010, Peoples broadened his experience by working for Chicago-based refractory contractor Furnco Construction and Vegas Tunnel Construction in Las Vegas. There he received certification as a tunnel and shaft technician, one of more than 20 certifications Peoples acquired from 2008 to 2015.

Jessie Mae Construction was one of seven recipients of the Urban Innovation 21's Inclusive Innovation awards in 2014. Peoples received a $10,000 grant to help with startup costs. Peoples has continued to work in the field while taking classes in the evenings and getting additional certifications. He chose to work full time on Jessie Mae Construction during part of 2015 to get the company started. Peoples remains Jessie Mae's only full-time employee.


Jessie Mae Peoples

Jessie Mae Construction is focused on reinforcing steel for concrete infrastructure work, although Peoples has experience with demolition and iron working. He realized early on that while he could develop a plan for Jessie Mae, his inexperience with estimating had to be shored up. In early April he began working with SI Business Associates to handle estimating and has begun responding to more requests for quotes.

"Estimating was a big piece of what I was missing. I don't care how much marketing or strategy you've got, if you can't

Jessie Mae Construction was one of seven recipients of the Urban Innovation 21's Inclusive Innovation awards in 2014.

estimate how much money you'll spend and how much you'll have left, you're dead in the water."

One of the opportunities that Jessie Mae Construction is pursuing is the Rapid Bridge Replacement program. This construction season is set to be one of two peak years for the RBR project, with about 250 bridges and $400 million in work being done. Bridges being replaced in the RBR program are mainly smaller, single-span structures. Participating in a portion of the RBR would be a good fit for a startup like Jessie Mae Construction and Peoples is hopeful to find a fit on some of the projects.

Peoples named the company Jessie Mae after his mother. Jessie Mae Peoples had been widowed when Edwin was a young man, and she raised seven children in the 1970s. Peoples says his activity level as a young man often wore his mother out. She referred to him by his middle name, calling him Jimmy. When he's asked what Jessie Mae would think about what he's doing Peoples chuckles.

"She would probably say, 'Jimmy, won't you just sit down'," Peoples says. "I'm determined that this company will make it. I know if I don't perform I won't get more business. I have all the certifications necessary but I just need someone to say that they are going to give Jessie Mae the opportunity." BG

COMPANY FACTS

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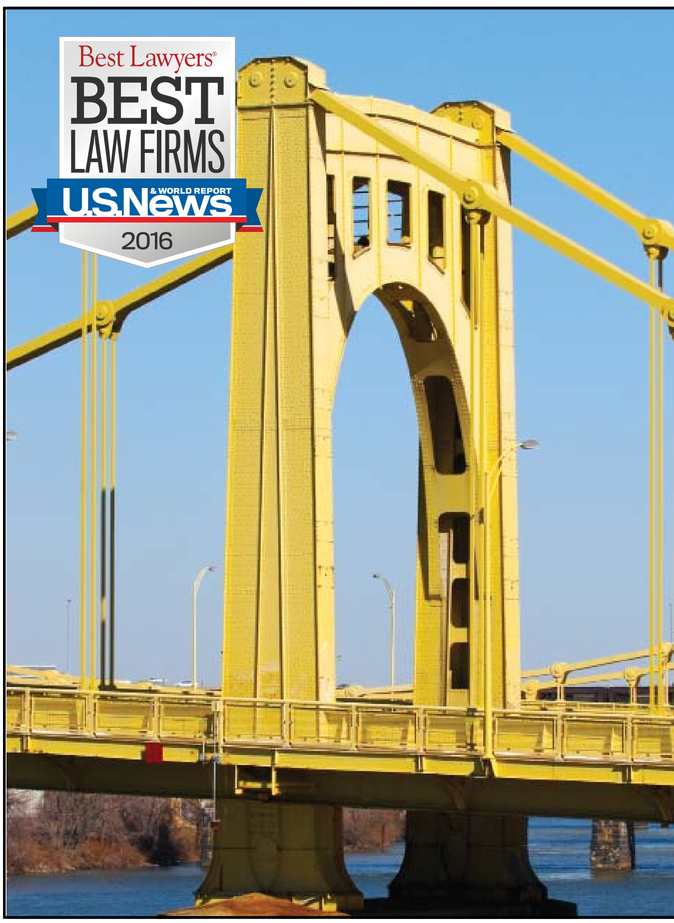

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JLL's Fit-Out Brings Four Women to the Table

Construction is not an industry that was an early adopter in gender diversity. That is changing and even in Pittsburgh there is a noticeable difference in the makeup of attendees at industry events and education seminars of late. Women are increasingly in roles that have been overwhelmingly male in past, although the change is a matter of relativity rather than equality.

Perhaps because the increasing participation of women is only relative to the non-participation of the past, it was a surprise to architect Jeff Young of Perkins Eastman and Turner Construction's Drew Kerr to realize after a few weeks of project meetings that the project leaders for the fit-out of the new Jones Lang LaSalle space were all women. Weekly meetings involve participants that are male too but what Kerr and Young call the "core four" are project managers Megan Corrie from Turner, Shelly Boyle from Jones Lang LaSalle, Patti Andritz from Franklin Interiors and Perkins Eastman's Jennifer Askey.

The project is a buildout of three floors in the recently-completed Tower Two Sixty, which was built by Turner for Millcraft Investments. As the lead tenant in the office portion of the building – branded as JLL Center at Tower Two Sixty – JLL also used its Project and Development Services group to manage the project, so it was in the unique position of being both owner and client. As a global real estate services company, JLL has seen the need for becoming a more diverse company.

JC Pelusi, market leader and managing director for JLL, explains that his company has given a high priority to attracting diverse talent. "Across the real estate services platform it has predominantly been a male-oriented profession and JLL is conscious of that," Pelusi says. "With regard to both women and minority talent, we're conscientious about attracting a more diverse workforce."

Pelusi estimates that 30 percent of the project managers working in the Great Lakes footprint for which he's responsible are women or minorities.

The workplace experiences of the women are different because the lengths of their careers are different. Andritz began working in the 1970s, while Askey, Corrie and Boyle graduated college since 2000. One of the differences between the two eras seems to be in the way that the women arrived at their careers.

The workplace experiences of the women are different because the lengths of their careers are different. Andritz began working in the 1970s, while Askey, Corrie and Boyle graduated college since 2000. One of the differences between the two eras seems to be in the way that the women arrived at their careers.

"I absolutely fell into it. A week out of high school I was on a boat on Conneaut Lake and one of the friends there, who was working for an architect (Mike Shamey) in New Kensington, said they needed a 'girl Friday' in the office," recalls Patti Andritz. "I was going to go to school for music but I applied for the job and was hired. I got interested in the work and Mike Shamey offered to send me to school at night if I would stay"

"I actually knew for a long time - probably since middle school - that I wanted to be an architect or engineer and actually waffled between the two for a long time," says Jennifer Askey. "When it got to be time to apply I did a summer internship with a civil engineer and decided that wasn't for me. I went to a pre-college program at Carnegie Mellon University for architecture and that seemed a much better fit for me, the merging of art and science."

"My degree is in interior design. I have an aunt who went back to school as an adult for interior design. When I saw the stuff

The JLL project team is led by (from left) Turner's Megan Corrie, Shelly Boyle from Jones Lang LaSalle, Patti Andritz from Franklin Interiors and Perkins Eastman's Jennifer Askey.

she was doing I thought, that's what I want to do," Shelley Boyle remembers. "When I graduated from Michigan State University I needed a job. My significant other was in Washington DC and I thought that sounded like a good place to go. I got a job with an architecture firm and worked in firms for seven years. After I had my son, I found architecture can be a little tough with the hours. I had a couple of friends working at Booz Allen Hamilton in project management and they told me of an opening. That's how I got into project management. My husband's family is from Pittsburgh and he got a job here so we boomeranged back."

"I started off in architecture at Penn State. I thought since I was a little girl that I wanted to be an architect. I realized that the all nighters and the abstract architectural side were not for me," says Megan Corrie. "My dad actually suggested looking into architectural engineering. I took one class for that and determined that was what I wanted to do. Within architectural engineering there are four options. Three are design and the fourth is construction. As I worked through the first couple years I determined that I wanted to do construction because every day is something different."

Between them, the four project managers have about 75 years of experience. None of the four seemed particularly surprised about the makeup of the JLL project team. When pressed, however, none of the four women could recall another project where all of their counterparts were women. In fact, the opposite was true.

"Megan is the first woman project manager I've worked with on the contracting side," admits Askey.

Boyle agrees. "That's true for me too, even in DC," she says. "The funny thing is, when I was in DC, the project management group was all women for most of the time I was there."

When asked about how the makeup of the team impacted the project, the women were at first reluctant to credit the fact that having all women was a factor. As they discussed the dy-

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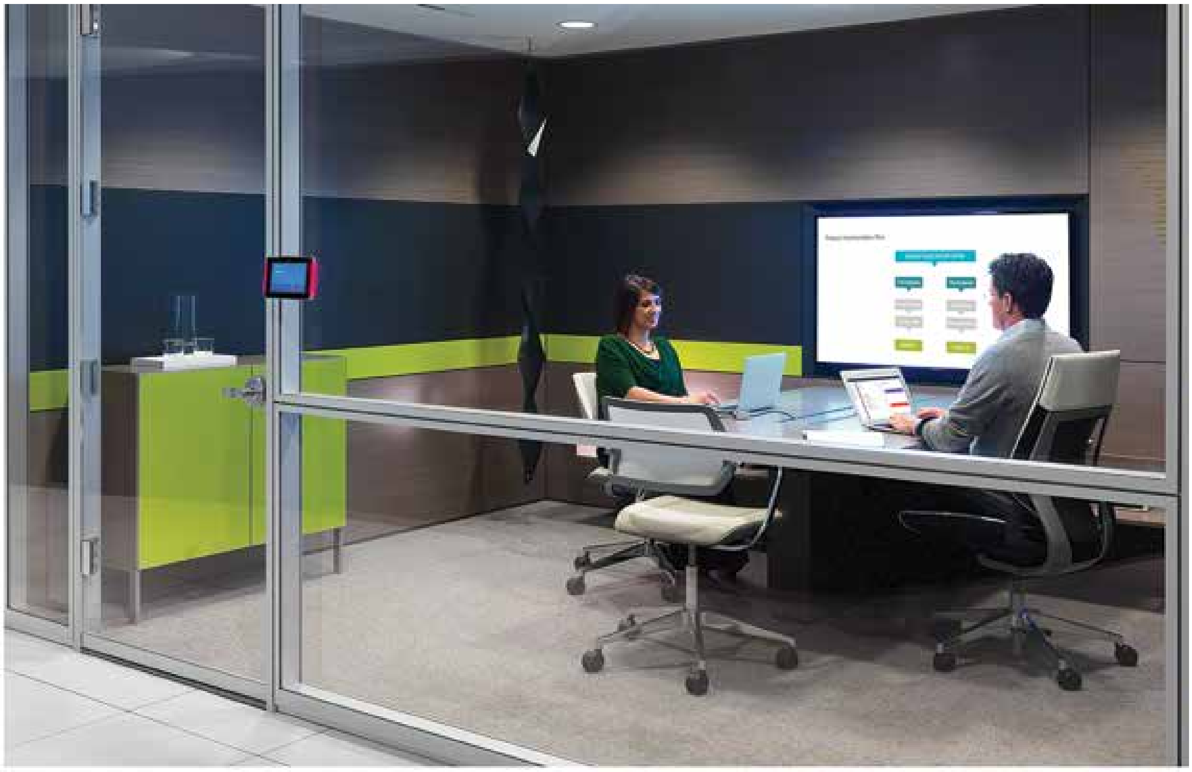

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namics of the relationships together, however, it became clear that there were some factors that contributed to success that were gender-related.

"It's not that we haven't had any issues. This job has gone really smoothly and a lot of that has to do with the way that our team works together," notes Boyle.

"I feel like we've collaborated a lot more on this job, where in past situations it's been a lot of finger-pointing. This whole time we've tried to work collaboratively, almost like friends, where we don't want to throw anybody under the bus. We just want to work as a team to get things done," offers Corrie. "We've had mistakes. Turner's made mistakes where Patti has helped us out or Jennifer or Shelley has. We've all made mistakes but at the end of the day we know we come to work not to fight but to get our job done. We've tried to make the best of it while we're here."

After a moment Corrie continues. "Maybe the way we interact with each other is different than how a group of men would do it."

"When we do find a problem, the first thing we do is work together to find a solution rather than just pointing fingers at each other," says Askey. "As an architect, the most important thing for me is my relationship with the project manager and the superintendent."

"The superintendent you get on a job – any job – really sets the tone and makes a huge difference in how the project gets delivered. They are the ones that are there and get all the calls from subcontractors. They are the ones that are sitting in the space every day that have to deal with everyone. We don't get to take all the credit," laughs Boyle.

"I think naturally women are much more open and willing to talk through issues. I even see that in personal life," says Corrie. "Women are more compassionate and want to be fair. They would rather talk normally than just saying I'm the boss and this is how we're going to do it. We just want to communicate better."

"Women are more willing to collaborate and listen to everyone's ideas, I think," agrees Askey. "That's important not just during construction but also during design. Just because I'm visualizing something a certain way it doesn't mean I'm unwilling to listen to the other members of my team. In the end, architecture is a team effort and everyone's ideas coming together makes a much better design. The notion of a "starchitect" being a single visionary for a project just isn't the case."

"Part of this is rather than standing around and arguing about whose fault it is or who didn't do this or that, spend that time figuring out a solution. If there's a problem, don't come to me unless you have an idea for a solution. Don't just come and dump your problem in my lap. That doesn't work. That doesn't solve the problem. That doesn't help," says Boyle.

"In this industry people have a hard time admitting their mistakes. Everybody takes pride in what they do but I think women are much more open to that and much more willing to admit when they are wrong," observes Corrie.

"I think we are great at multi-tasking and I also think we do a pretty good job of seeing the big picture. I think women are better at organizing," says Andritz.

Whether it's because of the attributes of women, or the attributes of these particular women, the JLL build-out is winding down successfully. The 54,000 square-foot space will be available for move in on May 13, capping a 16-week construction schedule. The project team looks forward to another chance to collaborate. It's clear the working environment they created was ultimately ideal for communication.

"We felt open enough to call the architect to discuss an issue to get it resolved quickly and then followed up with an RFI if we felt it needed one," explains Corrie.

"I never felt that I was blind-sided by an RFI. It was always something that we had either looked at in the field or talked about on the phone first. By the time that the documentation came in we already knew what the solution was going to be," agrees Askey.

"We'll see about that when we get to the punch list," jokes Corrie.

As she reflected upon the project, Patti Andritz seemed to be the one who felt the uniqueness of the situation the most. Perhaps that's because she has seen the most change in her working career.

"I started right out of high school and I was out in the field before I was even attending classes. I had to become hardened very quickly. It was a different era. You had to fight just to be heard, fight to be respected," she explains.

"I really appreciate how much more diverse the construction and design industry has become," Andritz continues. "I've been in this for 40 plus years so I've seen it change. [The other three women] talk very differently than I do about their experiences. I think about how it's all evolved and how I can talk to a man about a construction detail and not get a funny look. We don't want to be treated special but we do want to be respected." BG


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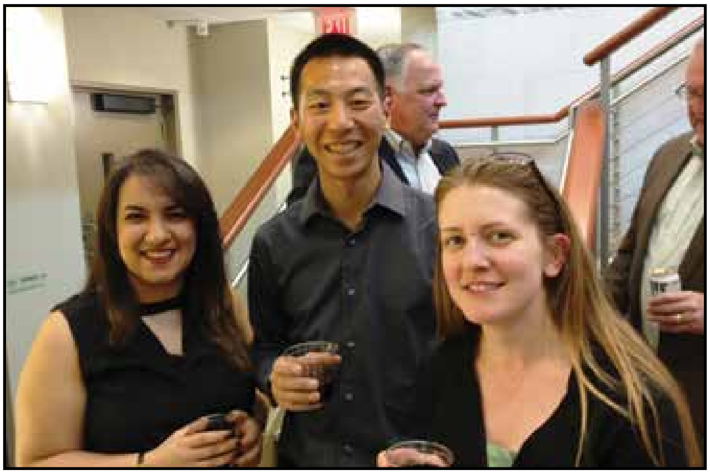
INDUSTRY & COMMUNITY NEWS

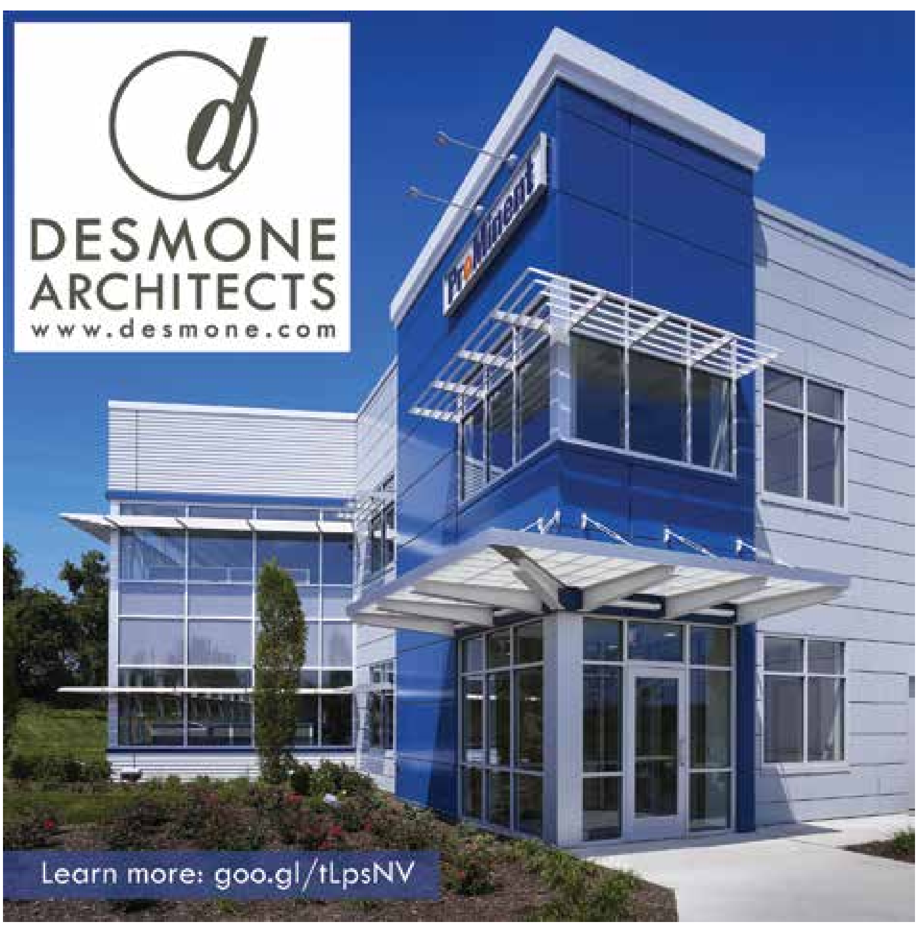
Nate Cunningham and Claire Hosteny from East End Development Partners with PJ Dick's Justin Hough (right).

Alicia Volcy and Riccardy Volcy (right) flank AIA-MBA Joint Committee Chair Rob Sklarsky of RJS Construction.



Representing CMU at the AIA-MBA Joint Committee presentation on guide for collaboration were Javaneh Jabbari (left), Jeremy Tong and Nicole Graycar.

Emily Landermann Goldberg from A. Martini & Co. with Brad Ott and Mark Speicher (right) from Faros Properties.



Ron Dellaria from CannonDesign (left) with Mascaro's BillDerence and John Robinson from PJ Dick (right).

James Construction's Craig Stevenson, GBA's Anna Siefken and Leslie Montgomery at the April Inspire Speakers Series program at the Kaufmann Center.

Jason Fincke from the Builders Guild with Mascaro's Bob Breisinger at the Allegheny Conference's annual "Wins-day" Business Investment Scorecard luncheon.

University of Pittsburgh and the MBA honored three founding officers of Pitt's AGC Student Chapter. (From left) Pitt's John Sebastien, Sean Aragato, vice president, Burton Leslie, president, Carl Whispell, secretary/ treasurer and MBA Executive Drirector Jack Ramage.

George Ehringer and TEDCO's Jim Frantz (right).

Bill Ligetti from IWEA with PNC's Pat Naughton.

PJ Dick Inc. awards scholarships to two students in the Carnegie Mellon School of Architecture's AECM program each year. Picture with the 2016 PJ Dick AECM Fellows are (from left) CEO Cliff Rowe, fellows Di Zhu and Jeremy Tong, PJ Dick's Brett Pitcairn, Tim O'Brien and John Taormina, and CMU Department Head Stephen Lee. Seated is Professor Omer Akin.

(From left) Dunham reGroup's Craig Dunham, Mark Dellana from Genesis Partners and Jendoco's Domenic Dozzi, who was inducted into NIAOP Pittsburgh's Hall of Fame at the 2016 awards banquet.

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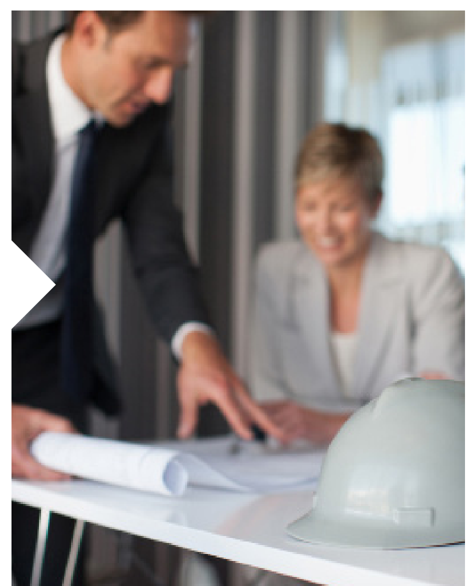

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Awards & Contracts

Turner Construction Co. was awarded a contract for renovations to the Endocrinology Suite at Butler Health System's medical office building in Butler Township. Allen & Shariff Corp. is the designer for the project.

Bank of America awarded Turner Construction a contract for the 4,500 square-foot Merrill Lynch tenant fit-out Tower Two Sixty. The $800,000 project was designed by Nelson Architects.

Turner Construction was the successful contractor on the $600,000 Communications Services Building Addition at Penn State's Beaver Campus in Center Township. CJL Engineering is the project engineer.

Carnegie Mellon University selected Turner Construction as construction manager for the adaptive re-use of the former Cardinal Deardon Center at 4721 Fifth Avenue. The 26,000 square foot building will house a mix of academic and other uses in the first building for CMU located north of Fifth Avenue. The project is being designed by GBBN Architecture.

Uhl Construction is the successful contractor for the expansion and renovation of the Sisson Mercedes Benz dealership in South Strabane Township. The project involves renovations to 21,000 square feet of dealership space and the addition of 32,000 square feet of new vehicle repair and maintenance facilities, as well as the development of two acres for vehicle storage. The architect is Tarbert/Architects.

James Construction was awarded contracts to provide construction services to the Energy Innovation Center (EIC) for three of its upcoming space fit-outs. The projects will involve renovations for the Student Conservation Association, Everest Infrastructure Partners, and Radiant Hall.

UPMC awarded James Construction the contract for its First Impression upgrade project at Magee-Womens Hospital of UPMC. The scope of work includes the upgrades to Magee's first floor.

James Construction will begin a comprehensive renovation for the General Services Administration to portions of the 1st and 2nd floors of the Elizabeth Kee Federal Building in Bluefield, West Virginia. The architect is Whitman Requardt & Associates.

James Construction was selected to provide preconstruction services to Rothschild Doyno Collaborative to develop a new mid-rise building for residents of the current high-rise Northview Heights in Pittsburgh's Northside neighborhood. The site will cover approximately 88 acres of land owned by the Housing Authority of the City of Pittsburgh.

Mascaro's Client Services group was awarded a project from Allegheny Health Network for work at the Allegheny General Hospital campus. It involves the renovation of 4,300 square feet in the South Tower to create a new OMFS suite on the 6th floor.

Mascaro continues its relationship with the Pittsburgh Pirates completing renovation to the service tunnel before the April home opener. Mascaro is also working on several other preconstruction projects for upgrades to the park.

Big Burrito Restaurant Group awarded a contract to FMS Construction for its new Mad Mex Lakeside restaurant in North Strabane Township, Washington County. The project involves the conversion of the former Table Brick Oven. Wildman Chalmers Design is the architect.

Massaro Corporation was selected by the Sports & Exhibition Authority as construction manager for its new $13 million, 698-car North Shore Parking Garage. The architect for the project is WTW Architects.

ACI Pittsburgh Area Chapter honored PJ Dick Inc. and the East Liberty Transit Garage as the winner of the Excellence in Concrete Project Award.

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PJ Dick Inc. will build the new 55,000 square foot office building at McCandless Crossing, the mixed-use commercial/residential project being developed by AdVenture Development LLC. The architect is Designstream LLC.

Fort Ligonier awarded a contract to PJ Dick for the expansion and renovation of the restored fort and museum. The Design Alliance is the architect for the project.

Duquesne University awarded Jendoco Construction a contract for renovations to Fisher Hall 719 Classroom. The $425,000 project was designed by Perkins Eastman Architects.

St. Clair Memorial Hospital awarded a contract to Volpatt Construction Co. for the office renovation for Fatigati Nalin & Associates at the Chartiers Valley Shopping Center in Collier Township. The architect is VEBH Architects.

Volpatt Construction was the successful bidder on the University of Pittsburgh's Posvar Hall Sociology Department Phase 2. Strada Architecture is the project's architect.

At Oxford Development Company's 3 Crossings development, Rycon started construction on the new 140,000 square foot, $36 million, Riverfront East office building.

PNC awarded Rycon phase 1 of a multi-phase renovation project at One PNC Plaza. Phase 1 includes eight floors of tenant improvements. The 125,000 square foot project was designed by IKM. The scope also includes a complete upgrade of the building's 32-floor core and shell mechanical and electrical infrastructure.

Carnegie Mellon University selected Rycon to complete a 47,000 square foot renovation of Hamerschlag Hall. Designed by GBBN Architects, the multi-phased project is slated for completion Summer 2017.

Over the University of Pittsburgh's summer recess, Rycon's Special Projects Group is responsible for the completion of multiple renovations within the Cathedral of Learning. Total value of the work is $1.5 million.

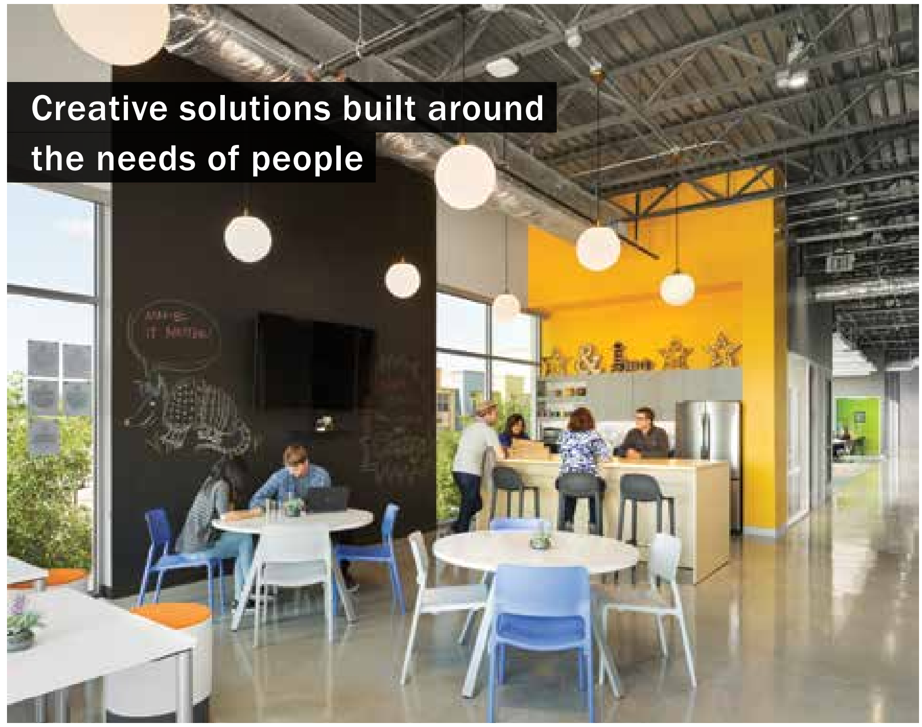
Rycon's Special Projects Group is responsible for a $670,000 renovation of the Trinity School for Ministry. Brenenborg Brown Group is the architect.

In Galesburg, IL, Rycon's Special Projects Group is completing a $270,000 improvement to JCPenney. The project is scheduled for completion by mid-summer.

Rycon's Special Projects Group was selected to complete ADA upgrades and restroom upgrades at UPMC Aiken medical building and UPMC Shadyside, respectively. Total cost of the work is $1 million.

Landau Building Company will be renovating Hicks Kitchen at Grove City College, located in Grove City, PA. The 7,950 square foot interior renovations involve acoustical improvements and a new pay station. A fire alarm system upgrade will be performed on all three floors of the building. The exterior renovations include storm, sanitary, steam replacement, asphalt paving, site grading, landscaping, dumpster enclosures, and concrete sidewalk replacement. The designers on this project are CJL Engineering and DRS Architects.

Landau Building Company was selected for the new Southern Tier Brewery, coming to Pittsburgh's North Shore this summer. An existing building shell on the North Shore will be renovated into a new Brew Pub and outdoor Bier garden. Interior renovations are roughly 6,300 square feet and exterior renovations are 8,500 square feet. Construction will begin in May and finish by August 2016. BG



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Faces & New Places

Duke Laha joined Mascaro on April 11 as a scheduler. Duke has a bachelor's degree in construction management from Western Kentucky University and brings five years of experience in scheduling complex industrial projects.

Priya Kambham joined the Mascaro team on April 18. She received her master's degree in Architecture-Engineering-Construction Management from Carnegie Mellon University in December 2015. As a project engineer, she will work primarily with the BIM department.

Michael Mascaro was selected as one of the panelists for the second annual Family Business day, held on Tuesday, April 19, and co-hosted by the University of Pittsburgh's Institute or Entrepreneurial Excellence (IEE) and EY. The discussion was followed by a workshop, "Demystifying Family Meetings."

Landau Building Company welcomes Selma Voljevica as project engineer. Selma graduated in 2012 from Penn State University with a B.S. in Environmental Systems Engineering and a minor in Energy Engineering. Selma previously worked for Encentiv Energy as an Energy Engineer.

Landau Building Company welcomes Daniel Augustine as project engineer. Dan graduated from Penn State University with a B.S. in Energy Engineering in 2012. Dan previously worked as an Energy Engineer at CLEAResult.

Josh Douglas joins A. Martini & Co. as an estimator. He brings two years experience in construction estimating, subcontractor and project management. Josh is a graduate of Kent State University with a BS in Technology with a concentration in Construction Management.

George Germany joined the A. Martini & Co. team as a Project Manager/Project Engineer. George brings nine years in the construction industry, with particular focus on all aspects of subcontractor management as it pertains to project engineering, including administration and submission of LEED documentation for projects. He most recently served as the Manager of Subcontractor Relations for Massaro Corporation where he developed and managed the subcontractor prequalification system, training and mentoring programs, and performance appraisal and recognition process. George has also been a key player in working with the Master Builders' Association of Western PA on its minority/veteran/women/disadvantaged business outreach throughout the construction community.

Tim Carlon re-joined Rycon Construction as MEP coordination manager. He has over 30 years experience in the construction industry and earned an Electrical Engineering degree from the University of Washington.

McKamish Inc. announced the hiring of Neil Menzies as manager of sales & estimating, Commercial Construction and Bill Frank as manager of Power & Industrial Construction Group. David Casciani has been promoted to vice president of business development & design-build.

Amy Hopkins, P.L.S. was honored as Surveyor of the Year at the 2016 Pennsylvania Society of Land Surveyors Conference in Hershey, PA. She is the first woman to have won the award. Ms. Hopkins is currently the senior surveyor at Morris Knowles & Associates.

The partners of the national law firm of Eckert Seamans Cherin & Mellott, LLC announced the election of Matthew J. Whipple to the firm's partnership, effective April 1. Whipple is a civil litigator who frequently litigates construction-related disputes on behalf of companies at all points in the owner-contractor-subcontractor chain. Whipple earned his J.D. from the Marshall-Wythe School of Law at the College of William & Mary in 2007, and his B.A., summa cum laude, from the University of Pennsylvania in 2004.

DLA+ Architecture & Interior Design is pleased to announce the addition of Zsolt Zavodszky and Brian Keech to its team. Zavodszky, who joins the firm as an intern architect, earned his Master of Architecture degree from Virginia Tech and has spent the last few years working in the Hartford, CT area. Keech, who joins the firm as an architect, brings over 15 years of experience and is a member of the AIA and a LEED AP. BG

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Closing Out

By Glenn Sieber


Glenn Sieber

Being a contractor, or more clearly defined, a specialty contractor in the Pittsburgh construction community for the last 26 years, I have witnessed an evolution in the way which we perform our tasks and manage our critical relationships, which are the foundation of our industry. When I started in this business, the tools of our trade were scales, paper blueprints, plumb bobs, and string levels. Computers, electronic plans, and lasers now push productivity, job planning, and analysis to a level of sophistication that was unheard of when I began my career. The relationships between the specialty-contracting community, the general contracting community, organized labor and suppliers have evolved into a complex symbiotic relationship, one in which we need and depend on each other.

The status of the relationships between specialty contractors and the general contracting community has, I am I'm glad to say, markedly improved since I started in the industry. Not only are we entering into traditional partnering arrangements we also now participate in post job reviews and educational seminars to enhance our relationships. The frequency of partnering arrangements has risen in direct proportion to the level of competition in the market. We usually are contacted to try to optimize a project's means and methods or compress a schedule. We have worked with people from all aspects of construction throughout the United States and I truly believe that Pittsburgh is fortunate to have some of the very best firms and people that I have come across in the construction industry.

Specialty contractors by their nature are problem solvers. We thrive on taking on the most difficult tasks and completing them on time and within budget. When I was in the sales end of the business I closed many deals with our general contractors by wrapping up our sales presentation with the phrase "It's our job to make you look good." Specialty contractors exist because they focus on one or more closely-related disciplines of construction that are an integral piece of a much larger complex system of erecting a building.

Today's specialty contractor has to manage relationships on both sides of contractual agreements. On one side we have our relationships with our general contractors, developers and architects, while on the other side we have to manage our relationships with our vendors, banks, bonding company and insurance brokers. At the same time we're managing a labor force that can rapidly grow to over 450 trades people, which can create payrolls that top $400,000 to $500,000 paid out each week.

Over 50 percent of our job costs are directly related to labor, but that is also where 100 percent of our opportunity lies. Our labor force is the face of the company. Our workers are who most people encounter and with whom most interact. We have employed generations of family members in our nearly 70-year company history. Managing our labor is the single biggest factor that we can control that translates into success or failure on a project. Today's trades people are highly skilled and hard working. They are an integral part of our team that thrives on the satisfaction of seeing the end result of their efforts. The trades are a great career option that is sometimes overlooked when young people are trying to figure out a path to follow. After completion of a four-to-five year paid apprenticeship program, the combined wage and benefit packages of these professionals can exceed $ 90,000 per year and carries some of the best health and pension benefits that one could ask for.

Being a specialty contractor has many challenges. Every day is different. I have enjoyed all of my past experiences and remain positive about the prospects for the future. I'm proud of the fact that throughout the history of our company we have had the opportunity to work on some of the region's most prestigious projects, from Pittsburgh International Airport, to the David Lawrence Convention Center, Children's Hospital of Pittsburgh and most recently The Tower at PNC Plaza. Wherever I travel throughout the region I am constantly reminded of the integral role that we play in shaping not only the appearance of Pittsburgh but how it functions as well.

Pittsburgh's promising future makes me optimistic about the years to come in our business. We will continue to create the opportunities for employment that allow workers to prosper and raise a family. The specialty contracting community, along with help from its allies, will continue to build the places where Pittsburgher's want to live, work and play.

Glenn Sieber is president of Easley & Rivers Inc. and is the current president of the Master Interior Contractors Association. Blenn can be reached at Glenn.Sieber@EasleyAndRivers.com.

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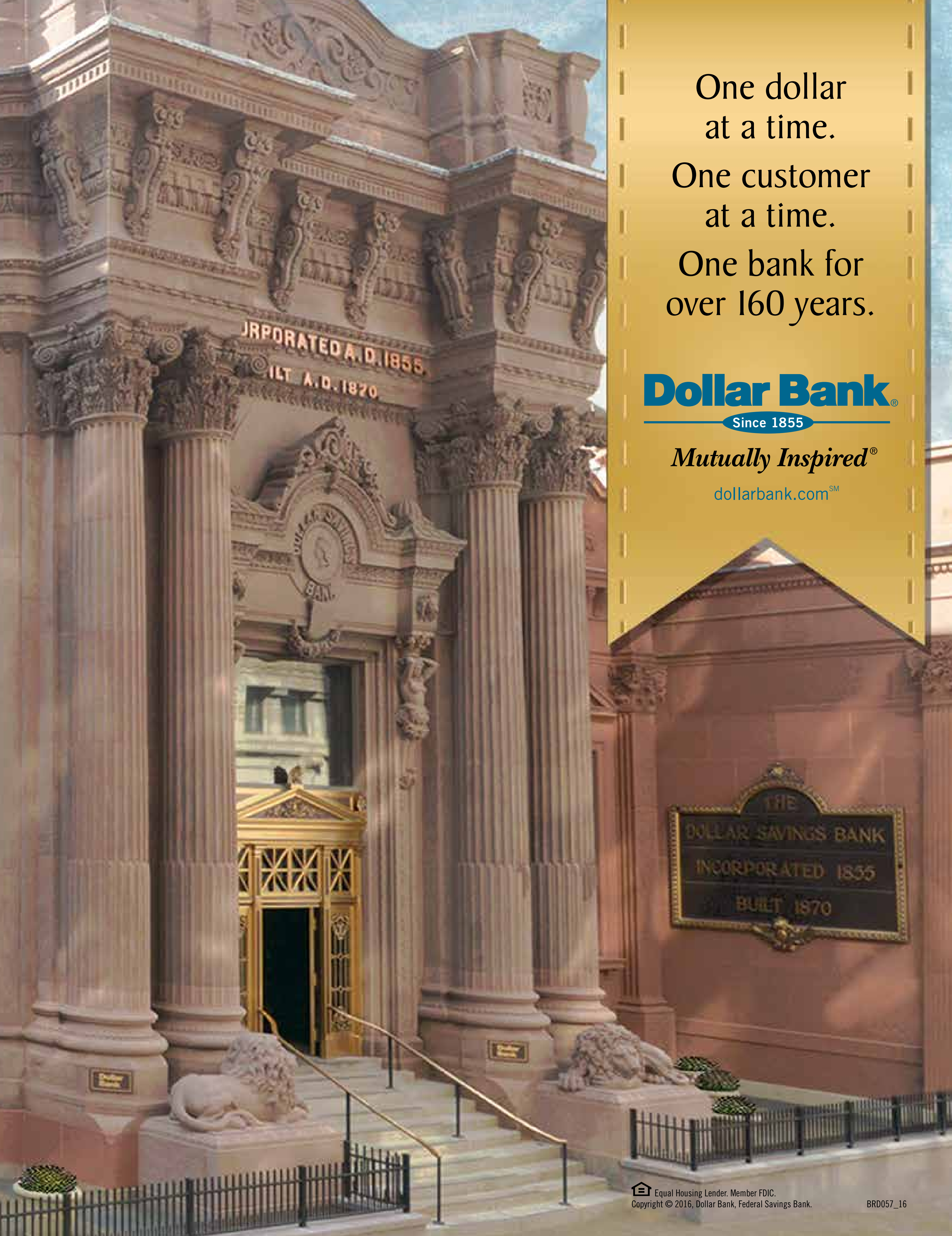

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