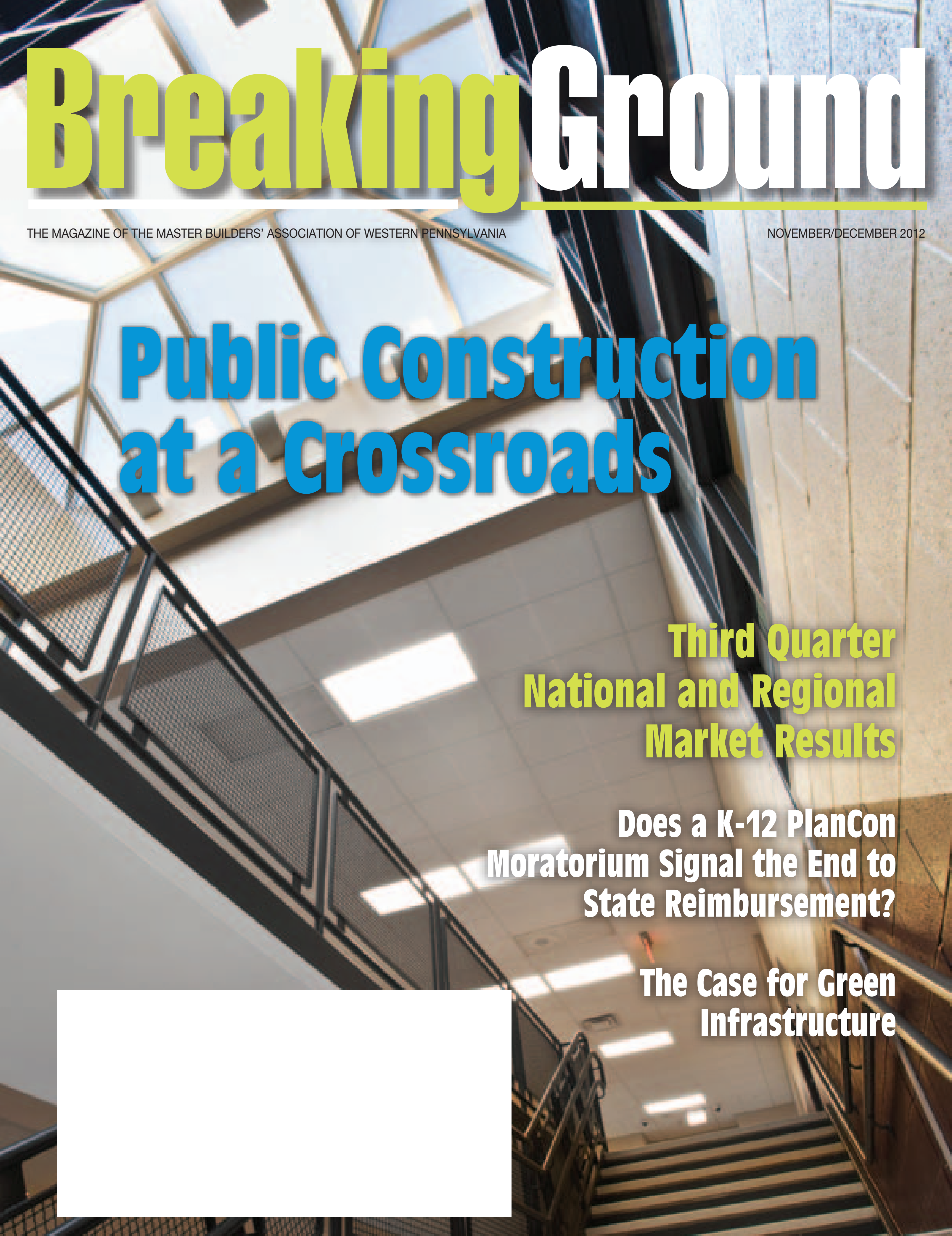

BreakingGround

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

NOVEMBER/DECEMBER 2012

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MBA

Publisher's Note

What a gloomy way to end a gloomy year. 2012 has been disappointing in a way that the industry hasn't seen in a decade or more, so to finish the editorial calendar with an examination of the public construction market is a depressing, if somewhat fitting note on which to conclude.

I guess I should preface my remarks with an explanation of my impression of 2012. When all is said and done this will not have been the worst year for construction by a long shot but considering the promise that was there at the end of 2011, the way the year unfolded was not particularly satisfying. And this year has been anything but disappointing for the Tall Timber Group but my comments are coming from the perspective of an industry spokesman – even if that's a self-appointed role.

Whatever may have been plaguing businesses – be it Eurozone paranoia, election worries, the 'fiscal cliff' or a combination of all of the above – the uncertainty froze the market just as spring was thawing the winter. Developers couldn't get tenants to commit. Architects couldn't get owners to move forward. Contractors couldn't get contracts signed. This kind of indecision was frustrating but it wasn't new either. There was a similar indecisive funk in 2004, when the hangover from the dot com bust and 2001 recession lingered an extra year beyond what experts (meaning me) expected. The difference between 2012 and 2004 is that there was a fairly robust public construction market to serve as a relief valve for the industry eight years ago.

What we have now is a federal government that is not spending much money on construction and a state government that will not make up any ground on what Washington won't fund. The voters in PA knew that Tom Corbett was not going to be a 'tax and spend' governor or any kind of a 'spend' governor and his administration has not disappointed on that point. It's hard to argue with the governor's point of view while we still have deficits hanging over from the previous administration.

It's an interesting philosophical argument to make about the role of government in funding construction projects. For even the most conservative citizen there must be recognition that the public safety role of government justifies spending tax dollars to maintain infrastructure, provide facilities for police and fire and prisons. Most taxpayers also see the value of providing public education. The argument gets a little tougher to make with regard to the magnitude of the spending or when the spending is done to help support or stimulate private enterprise. Of course, the argument is moot when the government is out of money.

That is the state in which we currently find ourselves. Government support for public construction and private development is going to be limited by lower revenues for at least another couple of fiscal years. That reality brings us to a more difficult philosophical question, which is how to get more money to make up and keep up the facilities for which the government is responsible.

The guiding philosophy of lowering or not raising taxes is one that has gripped all levels of government. This is especially true for the elected officials who have pledged their positions to maintaining that philosophy. What goes hand in glove with that posture is the reduction of government spending to offset the lower revenues. The political problem that we are all saddled with is that each representative wants to cut the expenses that aren't important to his or her constituents – meaning the expenditures that will help with reelection. That means social programs won't be cut in a meaningful way; programs important to senior citizens will be sacred; and cuts that negatively impact donors won't be implemented. What that means, unfortunately is that only programs with limited political impact will be cut and politicians don't get booted from office because they aren't fixing enough roads or adding bays to the local fire station.

At the grass roots level that attitude is just as fervent. I'm not sure why anyone is so intent upon getting reelected to the school board but the current climate favors board members who can say they passed a budget with no new taxes for – fill in the blank – number of years.

Here's the problem I see. The resurgence in Pittsburgh's economy, and the state's, has made living in PA more attractive than it has been in years. It would seem to be a particularly bad time then to go back to decaying infrastructure and poorly resourced schools. Those of us in our 50's may remember our youth fondly but I assure you that history has proven that the 1970's weren't the good old days that we think they were. At a time when thousands of people are looking to Pittsburgh as an economic model, it would be a shame if we greeted them with potholes, closed bridges and outdated schools.

It's a tough call to make. Figuring out how to pay for public construction isn't at all difficult but deciding to add revenues or cut expenditures – or both – is more than our leaders can manage now. I wouldn't want to predict which side of the aisle will step up to the challenge first but I fear that neither side will until it's forced to. Until then, we're stuck with public buildings and roads that won't wait for us to catch up.

We Americans have shown we have the will to solve hard problems, even when the solution is painful for us. We'll figure out how to re-balance the government's budget in time so that we can invest in construction of public facilities without leaving people hungry or bankrupting future generations. But the time for all of us to recognize that this is a real problem is now.

Jeff Burd

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REGIONAL UPDATE

One of the themes that have marked construction during 2012 is that of bifurcation of the market. As tough as the market has been on the construction side there are a fair number of contractors, subcontractors, suppliers, architects and engineers that are having very good years – even if they are keeping it quiet. Likewise, the market fundamentals of commercial real estate are as sunny as construction has been cloudy. It should not be surprising then that measurements of the market after nine months of 2012 are a mixed bag as well.

Through three quarters of 2012, construction activity is both up and down, depending on what part of the market you examine and how you look at it. Nonresidential contracting activity for the nine months ending Sept. 30 totaled $2.25 billion, up seven percent from the same period a year ago, when the $1.2 billion Allegheny Ludlum plant is backed out of the 2011 numbers. Since the 2012 totals do include the construction start of the Tower at PNC Plaza, however, the real apples to apples comparison – net of the PNC project – may be more accurately stated as being roughly ten percent off the 2011 activity. There are a few ways to analyze the market but regardless of how the data ends up it's difficult to conclude that nonresidential construction has been healthy and growing thus far in 2012.

On the residential side, however, the third quarter showed a consistent trend in the year-over-year growth in new construction. Through nine months there were a total of 2,396 new dwelling units started compared to 2,155 during the same period in 2011, an increase of 11.2 percent. The increased activity was spread fairly evenly between traditional detached single-family homes and attached or multi-family units. Permits were issued for 1,393 units of detached dwellings compared to 1,264 in 2011 and for 1,003 attached units this year compared to 891 last year. While there is growing evidence that financing conditions are normalizing so that buyers can buy, the dwindling supply of lots will keep a broader housing recovery from spreading into 2013, although the construction of multi-family apartments will boom for at least the next 18 months.

Data shows that the construction market is providing much more activity than during the milder recession experienced here in 2009-2010 but the business conditions have not returned to the pre-recession levels. One new barometer on construction conditions shows that owners of contracting firms still find the market sluggish.

The Master Builders' Association introduced a new survey of its member firms that is meant to gauge how owners of construction firms are seeing the market each quarter. The survey, called the Commercial Contractors Condition Index asks business owners to assign an A through F grade to the market based on current conditions, bidding activity, backlog and opinion of future conditions. Responses, not surprisingly, were somewhat negative, giving the industry a C- grade or 1.7 out of 4 at the end of the third quarter. The MBA concluded that the results indicate:

- Area construction firms project a slight increase of business improving over the next three months.
- Construction firms are experiencing minor increases in bidding during the third quarter of this year.
- Commercial contractors have a lower backlog now compared to the previous quarter.

It's the latter response that is having a significant impact on the market conditions since spring. From a psychological perspective, contractors with healthy backlogs are going to be more patient with current bidding opportunities, even if they are having a less profitable year currently. Because of the slowdown in opportunities this summer, contractors did not rebuild backlogs to replace the projects being completed. In conditions like the Pittsburgh market has experienced this

Municipality	#SFD	#SFA	Total
Single-Family Detached			
Peters Township	94	0	94
Cranberry Township	66	261	327
Moon Township	65	12	77
South Fayette Township	63	6	69
North Huntingdon Township	59	2	61
Pittsburgh	56	107	163
North Strabane Township	55	33	88
Pine Township	54	45	99
Cecil Township	52	29	81
Adams Township	49	59	108
Single-Family Attached			
Cranberry Township	66	261	327
Murrysville	24	136	160
Pittsburgh	56	107	163
Adams Township	49	59	108
Hempfield Township	25	48	73
Total Pittsburgh MSA 2011:3	**1,264**	**891**	**2,155**
Total Pittsburgh MSA 2012:3	**1,393**	**1,003**	**2,396**
% Change	**10.2%**	**12.6%**	**11.2%**
By County	**SFD**	**SFA**	**Total**
Allegheny	609	392	1001
Beaver	108	25	133
Butler	190	323	513
Fayette	66	10	76
Washington	251	74	325
Westmoreland	169	179	348

Even with very favorable market conditions, the shortage of buildable lots has kept new housing construction growth in metro Pittsburgh from keeping pace with the national growth rate.

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Scalise Industries 108 Commerce Blvd., Suite A Lawrence, PA 15055 year, business owners are more apt to see field supervision winding up work in the early fall with little in the pipeline to replace that work and bid more aggressively in an effort to keep their staff busy.

Impatient contractors make for a market with very tight or no margins. While that makes for a buyer's market, those conditions also increase the risk of failures, which bring nothing but bad news to a market.

More than any other factor, the slower market conditions in the second and third quarters can be blamed on uncertainty about the health of the overall economy. With Pittsburgh's reliance on exporting both products and knowledge, what ails the national and global economy ails Pittsburgh's economy as well. There is one significant positive looming in the U.S. economy that could help break out of the no-growth cycle that has gripped business: the housing market recovery. Unlike the overall U.S. market, the housing market in Pittsburgh does not have to bounce back from falling prices and is showing remarkable consistency across a number of metrics. And although a shortage of developed land is limiting the single-family market, there is a boom in multi-family projects that is poised to explode.

If the developers stick to their plans there will be another 1,000 units started in large multi-family projects before the year ends in Green Tree and Southpointe. Should the activity unfold in that manner, the total housing starts for 2012 will approach or exceed 4,000 units, a level not seen since 2006.

The announcement by Massaro Corp. and Dawson Co. of a 320-unit apartment at the South Hills Village transit station marked yet another of a string of similar projects. Within a day or so, NRP Group from Cleveland was identified as the developer interested in the Warrendale Point site for another 300-plus unit project. That brings the number of units in the pipeline for 2013-2014 – of projects over 100 units – to over 3,500, of which fewer than 400 have started.

While a healthy single-family detached construction market is really what will signal a full housing recovery, the rise in housing prices in metro Pittsburgh this year is boosting confidence and an apartment boom would add significantly to the number of jobs being created.

Renewed confidence and increased employment are two final ingredients to the recipe for a significant increase in non-residential projects in the coming year. For certain, the sluggish conditions in non-residential construction are not due to poor fundamentals in commercial real estate.

According to CBRE's third quarter office market report, the overall vacancy rate stood at 10.1 percent with Class A at 6.4 percent. In the Class A office category, Newmark Grubb Knight Frank reported that the vacancy rate fell to 8.6 percent, a level that has not been that low in the 20 years the firm has been tracking the market statistically. There are office projects under construction totaling almost 1.5 million square feet, yet the net absorption for the year through September 30 was 650,332 square feet, marking the ninth consecutive quarter of positive absorption (and 13th in the last 14 quarters) for the metropolitan market.

Tenants leasing large blocks of space thus far in 2012 include: The Williams Companies' moving into 112,394 square feet at 2000 Commerce Drive; Chevron moving into 66,713 square feet at 600 Corporate Center Drive; Gateway Health Plan into 100,000 square feet in Gateway Center and Ansys' signing a 186,000 square foot build-to-suit deal in Southpointe II.

The supply is even more constricted in the industrial market. Vacancy overall is between 7.5 and 9 percent, with the vacancy rate running almost half that level in the desirable sub-markets like Cranberry, Southpointe and the Airport. For Class A space the vacancy rate is 4.3 percent. While this is a good thing for property owners, such a low level of inventory is severely limiting users that would like to find newer or larger space. At the end of the third quarter only two significant industrial buildings were under construction – the 70,800 square foot third building in Buncher's Jackson Township industrial park in Butler County and the 68,000 build-to-suit for Hormann Flexon at Starpointe – even though absorption year-to-date is positive by over 1.7 million square feet.

Across all commercial building types the same supply and demand dynamics are in place. Vacancy rates continue to fall. Absorption is strongly positive, even in the property types with new construction. And circumstances that are a hangover from the recession are constraining new construction. Even the one sub-market that was somewhat soft just a year ago – the Airport Corridor – has seen vacancy rates plummet, declining to just over ten percent at the end of the third quarter.

The stage is certainly set for a more robust construction market in 2013. The recent leasing successes like Ansys or ServiceLink at the Pittsburgh Airport Industrial Park and the unusual number of corporate and industrial users offer hope that the needed construction will occur. The results of the election eliminated the uncertainty that has been the excuse for indecision by owners and end users. Assuming that is the case, the pent up demand should kick start architects by the time the holiday decorations are taken down. BG

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NATIONAL MARKET UPDATE

Barack Obama's reelection comes at a time when the national economy seems to be both turning a corner and searching for direction. Whether the aftermath of the election will be further cooling off by corporate owners and real estate developers wary of the tax ramifications and costs of healthcare reform of the administration or a resigned re-tooling of expectations, it is clear that Mitt Romney's defeat has cast a pall over the business community.

Prior to the elections, a battery of economic and construction-related data for the first three quarters of 2012 showed an economy that was continuing to recover from the 2007-2009 recession on many fronts at the same time that the global and national hangover from the downturn was still putting a drag on growth. Among the data that was presented by government and private research sources were:

- Second quarter real gross domestic product was revised down to 1.3 percent at a seasonally adjusted annual rate from 1.7 percent.

- September nonfarm payroll employment increased 114,000. July and August increases were revised up from 141,000 and 96,000 to 181,000 and 142,000, respectively.

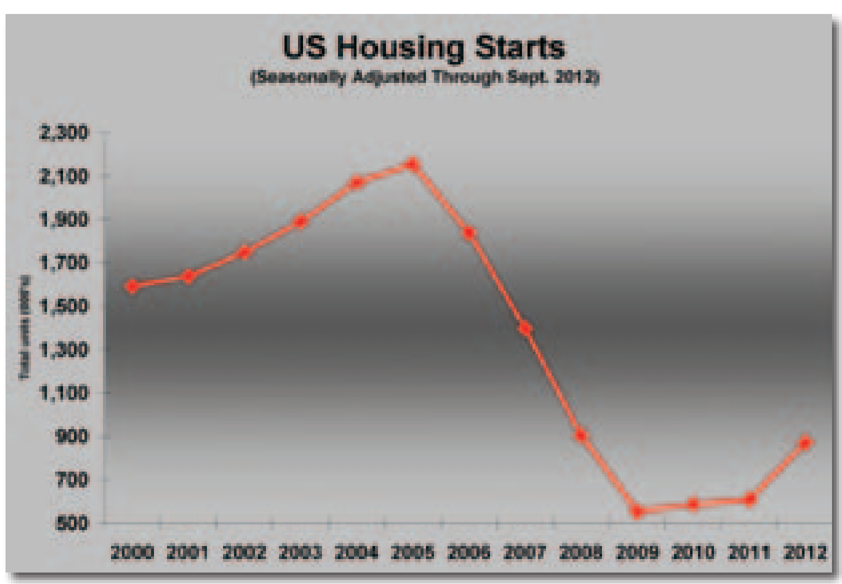
- The September unemployment rate fell to 7.8 percent from August's 8.1 percent.

- The Conference Board Consumer Confidence Index® improved in September to 70.3 (1985=100), up from 61.3 in August. The Expectations Index increased to 83.7 from 71.1. The Present Situation Index rose to 50.2 from 46.5 last month.

The National Association of Realtors reported on October 19 that sales of existing homes was up 11.3 percent in September compared to the previous year and more importantly, that the median existing home price had also risen 11.3 percent to $183,900 in September, the largest annual gain since November 2005.

The Federal Reserve Board of Governors report on industrial capacity utilization showed September's capacity level at 78.3 percent, down from readings earlier this year but up compared to the 77.2 percent level of the previous year. The current utilization rate is still two points below the average utilization between 1972 and 2011.

PRIOR TO THE ELECTIONS, A BATTERY OF ECONOMIC AND CONSTRUCTION-RELATED DATA FOR THE FIRST THREE QUARTERS OF 2012 SHOWED AN ECONOMY THAT WAS CONTINUING TO RECOVER FROM THE 2007-2009 RECESSION ON MANY FRONTS ...



After a protracted period of below normal housing construction new starts have increased steadily throughout 2012.

McGraw-Hill Construction Contracting Totals, Jan-Sept

	2012	2011	% Change
Non-residential	109,150	124,655	-12.44%
Residential	119,328	94,393	26.42%
Non-building	121,121	114,765	5.54%
Total	*349,599*	*333,813*	*4.73%*

Contracting totals through three quarters as compiled by McGraw-Hill Construction.

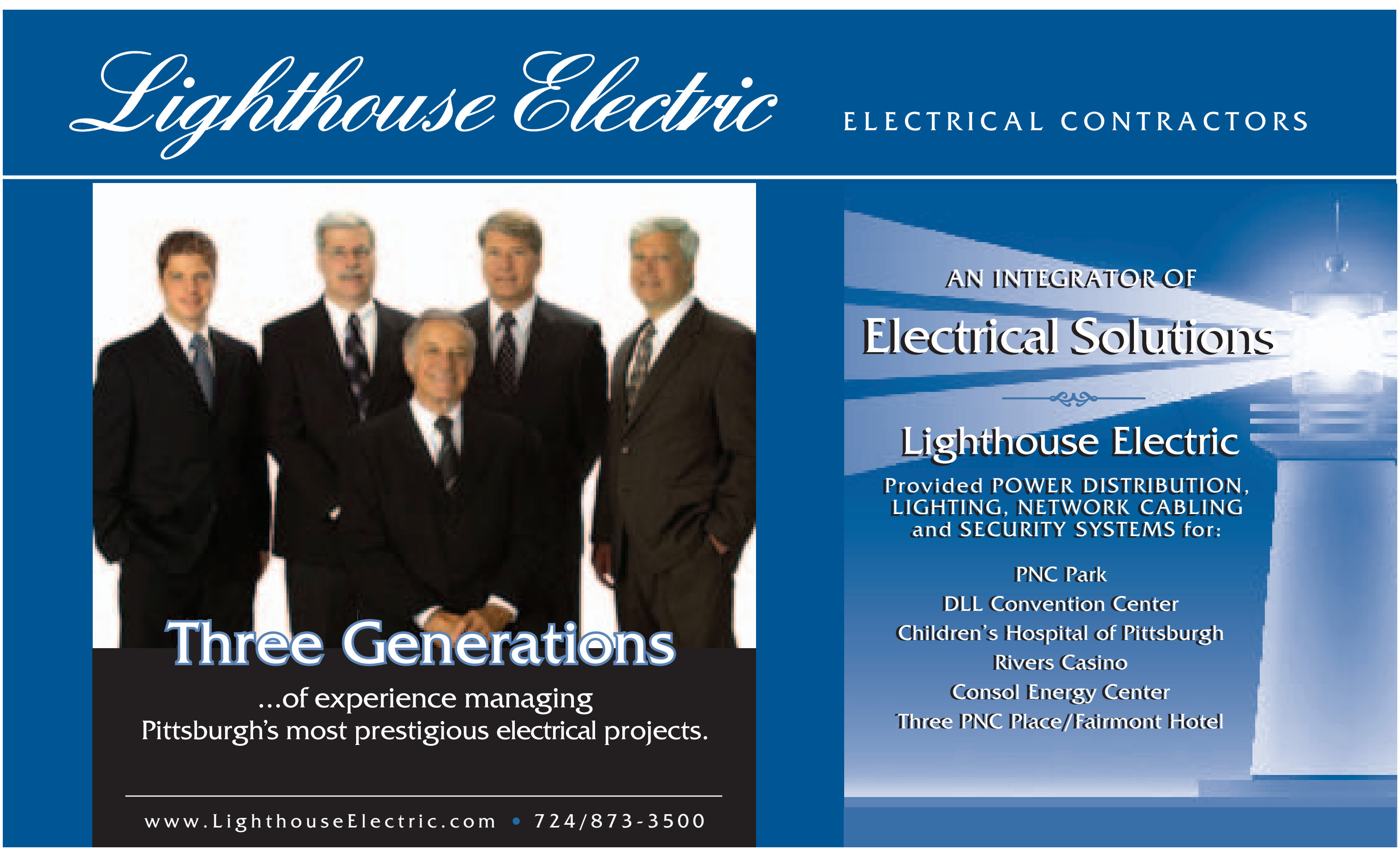
The AIA Billings Index edged up for the third consecutive month to 50.2, its highest reading since this past March. An index above 50 indicates increased billings, a positive indicator for future commercial construction.

Census Bureau reported on October 1 that construction spending totaled $837 billion in August, up 6.5 percent from August 2011. Construction spending was higher in most categories of construction compared to one year earlier. Private residential construction rose 18 percent; private nonresidential construction rose 7.2 percent; new single-family construction climbed 21 percent and new multifamily 45 percent; and improvements to existing single- and multifamily rose 11 percent. Among the major categories only public construction spending declined, falling 3.5 percent over 12 months.

Within nonresidential project types power/energy (12 percent), offices (10 percent), manufacturing (6.1 percent) and healthcare facilities (4.2 percent) saw year-over-year increases, while educational buildings (7 percent) declined.

The value of nonresidential construction starts collected by Reed Construction Data climbed 15 percent in September and 9.3 percent for the first nine months of 2012 combined from the comparable periods in 2011. Starts in commercial properties rose 17 percent year-to-date, with increases in all subcategories except parking garages and government offices. Manufacturing starts fell 2.5 percent from 2011. Institutional starts increased by 2.3 percent year-to-date and heavy engineering starts climbed 12 percent year-to-date.

The other national construction reporting service, McGraw-Hill Construction reported on October 17 that



new construction starts in September climbed 16 percent to a seasonally adjusted annual rate of $507.2 billion. The largest increase was from the public works and electric utilities sector, driven by a multi-billion dollar natural gas plant and several very large electric utility projects. Through the first nine months of 2012, total construction starts totaled $349.6 billion, up 5 percent compared to the same period a year ago.

The 5 percent increase for total construction on an unadjusted basis during the January-September period of 2012 was the result of heightened activity for two of the three main construction groups. Residential building climbed 26 percent, with year-to-date gains of 25 percent for single family housing and 30 percent for multifamily housing. Non-building construction was up 6 percent year-to-date, as a 27 percent hike for electric utilities and gas plants outweighed a 3 percent drop for public works. Nonresidential building was the one major construction group to register a year-to-date decline, falling 12 percent. The nonresidential decline came as the result of this pattern by segment – commercial building, up a slight 0.5 percent; institutional building, down 16 percent; and manufacturing building, down 29 percent. The year-to-date decline for nonresidential building has been getting smaller as 2012 has proceeded.

"If electric utilities and gas plants are excluded, the level of construction starts in 2012 would be up 2 percent year-to-date, helped by this year's further growth for multifamily housing and the emerging recovery for single family housing," stated Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction. "As for the other construction sectors, commercial building has shown some strengthening during 2012 – while its dollar amount has grown less than 1 percent year-to-date, square footage is up 16 percent."

While large projects populate the national data every year, the disproportionally high volume of energy and power plants in 2012 make comparisons more difficult than most years. By September 30, work had started on the $4.8 billion Sabine Pass Liquefaction natural gas plant in Louisiana, and $8.4 billion nuclear plant in South Carolina, a $750 million wind farm in Texas, a $484 million transmission line in Nevada and California, two $300 million gas-fired power plants in Texas, a $171 million transmission line in Kansas, and a $122 million wind farm in Michigan.

Single family housing construction was one of the surprises of the third quarter, as the pace of growth that has been steadily stronger throughout 2012 accelerated. On October 16 the Census Bureau reported a surprising 872,000 starts for September, well above the estimates from economists, almost all of whom have been revising their forecasts for the full year. The data showed an annual pace of activity that has been unmatched since the housing bubble popped in 2007. As a data point in a trend, September's heightened activity extends the arc of the recovery closer to the million-unit barrier that has psychological significance.

More than the boost of confidence the activity gives homebuilders and homeowners worried about the value of their homes, breaking the million-unit mark represents a sustainable expansion of employment for construction that will actually impact the national unemployment rate by more than a full point.

The Urban Land Institute conducted its third quarter consensus forecast to give an outlook on commercial construction. Respondents from the National Association of Real Estate Investment Trusts and the National Council of Real Estate Investment Fiduciaries expect that commercial real estate returns will revert to the historical norms in 2013 and 2014 after performing slightly better in 2012. Economists see returns in the neighbor-

SINGLE FAMILY HOUSING CONSTRUCTION WAS ONE OF THE SURPRISES OF THE THIRD QUARTER, **AS THE PACE OF GROWTH THAT HAS BEEN STEADILY STRONGER THROUGHOUT 2012 ACCELERATED.**

Reed Construction Data Contracting Totals, Jan-Sept

	2012	2011	% Change
Non-residential	128,541	119,130	7.90%
Non-building	79,782	71,489	11.60%
Total	*208,323*	*190,619*	*9.29%*

Contracting totals through three quarters as compiled by Reed Construction Data.

WITH EVIDENCE GROWING THAT LENDING FOR COMMERCIAL REAL ESTATE IS NORMALIZING, THE FINANCIAL PRESSURE MAY ACCELERATE THE UPWARD TREND IN THESE BUILDING TYPES.

hood of 10 percent overall and 8 percent for investment grade properties.

The forecast predicts that vacancy rates for apartments will drop to 4.7 percent this year and hold at that rate through 2013 before rising slightly to 4.9 percent in 2014. This year, rental growth rates will hold at 4.8 percent before dropping to 3.5 percent in 2013 and 3.0 percent in 2014. This decline in rent increases reflects supply catching up with demand, as more units are placed on the market.

The survey's predictions for office vacancy rates are less optimistic than six months ago, reflecting the more modest expectations for employment. Vacancy rates are expected to drop slightly from last year to 15.5 percent in 2012, dropping only to 14.8 percent in 2013, and 14.0 percent by the end of 2014. Marginal increases are forecast for office rental rates, with a rise of 2.5 percent expected for 2012, 3.1 percent in 2013, and 4.0 percent in 2014.

While retail vacancy rates remain high, this sector should see some modest improvements as the economy improves and consumer spending increases. Following years of rising vacancies, vacancy rates are expected to tighten to 12.9 percent by the end of 2012, 12.5 percent by 2013, and 12.2 percent by 2014. Retail rental rates are projected to remain flat in 2012, and then increase in 2013 to 1.2 percent and to 2.5 percent in 2014.

Vacancy rates for industrial/warehouse properties are expected to continue declining to 13.0 percent by the end of 2012, 12.4 percent in 2013, and 11.9 percent by the end of 2014. Warehouse rental rates are expected to show growing strength, with an increase of 2.0 percent anticipated for 2012, 2.5 percent in 2013, and 3.1 percent in 2014.

One constant theme that the ULI forecasters echoed was the relative attractiveness of real estate compared to bonds. Because of constrained supply during the past few years the capitalization rates for commercial properties have rapidly fallen to levels that existed when the bubble burst in 2007. The recent months have seen an unusual jump in demand for yield from investments and the spread between CAP rates and the bellwether 10-year Treasury bill has been bid to 410 basis points, which is record high territory. ULI's respondents expect the spread to fall to 330 basis points but point out that is still a very attractive margin. Assuming the forecasts of declining vacancy rates for commercial buildings is accurate, the improved fundamentals added to the favorable CAP rate spreads should push demand for commercial real estate beyond the existing supply.

Put in less technical terms, the financial impetus for new commercial construction is expected to be stronger than normal going into 2013, setting the table for much more activity. With evidence growing that lending for commercial real estate is normalizing, the financial pressure may accelerate the upward trend in these building types.

Improved conditions will not mean more construction if the worst fears of corporations about the Obama reelection are realized. The reaction from corporate owners and developers is likely to be a chilling of new construction into the first quarter as the administration either validates or allays worries about rising costs for business. If, as expected, the fears of a reelected administration turn out to be worse than the reality construction should respond to the fundamentals and return to the sluggishly upward trend that developed throughout 2012. BG

WHAT'S IT COST?

Prices spiked for several key construction components in September for the second consecutive month. The producer price index (PPI) for inputs to construction – which includes materials that go into every type of project, plus items consumed by contractors – increased 0.9 percent in September and August after several months of declining prices.

While the pace of the increases is slightly alarming – continued increases would lead to double-digit inflation – at least one industry observer sees the two-month spike receding already. Ken Simonson, chief economist for the Associated General Contractors of America and incoming president of the National Association of Business Economists, believes the fundamentals of supply and demand won't support continued increases and says that he's aware of pullbacks in many of the surging categories since the September 13 reporting period.

"I don't see much evidence that this is the beginning of a trend," he says. "Crude oil and diesel have floated in a range that is higher than expected but I'm not sure that they can go much higher."

Simonson reports that the mid-September prices for fuel, oil, steel and copper represented peaks that have fallen since and that lumber prices have dropped significantly over the past few weeks, even with the rise in demand from residential construction. Even with the late summer jump, the year-over-year inflation for the PPI is only 1.7 percent, a level Simonson calls "deceptively mild." What does concern Simonson is that the late summer price action may catch contractors with no room to maneuver, particularly after three years of tough conditions. His fear is that contracts written in late spring will be too tight to absorb unexpected increases.

"The latest surge in materials costs may push subcontractors and some general contractors into insolvency, following years of razor-thin margins and shrunken levels of activity," says Simonson. "Most contractors have no ability to pass on unexpected cost increases."

The data on completed nonresidential structure types and subcontractor work illustrates the dilemma businesses may be experiencing. As costs jumped nearly two percent in August and September, the indexes for new industrial and school buildings declined, with costs for office and warehouse construction remaining flat. Similarly, the prices charged by subcontractors were also flat, with only roofing contractors eking out a 0.3 percent increase. With both labor costs and material costs rising, the only factor that could allow for flat or declining finished construction is a reduction in profits. Such conditions have historically preceded an increase in contractor failures.

PERCENTAGE CHANGES IN COSTS	Sept 2012 compared to			
	1 mo.	3 mo.	1 yr.	Dec. '03
Consumer, Producer & Construction Prices				
Consumer price index (CPI-U)	0.6	0.2	1.7	25.0
Producer price index (PPI) for finished goods	0.6	2.0	2.1	36.1
PPI for construction	0.9	1.1	1.7	52.1
Costs by Construction Types/Subcontractors				
Residential buildings	0.7	1.1	2.3	43.6
New industrial building construction	-0.2	-0.1	1.9	*
New warehouse construction	0.0	0.8	3.8	*
New school construction	-0.1	0.0	3.1	*
New office construction	0.0	0.1	2.5	*
Concrete contractors, nonresidential	0.0	0.0	1.2	*
Roofing contractors, nonresidential	0.3	1.1	3.8	*
Electrical contractors, nonresidential	0.0	0.1	1.6	*
Plumbing contractors, nonresidential	0.0	-0.1	2.0	*
Costs for Specific Construction Inputs				
#2 diesel fuel	5.7	14.6	7.5	248.3
Asphalt paving mixtures and blocks	-0.8	-1.8	4.1	123.3
Concrete products	0.1	0.6	2.1	39.0
Brick and structural clay tile	-0.1	0.2	-2.1	12.5
Plastic construction products	0.8	0.7	2.3	49.3
Gypsum products	-1.3	0.3	17.9	31.5
Lumber and plywood	1.1	1.5	8.6	-1.4
Architectural coatings	0.0	0.1	11.4	69.8
Steel mill products	1.0	-4.3	-7.1	81.5
Copper and brass mill shapes	3.6	3.1	-10.3	161.0
Aluminum mill shapes	1.1	-0.9	-7.2	23.3
Fabricated structural metal	0.9	-3.3	1.2	44.8
Prefabricated metal buildings	0.1	-1.1	-2.0	88.0
Crude petroleum (domestic production)	4.8	16.6	5.4	240.1
Asphalt (at refinery)	-2.7	-8.6	5.1	284.2
Cement	-0.1	-0.7	0.3	26.5
Iron and steel scrap	-0.3	-1.0	-19.5	126.2
Copper base scrap	5.0	-1.2	-5.7	288.1

Source Bureau of Labor Statistics, Updated October 12, 2012
Compiled by Ken Simonson, AGC Chief Economist
** Data not available prior to June 2010*

If the late summer surge does prove to be a temporary one, a reversal of the trend may help to minimize or avert a surge in contractor failures but the inexorable progress of material inflation still poses a problem for the industry. A look at the prices in fall 2012 compared to those at the end of 2003 – a similar year in the arc of the last business cycle – provides some insight into the problems that owners, particularly public owners face.

Prices for construction inputs have increased twice as fast as consumer price inflation (CPI). The products or materials that have experienced increases in line with consumer or general producer inflation over the same period are primarily those related most strongly with residential construction. Given that construction of new dwelling units has been held at half the historical levels since 2007, a 43.6 percent increase may actually be higher than expected. The prolonged slump in housing construction is the reason that lumber is the only material which costs less in 2012 than in 2003.

Those inputs that are more heavily used in commercial, industrial or heavy/highway construction have more than made up for the milder inflation for residential-related inputs. Prices for structural metals, coatings and plastics have gone up by at least double the rate of the CPI, with scrap prices for metals more than double the price in 2003. Copper ore, scrap and finished products have risen by between 125 and 163 percent since 2003. But the skyrocketing costs of oil and its related byproducts have been the primary reason why construction inflation has doubled that of the CPI. Asphalt paving has climbed 123.3 percent since 2003 and oil, diesel and asphalt at the plant all cost two-and-a-half times more than in 2003.

The rise in the petroleum-related materials can be traced to two short-lived spikes, one following Hurricane Katrina in fall 2005 and the more significant spike in the spring and summer of 2008. The latter run up took the price of oil over $140/barrel. Since then, only the financial crisis has precipitated a short-lived decline below $60 and prices have mostly moderated between $90 and $100 per barrel since the Stimulus was put in place in 2009.

The cost of diesel and asphalt alone have risen more than 240 percent during that same period, which is mainly why the cost to put transportation construction in place is double the cost to do so in 2003. Similar dynamics exist for schools, hospitals, universities and waste and water treatment facilities.

Hopes for a more robust recovery for construction remain for 2013-2014 and the housing market in particular appears poised for significant increases. Owners already feeling the pinch of inflation that is higher for construction than most sectors should bear in mind that the compounding increase in prices over the past half decade have occurred during a time of low demand, a condition that would change in a new construction boom cycle. BG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The new $75 million Moon Area High School.
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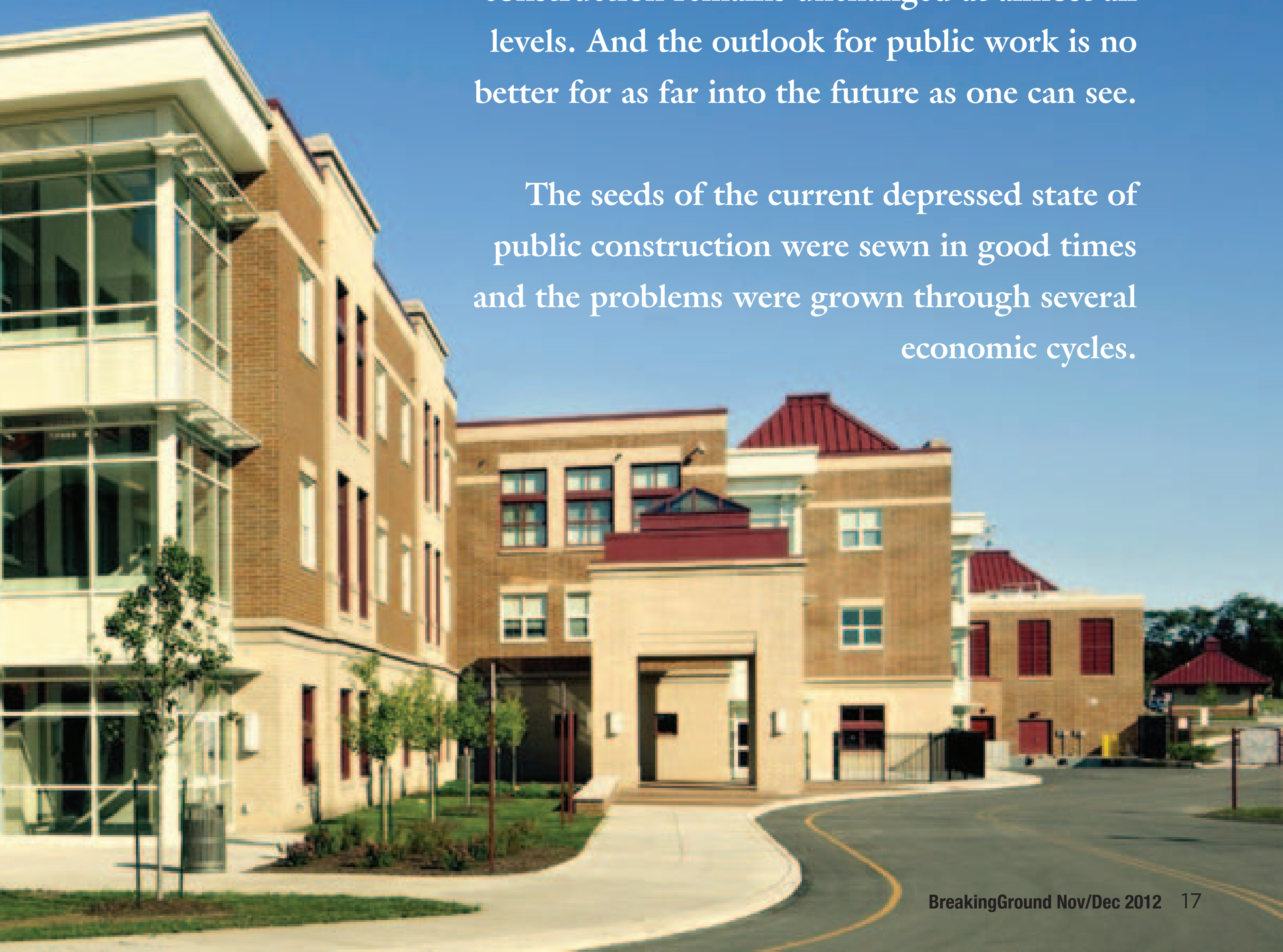
Public Construction at a Crossroads

The recession of 2007-2009 and the financial crisis of 2008 wreaked havoc in every area of every aspect of the construction industry but perhaps no area has been so negatively affected as public construction. Five years after the recession started, the status of publicly funded construction remains unchanged at almost all levels. And the outlook for public work is no better for as far into the future as one can see.

The seeds of the current depressed state of public construction were sewn in good times and the problems were grown through several economic cycles.



Post-World War II America was influenced by the notion that a great and free society could provide for the public good by using taxes to fund the expansion of infrastructure, the education of all our children and the construction of first-class public facilities. With industrial expansion driving the U. S. economy and gross domestic product ever forward, the tax base managed to stay ahead of the spending most of the time. From that time until the crumbling of the industrial base some 30 years ago, the willingness of Americans to invest some of their income was rewarded by a consistently better standard of living. That seemingly every -improving standard of living created better customers and helped lift all boats in the economy.

During the past 30 years, however, the costs of providing the services and building public facilities have grown to the point that they had overtaken the resources available to support them. Construction costs, public payrolls and pension obligations crowded out the funds needed for capital. To compensate, public owners borrowed more and developed financial tricks to push the obligations further out to the future. In the last decade a wave of tax cutting made the financing equation even more difficult to work out and when a deep financial shock hit the system, the delicate balancing act that school districts, legislators, government officials and administrators had managed went off kilter.

Unlike any downturn since the 1970's, the recent recession left the coffers in Washington, DC and the state houses empty. Past recessions also created revenue shortfalls for government but the current situation is not one that can be endured until the next growth cycle starts. This time the problems have no foreseeable solution unless a fundamental change occurs.

Getting Behind the Eight Ball

Each economic cycle produces periods of improving and declining revenues that public agencies must work to navigate. Booms produce unexpected revenues – and service needs – which public owners must use to repay earlier borrowing or sock away to deal with the inevitable next downturn. Because public officials aren't as a rule adept at saving for future problems, each economic downturn produces revenue shortfalls that cause cuts in spending until the revenues return.

Prior to the last recession, however, the fiscal pressure from decades of mismanaging public coffers built on all sides of government. At the same time that plummeting home values and tax receipts were dropping government income by more than 12 percent, obligations to pay higher salaries, pensions, and debt service grew to unmanageable levels. The result was shortfalls in virtually every state. The average budget shortfall was 20 percent. In states with overheated housing markets that crashed – like Nevada or California – the budget deficits reached 40 percent, or tens of billions of dollars.

Here in Pennsylvania, the damage was more limited but the revenue shortage compared to expenditures was still $3 billion by the end of the Rendell administration.

As bad as many states were, the Federal government's problems were worse. The recession begat the American Recovery and Reinvestment Act, a $787 billion economic stimulus that created jobs by investing in public construction (among other things) but that would add to a multi-trillion dollar debt. The staggering Federal deficit forced cuts in what Washington could support for capital expenditures. Since many state construction programs are simply redirections of Federal funding, the Federal problems quickly became the state's and local government's problems.

In Pennsylvania, the net result of this fiscal headache has been greatly reduced funding for capital investment in roads and bridges, university facilities, government buildings and public schools. In 2010, the citizens of the Commonwealth elected a governor who would make good on his pledge to balance the budget by reining in spending. Gov. Corbett has produced a balanced budget the past two years and tax revenues are on the rise, but the deficit remains from previous budgets and spending on construction has not returned.

Compounding the fiscal difficulties that trickled down from Federal and state problems was the fact that at the municipal and county level in Pennsylvania, legislation was passed that made it difficult for local government to do capital projects on its own. Pennsylvania Act One of 2006 limited school districts from raising property taxes even to keep up with low inflationary levels. There were avenues that districts could follow to get more revenues but the political climate that discouraged tax increases of all sorts kept local districts from being aggressive about raising millage rates.

What is the impact on the construction industry of these coincidental cuts in spending, falling revenues and aversion to taxes? Of the $5.38 billion work on nonresidential construction started in metropolitan Pittsburgh since January 2011, only $1.04 billion – or 19 percent – were publicly-owned projects. Compare that to 2005, when the public share of a very healthy construction market was 28.8 percent, or to 1999, when public construction made up more than 42 percent of the market.

The outlook for public construction doesn't improve within a time frame that anyone can envision at this point. Getting to

this point was the result of bad luck, politics, mismanagement and shortsighted decisions, and it's pointless to assign blame. The landscape for public-funded projects has changed and the headaches are being felt in all segments of the public market.

Roads and Bridges

Neglecting public facilities for education or government business can have multiplying effects on long-term costs, workforce preparedness and the good of society as a whole but the impact will be less obvious; the same cannot be said of neglect of the public transportation infrastructure.

Construction projects that maintain, repair and improve our roads and bridges have been plagued by a variety of bad-luck scenarios. The recession helped the effort in one way; that is, the austerity PA citizens applied to the tough times meant that they drove fewer miles and put less wear on the system. The offsetting loss in revenues, unfortunately outweighed any benefits from the reduced traffic.

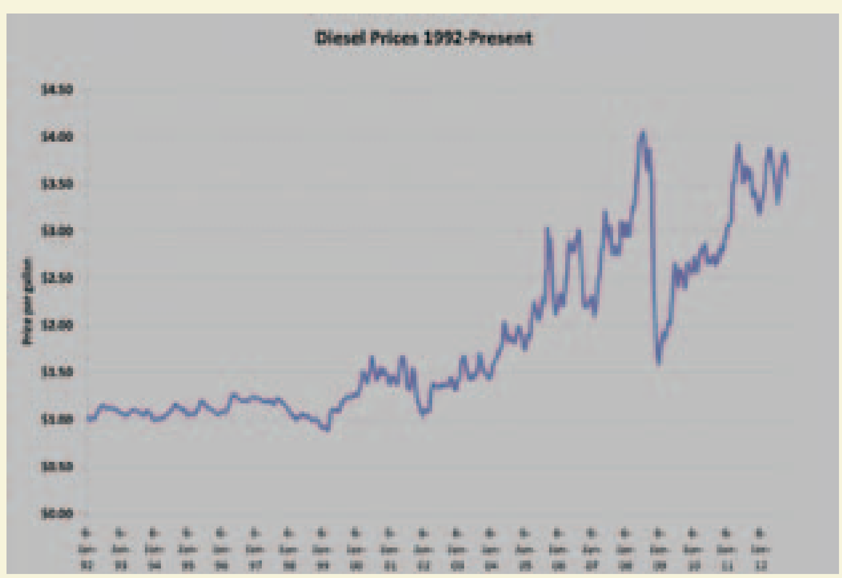
Pennsylvania, like most states, funds its road programs through a combination of reallocation of Federal highway appropriations, and taxes and fees that come from either usage (tolls) or the fuel for the usage. A portion of each gallon of liquid fuel purchased has a fee included that is directed back to each municipality in the Commonwealth based on the miles of roads in the municipality. The state collects a tax on each gallon of fuel that it uses to fund highway work as well. PA also gets small fees for transportation-related transactions like license and registration fees.

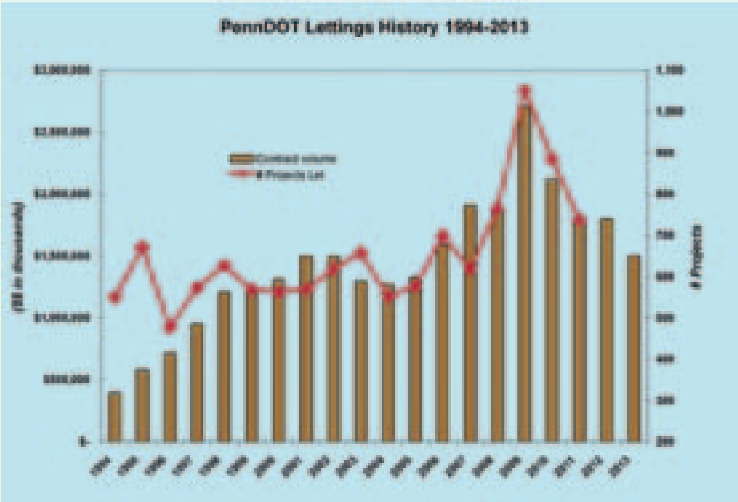
When Pennsylvanians were trying 'stay-cations' back in 2009 and 2010, they were buying less gas. Likewise, when consumers bought fewer goods during the recession, fewer trips were needed by over-the-road haulers to warehouses and retail stores. As a result of the reduced traffic PA lost significant revenues used to support construction.

Making things worse was the fact that the prices of the materials that are the most critical to highway construction spiked astronomically just as the recession was hitting.

Crude oil and all its derivatives – including diesel fuel and asphalt – peaked in summer 2008, a few months before the financial crisis hit. Oil reached $144/barrel in mid-July while diesel and asphalt topped out shortly thereafter, at $4.05/gallon and around $760/ton respectively. The high prices were the culmination of a five-year trend of rising prices that followed almost two decades of stability. As October ended, the prices for both materials were not significantly lower than the 2008 zenith. Diesel fuel was approximately $3.70/gallon and asphalt was near $600/ton. At the end of October 2003, however, prices for the same materials were at $1.50/gallon for diesel and $170/ton for asphalt.

Contrast those diesel and asphalt prices – two huge ingredients in the highway construction recipe – with the funding that has been available to support infrastructure projects. Excluding the acceleration that occurred in 2009 and 2010 due to the American Recovery and Reinvestment Act (ARRA), state and federal funding for highway projects has been the





Contracts let by PennDOT statewide grew steadily until 2008. Excluding the projects funded by ARRA the contract volume has leveled off or declined since the peak. Data compiled by Associated Pennsylvania Constructors.

same as in 2003. The enabling legislation in 2003 provided $51.6 billion for transportation projects. This past summer's continuance of the 2009 legislation provides for $52.1 billion in 2013.

Government appropriations for highways and bridges have increased one percent during the past ten paving seasons while the costs of construction have risen over 300 percent. In terms of the economic impact, these dynamics mean that one-third as much work is getting done for the same dollar. That requires one-third the labor and equipment that the appropriation bought in 2003. That's a decline that ripples through the local economy.

The Commonwealth of PA did, in fact move its spending on highways and bridges up throughout the 2000's. PennDOT lettings throughout the state rose from $1.3 billion in 2003 to $1.9 billion in 2008. Because of ARRA, spending by PennDOT rose to $2.9 billion in 2009 (with some lingering ARRA money boosting 2010 lettings to $2.1 billion), but lettings have been falling since then. Turnpike construction in Western PA spiked at $546 million in 2008 but declined to less than $100 million by 2010. So far this year the total of contracts in Western PA is $38 million.

In 2008, the Legislature passed Act 44, which called for the Turnpike Commission to provide $900 million to PennDOT and public transit systems through increased tolls and the

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tolling of Interstate 80. That total fell by half when Congress denied the application to make I-80 a toll road and the Turnpike Commission has struggled to meet the remaining toll contribution. As of fall 2012, the Turnpike debt had reached $7 billion.

There is no easy solution to the problem. Associations representing contractors, engineers and state highway officials have each put forward blueprints and issued warnings about the long-term damage that can result from neglecting infrastructure. For its part, the Corbett administration did empower a Transportation Advisory Committee, which submitted recommendations in summer 2011 that included a wide range of funding options. None of those have been implemented as yet.

The Government's Buildings

Pennsylvania's Department of General Services (DGS) functions as the state's landlord in the same way that the General Services Agency does for the Federal government. Unlike the other major government funding sources, DGS does not have the opportunity to create funding sources outside the Commonwealth's budget, so any projects done through DGS are either part of the Governor's capital budget or part of a

PA Turnpike Lettings for Western PA

Year	Total Contract Amounts Let
2008	$546,185,735
2009	$166,969,374
2010	$36,437,945
2011	$93,466,942
2012	$38,088,493

2012 Totals through October 22

state agency's budget. Like the other agencies, DGS has seen its funding for construction deeply cut.

"DGS is funded by the capital projects budget," explains spokesman Troy Thompson. "The last capital budget passed had $55 million in it for projects. For this year the focus is on renovations to the capitol complex, as well as other properties."

Thompson says that DGS will continue to administer projects for a variety of state departments. "The other part of DGS work is agency construction projects that are funded by

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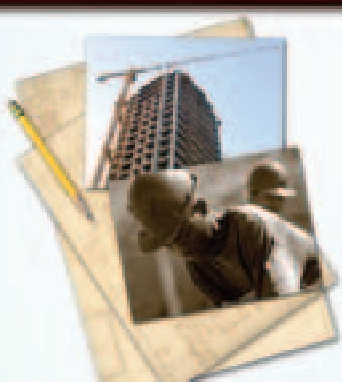

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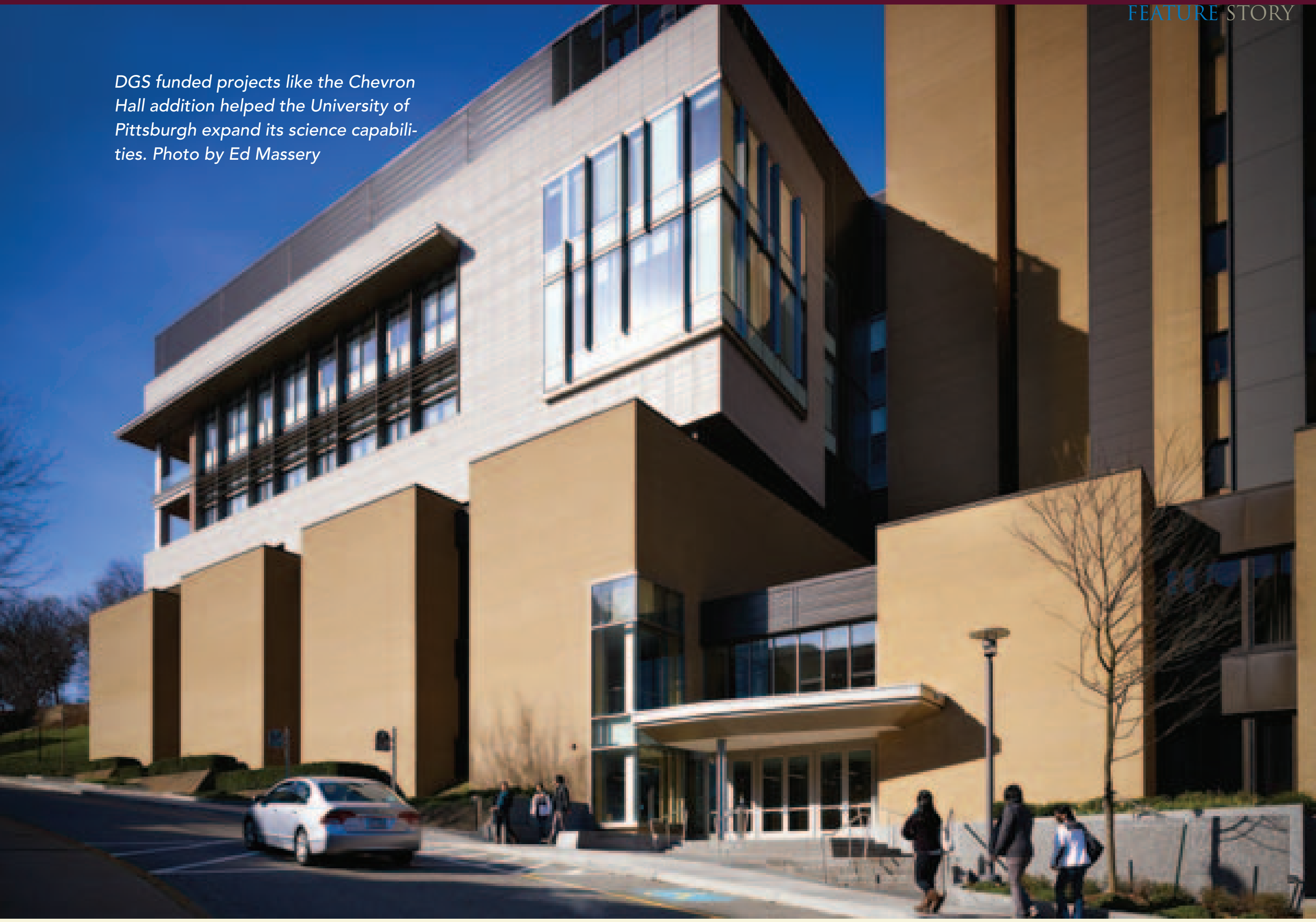


DGS funded projects like the Chevron Hall addition helped the University of Pittsburgh expand its science capabilities. Photo by Ed Massery

each of the respective agencies," he continues. "DGS acts as the intermediary, handling the contracting and managing the construction of the projects as the owner. When the project is completed we turn the keys back over to the agency."

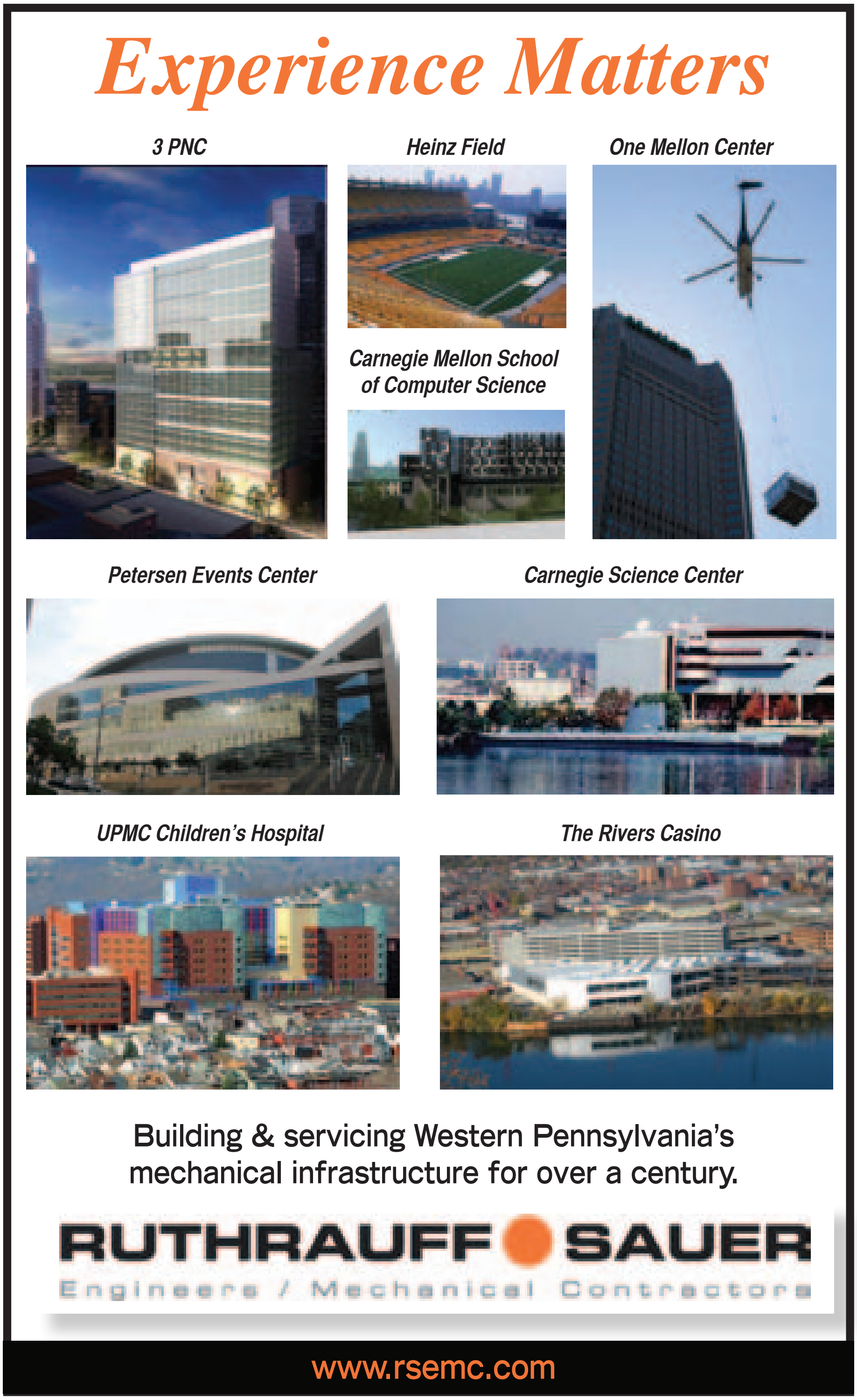
For the most part, the agency projects are smaller in scope, usually less than one million dollars and mainly less than half million. In recent years, the Dept. of General Services administered a number of large projects on behalf of the Dept. of Corrections and handled larger projects for the State System of Higher Education (PASSHE). DGS has also acted as intermediary for the state affiliated universities – Pitt, Penn State and Temple – on projects that are funded through the capital budget instead of the universities themselves. Projects like Pitt's upgrading of its mid-campus science buildings or Chevron, Salk and Benedum Halls have all bid through DGS.

General Services was one department that was particularly impacted by Gov. Corbett's election. During the first year of the Corbett administration, construction projects were put on ice while the new governor and his team culled through the state's fiscal status. The planned prison expansion program

During the past 18 months, the majority of the projects for which DGS has sought architectural or engineering proposals have been renovation projects under $10 million.

was a particular target of the new administration, which was opposed to signing off on the $300 million-plus projects that were initiated under Gov. Rendell. After studying the projects and the justification for each, the administration eliminated the expansion of the SCI-Fayette – even though it had been awarded – and reworked the scope of the new prison at Graterford. That project was the last large project undertaken by DGS.

During the past 18 months, the majority of the projects for which DGS has sought architectural or engineering proposals have been renovation projects under $10 million. Among the larger projects being designed are a $144 million library and $80 million research lab at Temple University, the new $40 million PEMA Building in Lebanon, a $59 million information technology center at East Stroudsburg University, and at Indiana University, a new $75 million science classroom building and $35 million for the replacement of Keith and Leonard Halls. Most of these projects have architects selected but funding is not set.



Education

Nothing in the governor's preliminary budget proposal struck a nerve as much as the plan to reduce funding to the state's universities. The governor's proposed budget called for 30 percent cuts at the three state-affiliated universities and 20 percent cuts for the PASSHE system universities. The budget that was ultimately passed and signed on June 30 restored the funding for all the universities to the 2011-2012 levels but the fiscal environment at all of the universities is not one that is supportive of new construction.

According to PASSHE director of construction management, Robert Unger, the 50 percent budget cut in 2010 has the system recovering even today.

"[PASSHE] was getting $130 million for capital projects each year across the system but in 2010 it was cut back to $65 million. There are not a lot of projects you can do for $65 million," he says. "We weren't expecting the cut so some of the bigger projects had to get split over multiple years. For example, Miller Auditorium at Slippery Rock had funds to get design underway but dollars are needed for construction. Ross Hall [in Edinboro] got funded to start but will need funds from another year to finish."

Unger says that during the last fiscal year they started three new projects into the system but this year there will be none. All of the 2012 allocation will pay for stages of existing construction. For 2013-2014 there are plans for only one new project, the $27 million Waller Hall renovation at Bloomsburg.

"Projects without state funding – like student centers, cafeterias and parking garages – can be done but the university must use student fees to justify the project," Unger explains. "But with concerns about rising college costs the universities don't want to raise fees while trying to hold down tuition and other costs."

California University's $25 million Natali Student Center, which bid in late October, is an example of the fee-justified projects to which Unger refers. Enrollments have dropped at state universities due to a demographic drop in graduating high school students that will last for a few years. The PASSHE colleges saw declines of nearly 5,000 students system wide. In such conditions the probability is that projects built on student fee generation won't be moving ahead.

Adding to the System's problems is an October 24th downgrade by Moody's of the PASSHE credit rating. While there are no indications that PASSHE will default on any other obligations, the downgrade will make it more expensive to borrow in the future. Moody's cited several issues, including the declining enrollment, rising labor and pension costs and the faculty contract dispute; however, the downgrade was also in part because of the increased construction debt, some of which was PASSHE's role as guarantor for the privately-developed student housing projects.

Those projects still remain in the planning stages for several state universities in the eastern half of the state. For the most part, the state schools in the western half of PA have already accomplished large-scale replacements for dormitories with off balance sheet student apartments. Projects with more than 1,000 beds have been completed as far back as a decade at California, Slippery Rock, Edinboro, Clarion and Indiana.

Among the large capital projects that are in the hopper are Clarion's $42 million Tippin Gym, which is still in design, and

The massive Parkway West/I-79 interchange completion has been credited with boosting economic growth between Cranberry and the airport.

Public K-12 school systems have been fighting the battle of decreased resources for nearly a decade. The PlanCon moratorium that recently went into effect is the most direct threat to school districts' ability to finance new construction or needed renovations, but state-wide school districts have been dealing with fiscal attrition on many fronts for years.

One misunderstanding about the Commonwealth's reimbursement mechanism is that it is a comprehensive funding source. With the exception of the most distressed schools, reimbursement levels are generally 30 percent or less, meaning the school district planning a project must come up with the lion's share of the construction costs on its own. That means that fiscal pressures on other fronts can impact the school's operating budgets and erode its ability to meet debt service. From a financial perspective, public education has been fending off death by a thousand cuts.

Such a fresh look at the role of government in local decisions is healthy and has the potential for engaging citizens who would otherwise be apathetic about state government in real substantive decisions.

The litany of factors is not insignificant: A judicial decision to mainstream special needs students added costs to each district; the ongoing rise in legacy costs for K-12 teachers and administrators – an actuarial problem for almost all industries – has spiraled well beyond what districts and the PSEA envisioned; the funding penalties in 'No Child Left Behind' have created surprise cuts in Federal aid; Act One limited taxing options in 2006 and the repeal of the Act One Waiver in 2011 removed further opportunities; the ongoing reassessment controversy adds uncertainty about revenue potential in Allegheny County; Charter schools have taken enrollment while adding to the school districts' costs because of the reimbursement for students; and the financial crisis made municipal debt markets more expensive and less reliable until the past 12 months.

At the root of the current uncertainty about the future of the school market is the will of the current administration and legislature to have the philosophical debate about whether the Commonwealth of Pennsylvania should be funding school construction to any degree. Such a fresh look at the role of government in local decisions is healthy and has the potential for engaging citizens who would otherwise be apathetic about state government in real substantive decisions. On a practical level, however, the self-examination in Harrisburg

the long-awaited $15 million Becht Hall renovation, which is ready for bid once funding is secured for construction. Also in the pipeline waiting construction funding are Indiana University's $32 million Keith/Leonard Halls and the $30 million Miller Auditorium at Slippery Rock.

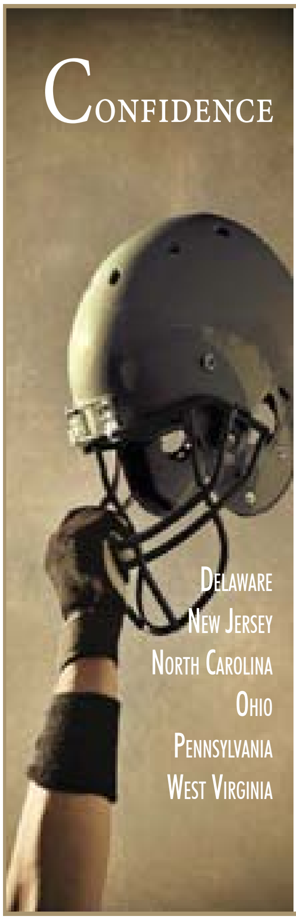
comes at a time when other pressures are buffeting the K-12 market. For architects and contractors, the political debate goes beyond an exercise in citizenship.

The downturn in public construction has already had a grave impact on architects and engineers who have specialized in K-12 design. Southwestern PA is home to some of the biggest K-12 practices in the Mid-Atlantic but most of those firms are now much smaller. Even large multi-discipline firms like Stantec – formerly Burt Hill – have been forced to reduce school studios drastically. The declining market has caused Eckles Architecture, Foreman Group and HHSDR Architects & Engineers to downsize significantly, and the shrinking market has put stress on smaller firms that have a hefty share of their billings in K-12. Some of these firms - Architectural Innovations, JC Pierce LLC and Axis Architecture, for example – are younger firms that were started by principals with extensive K-12 backgrounds.

For architects who have worked in the K-12 market for a generation or more, this kind of ebb in funding is not new but the difference in the current conditions is the will of the administration to halt funding for all construction, even for projects that are the result of proactive programs aimed at reducing costs. Architects are now being commissioned for studies that will result in consolidation and closing of schools as often as they are for new construction. These consolidation and re-purposing projects, along with those aimed at making the schools more energy efficient will have return on investment for the construction costs, but at the moment those construction costs may be too difficult to fund.

"We picked up a client who was looking at closing schools but this [moratorium] will stop them dead in their tracks," says Eckles partner David Esposito.

Many of the region's largest K-12 projects right now are reorganization/consolidation efforts. Programs that could range as high as $30 to $50 million are being studied for Highlands, Lewisburg, Connellsville, Mifflin County, Ringgold, Moniteau and Blackhawk, all districts that aren't experiencing growth. Similar re-configuration projects are planned in Penn-Trafford, North Allegheny, Millcreek and South Butler, where extended growth has slowed or demographics have shifted.



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The lack of opportunities is frustrating for those who serve the K-12 market. Nello Construction president George Leasure has built schools for more than 35 years, in some cases renovating schools his firm built new. Leasure says the disturbance in the market has produced conditions that have limited the $5 to $15 million projects, at one time the meat and potatoes of the school market. He says Nello has recently looked at their forecast for the K-12 market.

"There is always a cycle in school construction. In thirty-some years there have always been bumps in the road but we always need schools, I've never seen anything like this," says Leasure. "We're always looking out two years at the market. There will be some things in 2013 but we're very concerned about 2014."

As a veteran observer of the school market and someone who has held local elected office, Leasure is frustrated that the political and fiscal circumstances are limiting construction at what is otherwise an opportune period.

"Bond rates are at their lowest ever and improvements in schools are needed. School districts are asking if they can go it alone and get reimbursement later," he says. He feels most districts will not take that risk and will wait for more certainty. "The problem is that if you wait and bonds go up, the cost of the whole project will go up significantly. You'll be no further along than if you didn't worry about the reimbursement."

The Forecast

Going into 2013, there are clearly problems facing public owners who want or need to do capital projects and maintenance. Conditions like these haven't been experienced in a generation so the austerity and fiscal pressure will be new to many of the firms and business executives in the design and construction industry. If you are in the business of serving the publicly-funded construction market, it's clear you'll need to make some adjustments to your plans for the middle of the decade.

So where might the clouds be clearing? On the funding side there isn't a lot of optimism. Pennsylvania's tax receipts are growing again, as are most states. It is clear, though, that this administration will use any unexpected revenue gains to erode the deficit it inherited. The ad-

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Pittsburgh South Side Works Wexford mbm-law.net ministration has also shown a willingness to put forward very austere proposals from which it backs off at the time of budget negotiations. Cynical observers and Corbett opponents see this as a political ploy to beat back increases, but the pattern so far has been that government agencies have been able to work with current funding levels instead of slashed budgets. Another glimmer of hope is that the governor will be running for re-election by this time next year and politicians up for election are generally more reluctant to cut resources. Whether or not that pattern will hold with Tom Corbett's campaign remains to be seen.

A better source of optimism is the recovering economy and healthy job growth in western and northeastern PA. Gov. Corbett has embraced the natural gas industry as a growth engine. If the development of that industry plays out as predicted, the base line for the economics of public finance will improve radically. Of course, the timeframe for that is more evolutionary than immediate. It's also worth noting that the biggest drivers or drags on public construction are statewide issues. As sunny as things have been in Western PA, the climate in southeastern PA remains gloomy. Given that metro Philadelphia is roughly four times the size of metropolitan Pittsburgh, any administration will have to address problems there to a greater degree than the balance of the state. Pennsylvania's economy is moving in a better direction than many regions of the country, but economic growth won't be sufficient to significantly grow government revenues for the next few years.

The boom in public construction in the 1990's and early 2000's was in part a reaction to the austerity of the decade before and in part a result of extending debt into the future. It appears that future is now. Like many of the households in America, governments have to de-leverage before another construction cycle begins. BG

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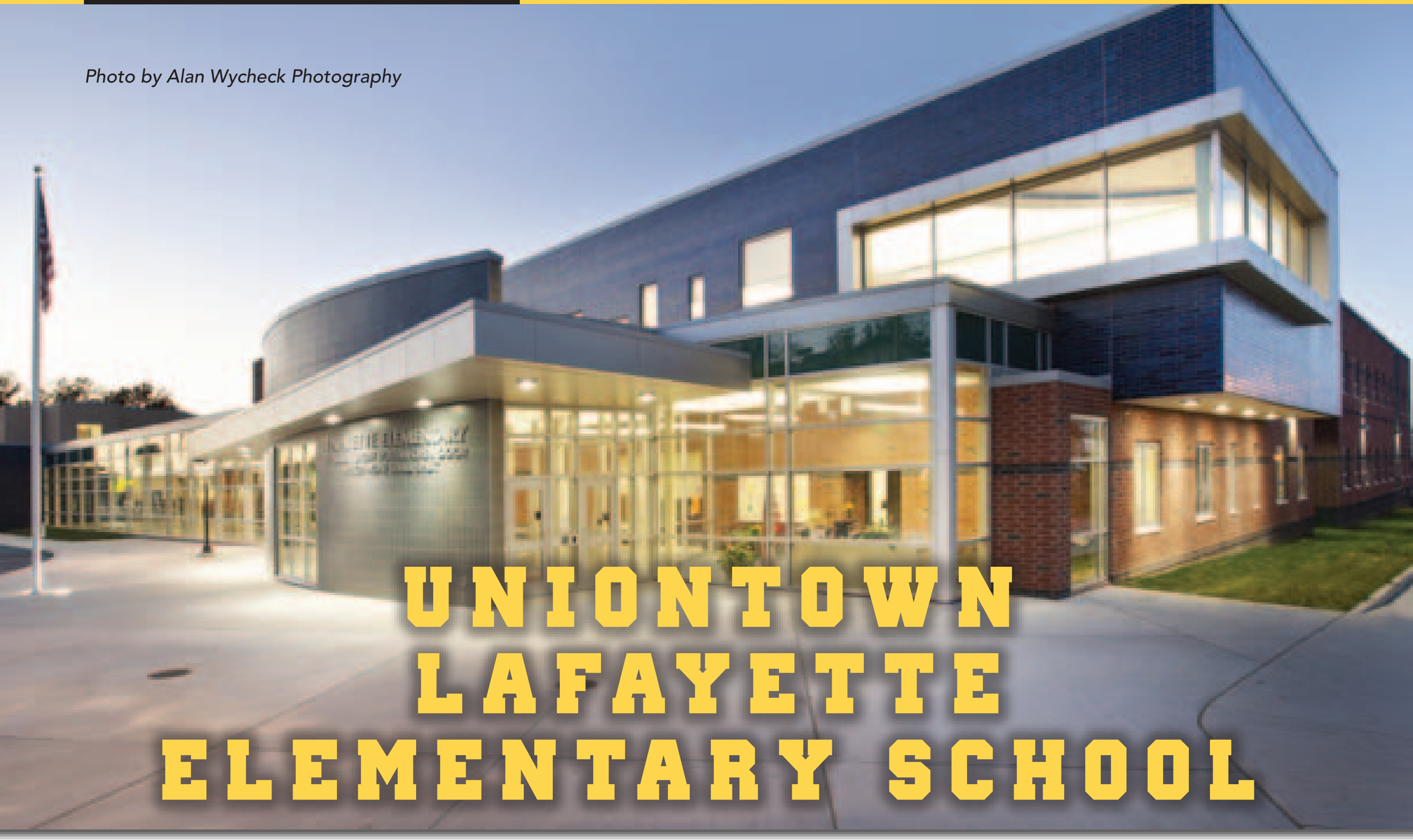

Photo by Alan Wycheck Photography

Uniontown Lafayette Elementary School

They say that good things come to those who wait. For elementary school students in Uniontown that adage certainly seems to apply to the transformed Lafayette Elementary School, although the patience may have been imposed upon them.

Uniontown Area School District was in the process of a major capital improvement program in the mid-2000's that was meant to update the district's buildings. The district planned to invest roughly $50 million in the facilities and bid the first and largest project, at the high school, in 2008. There were opponents of the plan, which devoted more than $40 million of the funds to the high school, and when elections shifted the sentiment of the school board away from the high school plan, the project – which had already been awarded – was cancelled. The newly-elected board decided to take a fresh look at solutions for their facilities problems and sought a new architect.

One of the firms that responded was Crabtree Rohrbaugh & Associates (CRA) from Mechanicsburg. Along with an extensive resume of educational projects from several states, CRA had a reputation that was especially appealing to Uniontown Area School District. The firm focuses on designing schools that are less expensive to build without giving up any integrity in design. Project architect John Beddia felt that was an important quality for Uniontown.

"We knew there was a lot on the line for them. This was the second attempt and no one wants to keep paying architectural fees without getting anything done," he says.

Beddia says that the firm's projects were regularly among the top schools listed in the Department of Education's now-defunct Report 30, a listing of what school projects cost across the state that was given to school districts and architects. On at least one occasion CRA projects were listed as the lowest cost per square foot for all three levels – elementary, middle and high schools.

Uniontown's school board decided upon CRA as the new architect and proceeded with a program that was going to address the needs of three schools – Uniontown High School, Ben Franklin and Lafayette Elementary Schools – with a total combined budget of $51 million. For Lafayette the work was overdue and much needed to address a number of issues, according to Robert Smalley, the district's director of facilities.

"The school needed a complete update. All the work that had been done there over the years had been before the school used computers," he explains. "The last time was 1983 so bringing the building up to meet the bonanza of today's technology was high on the list of priorities." Smalley says that the complete list of priorities was fairly extensive. "Lafayette needed power and HVAC to function properly. It had structural issues that come with age – brick deteriorating, leaks, etc. – and the building had access issues with circulation. There were places in the school where you had to go upstairs first in order to go down."

Lafayette Elementary was actually a K-8 school that essentially consisted of two separate buildings. The original structure was built in 1926, with an addition in 1983. The original building was barely suited to the educational purposes of the 21st Century and the addition had little to recommend its use either. During the 1983 addition, the school's gymnasium/auditorium had been renovated to remove the auditorium seating, leaving steeply sloped ramps down to the gym floor. Reconfiguration of the buildings to serve elementary and middle school students had left Lafayette inadequate to meet its enrollment needs.

"Lafayette had been neglected for more than 20 years and the building was in poor condition," remembers Beddia. "It didn't meet many of the building codes and some of the state standards for education facilities. There were a number of classrooms under 660 square feet, for example."

Beddia explains that the first goal of the project was to keep the students at the Lafayette School while the work was done so CRA had to figure how to meet the program needs without taking the kids off site. They devised a phasing plan that called for building a new classroom wing, demolishing the older wing, renovating the remaining wing and completing construction of the new common services area that would contain the cafeteria, library and gymnasium. He also says that the complicated plan was not their first choice.

"We might have more easily built a new school on the site just behind the existing school and then demolished the old school entirely, but when we did soil samplings we found that the center of the construction site was fill so we had to go a different route."

Linking two brick buildings from different eras with a new addition offered CRA an opportunity to stretch their creative legs. The 1983 addition was considered architecturally undesirable and CRA didn't want it to be the tail wagging the dog for the design. They chose instead to bring Lafayette up to date by adding new construction that bore no resemblance to what was there.

"In those kinds of cases you can either go with something that is contextual or with something that is a complete departure," says Beddia. "To their credit the board decided to do something special with Lafayette. I remember one board member said 'these kids waited the longest and they deserve something more modern and more like an elementary school.'"

What was designed when the project went out to bid in the spring of 2010 was a combined 60,000 square foot new construction project with only 22,000 square feet of the existing school remaining to be renovated. The new classrooms involved brick and block masonry bearing construction. For the linking structure that would serve as the elementary and middle school students' cafeteria, library and gym – and also be the elevation facing Connellsville Street – the architects designed an exterior with curtain wall and architectural panels. The fenestration choice provides plentiful daylight and the blue and gray exterior gives a colorful curb appeal. Putting the common service areas in a new wing also allowed for the public areas to be separated from the academic areas, solving one of the more persistent problems with using the existing building.

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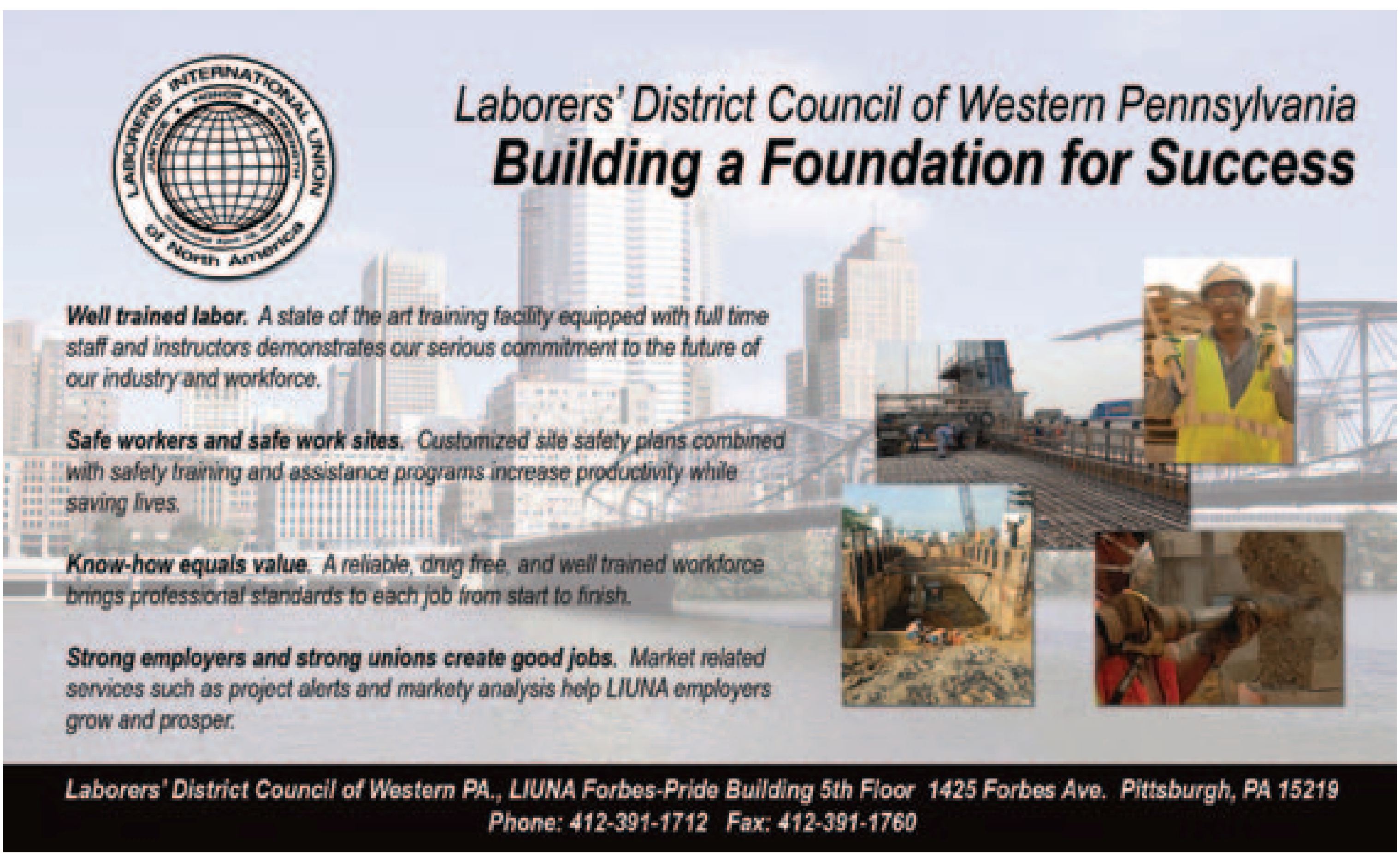
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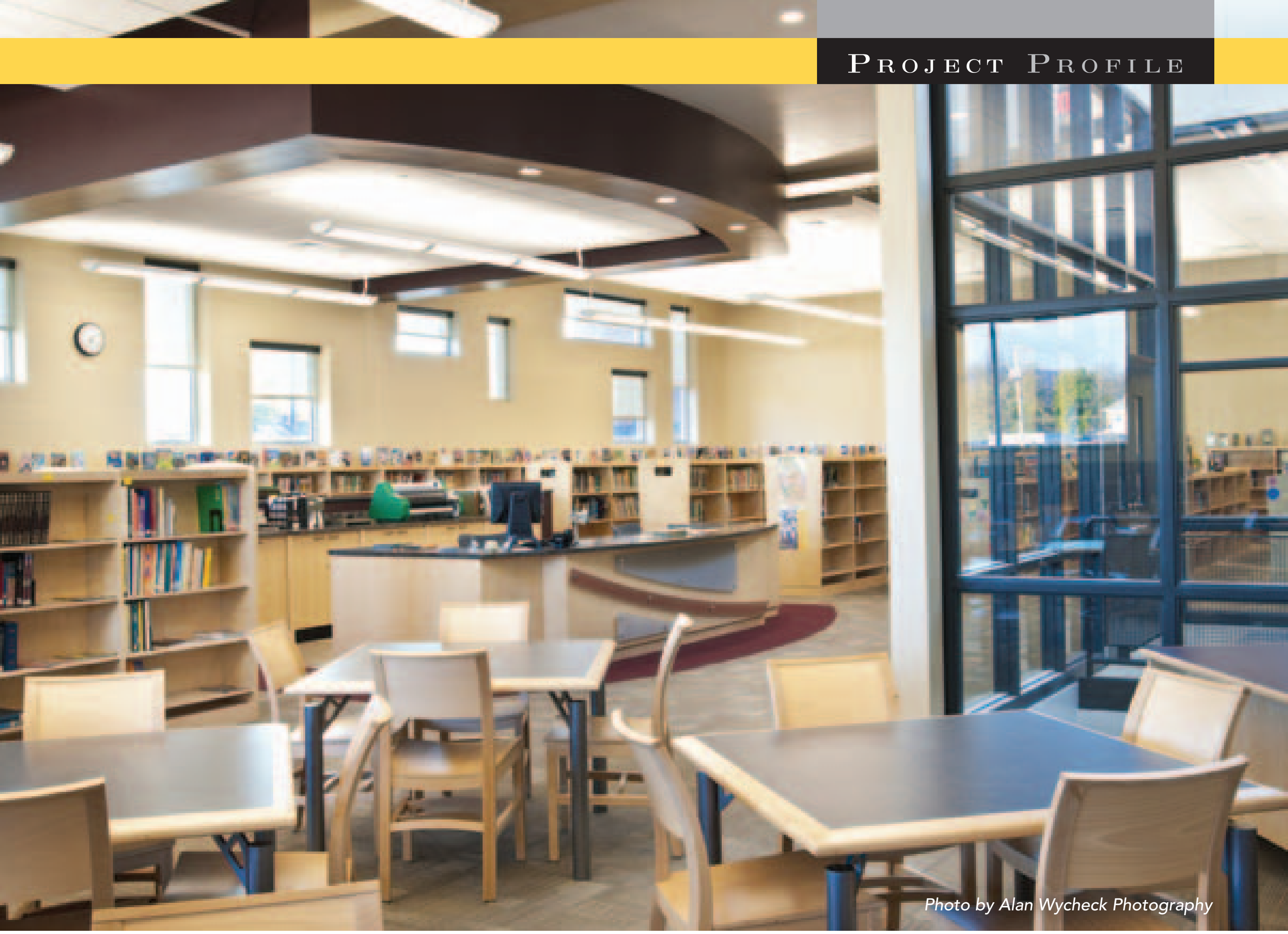


Photo by Alan Wycheck Photography

With a new Lafayette School design completed, a final hurdle still remained in getting the project bid within the budget. Even though CRA was confident in their ability to do just that, the school district had agreed to bid all three projects at virtually the same time, putting the projects out for bid within a three-week period so they could award all at once.

"Our necks were on the line," remembers Beddia. "We had to put alternates in so that if we got favorable bids we could look at what items we could put back in, like the terrazzo. All three schools came in under budget and they were able to get some things that we never thought would be afforded."

The Lafayette project came in at $11.9 million but getting low bids under budget is only the first step in the process. Bidding public projects in PA doesn't allow for prequalification so the school district and architects had to hold their breaths to see what contractors had been the low bidders. For Lafayette Elementary School, the low general contractor was Yarborough Development Inc. John Beddia had not worked with Yarborough before but didn't have to wait long to get a reading on how the project might go.

"Our field guy had worked with Yarborough previously when he was with another firm and on bid day he had a big smile on his face," Beddia says. "He knew the kind of contractor they were and what they were like to work with."

Yarborough's project manager, Jim Ross put the project together using the phasing plan that was developed but he says the plan couldn't cover the level of detail needed to schedule all the aspects of the project. Ross says that keeping two levels of students in separate wings – which were operated as separate buildings – while executing a complex multi-year project and maintaining a semblance of regular activities was by far the biggest challenge of the project.

"The existing school was originally an 'L' shape. They kept the 1983 wing going while we built behind the old wing and then occupied the new classroom while we renovated the 1983 wing," he explains. "We were running two separate buildings at one point. Trying to keep all the utilities and systems – like alarms – going and up to code was crazy."

"The kids went without a gym and cafeteria for a whole school year in 2001 while we built the new center core area," Ross continues. "They set up separate cafeteria areas in the new wing and the renovated wing while the construction was going on."

"We looked at the capacity of the enrollment and decided at any one time there had to be a minimum of 16 to 18 classrooms available," says John Beddia. "There was no place to have modular classrooms on the site even if we wanted to. We designed the project in such a way to do a portion and then move kids to another


Photo by Alan Wycheck Photography

PROJECT TEAM

Yarborough Development Inc.	General Contractor
Crabtree Rohrbaugh & Associates	Architect
Centerpoint Engineering	MEP/Structural Consultant
Sleighter Engineering	Civil Engineer
Whitby Inc.	Plumbing
Hranec Sheet Metal inc.	HVAC
Harris Masonry	Masonry
Multi Metals Inc.	Structural Steel
J. J. Morris & Sons	Interiors
Pennsylvania Roofing Systems Inc.	Roofing
Roman Mosaic & Tile Co.	Terrazzo
Commercial Appliance Contracts	Food Service Equipment
Artex Painting & Decorating	Painting
Reed & Associates	Casework
Architectural Window Systems	Curtain Wall/Panels

section. When we had all the classrooms done we had to create temporary administrative space and an entrance for parents to access the school."

For Rob Smalley, the coordination was the critical piece to the success of the project and some of the critical coordination had little to do with construction. "The challenge was to make the phasing plan work and remain operational throughout the project," he says. "We did move the kindergarten classes into other buildings to minimize some of the disruption. [During 2011] the cafeteria was used as a warming kitchen with transportation of food from the high school, which is nearby."

Smalley also found the contractors very adept at managing their roles in what was a facility-wide juggling act. For his part, Jim Ross views the sequencing challenges as fairly routine. Yarborough and a number of the subcontractors have decades of school-building experience so accounting for relocation of students and services is really nothing new, but Rob Smalley doesn't view what took place as standard operating procedure at all.

"The 1983 building was attached to the 1926 building and separating the two buildings without damaging the remaining building was tricky," he notes. "Yarborough's superintendent was fantastic. He was in there with the engineers and the structural fabricators planning the separation to the last detail. It took four to five weeks to do that demolition but Yarborough worked out the sequence so that they could do the demo from both ends of the building and clear out the middle without any problems with the remaining structure."

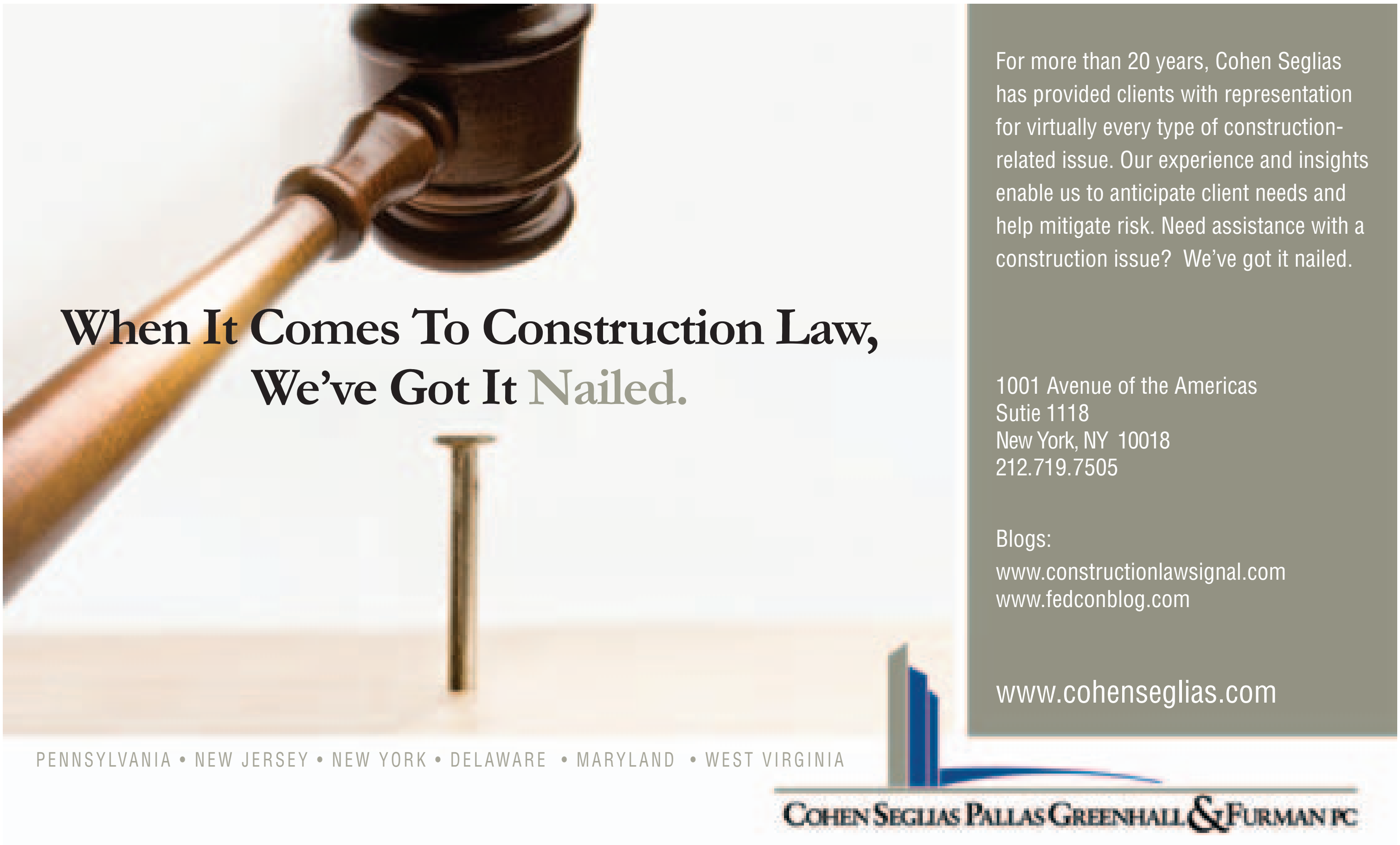
The sequencing of the construction did hit all the critical milestones over the course of the three summers and two school years. Work actually started in May 2010 on the new wing as the school year wrapped up. The students moved into that wing for the 2011 school year as the renovation of the 1983 wing continued. Construction of the connecting common core was completed and ready for occupancy before the end of August 2012. With the students back in the new Lafayette School all that remained was some punch list items and the final closing out of the change orders. The latter was a process Rob Smalley actually seemed happy to undertake.

"The change orders on the job were very limited. We adjusted some classroom sizes and we found that we left out a science demonstration table from the bid documents," he says. "We started out the project with a couple of credits so I know that we, Yarborough and Crabtree Rohrbaugh will work through the changes and it will wash out."

The completed project gives the elementary and middle school students separate academic spaces that are appropriate to their learning and common purpose spaces that are safer and easier to access. Lafayette has a new gymnasium that is designed to meet PIAA standards for a competition gym, something that gives the middle school students a better environment for athletics. And the cafeteria and media center – "we used to call them libraries," jokes Jim Ross – are up-to-date and full of light from the curtain wall exterior. That exterior elevation is one element of the project that sticks with the project participants.

"The core section that ties the two wings together is really nicely done. There are nice architectural details with beautiful terrazzo patterns and architectural ceilings," observes Ross. "When you drive down Connellsville Street it really catches your eye. It's very modern. The people in that section of Uniontown are really impressed with it."

Rob Smalley agrees. "It's a departure from any other building in the district and is getting a lot of positive comments from around the area," he says. "One of the suppliers said he had been hearing good things [about Lafayette] from around town. I knew what he was fishing around for so I invited him over to take a tour." BG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SPECIFIED SYSTEMS INC.

BY DEBORAH KNOX

Bill Wilson

Specified Systems, Inc., established in 1992, has grown to become one of the region's most prolific erecting distributors of architectural aluminum windows, aluminum storefront and doors, low-rise aluminum curtain wall and specialty glazing. Based in Canonsburg, PA, the company covers a large geographical area extending north to Erie, PA, south to Clarksburg, WV, east to Harrisburg, PA and west to Columbus, OH. The company maintains direct working relationships with Guardian, PPG, Tubelite, Kawneer, YKK, and Traco.

"I've been in construction since high school," explained Bill Wilson about his start in the industry. "I worked at 84 Lumber all during college (at Indiana University of Pennsylvania)," and then went full time after graduation. Then, he worked at Busy Beaver, and finally landed at Three Rivers Aluminum (now TRACO) where he was introduced to the window manufacturing business. Over the years, he started the window division at Cassady-Pierce and then went on to be the VP of Sales at Jem Products.

Through those years, Bill developed relationships with the contractors and designers in the region, and figured that he had the tools and know-how to start a business specializing in commercial windows.

So, in 1992, at the age of 38 with a young family, he opened Specified Systems. He financed the company with his personal home equity and credit cards. And, at the end of the first year, the company had $135,000 in sales, and he kept digging in.

In 1993, Walt Carmen, with whom he had worked at a local window manufacturing company, joined in. Walt went six months before getting his first paycheck. That second year, they pressed harder and developed more relationships, and qualified for business credit. That year, after all of the bills were paid, they had $8,000 left over and Bill thought, "We're really going to make this work."

Year three brought in sales over $1 million and growth remained steady through 1995. In 1996, TRACO decided to transition out of the direct installed sales business and Specified was offered the first regional dealership for TRACO windows. That year they bought their first used truck. From those humble beginnings, the company evolved steadily.

Even after year three, they couldn't afford office space, but Wilson believed that coordinating the sales force with the clients, fabricators and projects would be the key to their success. "We put in (the first LAN) servers so that the sales force could trade files," he explained. "We put money into technology wherever possible" and stayed out in front of software advancements. It has kept the company running efficiently since the employees could communicate and could track progress constantly. He believes that because of this commitment to using the latest technology that "we were able to react to client needs and we're still committed to using the best technology today." He admits that the amount of data processed in the company is "mind-boggling."

One of Specified Systems' first partnerships was with Pittsburgh Builders Exchange. "We were one of the first firms to utilize the PBE internet plan room," he explained. He's been active with the group since early in his career and will be installed as president of the Board of Directors for 2013. "I can't say enough about how the PBX plan service helped us as a company," he added.

In this age of heightened communication, Wilson believes there's a drawback to the response availability. "Sometimes people need you to respond too fast," he explained. It takes time for suppliers and fabricators to offer solutions. They have to rely on supply side to react quickly and he believes that manufacturing hasn't kept up with the technology that is now used on the contracting side.

With most business conducted by email, he laments that "we're (almost) in an era of over-documentation," Wilson takes an adaptive view to response time, in that it's important to get information flowing in productive ways. His staff has to maneuver through four or five systems to accommodate their clients, and added that many suppliers around the industry have not kept pace. About his company, he added, "From a business standpoint, the decisions we made in the 90's have paid off and we're proud of the results."

In the industry, there are a lot of consolidations, so they have to keep pace "and still provide consistent service to our clients," he explained. It's very dynamic. The biggest liability the company faces is the irregularities around the industry, and they've been working to change that. "In 2005, we sat down and changed the way we're doing business," he said. While they used to rely on subcontractors for erection, he said "it was torturing us." His team started looking for property to set up their own manufacturing facilities, and invested in their own erection company. They now have 35-50 installers out in the field on any given day. With that comprehensive service model, they've been able to get through volatile economic times.

Bill's always been aware of his middle class roots. "I didn't come from endowed money" to start the business. Wilson always expected to work for a local company – now he has his own. He had a simple vision at first to have a steady income, but he has learned it's so much more. "I didn't know when I started that business is about stewardship and the moral responsibility that comes with it," he said. "I've come to learn that the people working for you are like family, and I depend on them. Across the hall I look at people who have been working with me for years and realize that they rolled the dice with me" on the company's success. He knows that he has been entrusted with creating an environment where they can thrive.

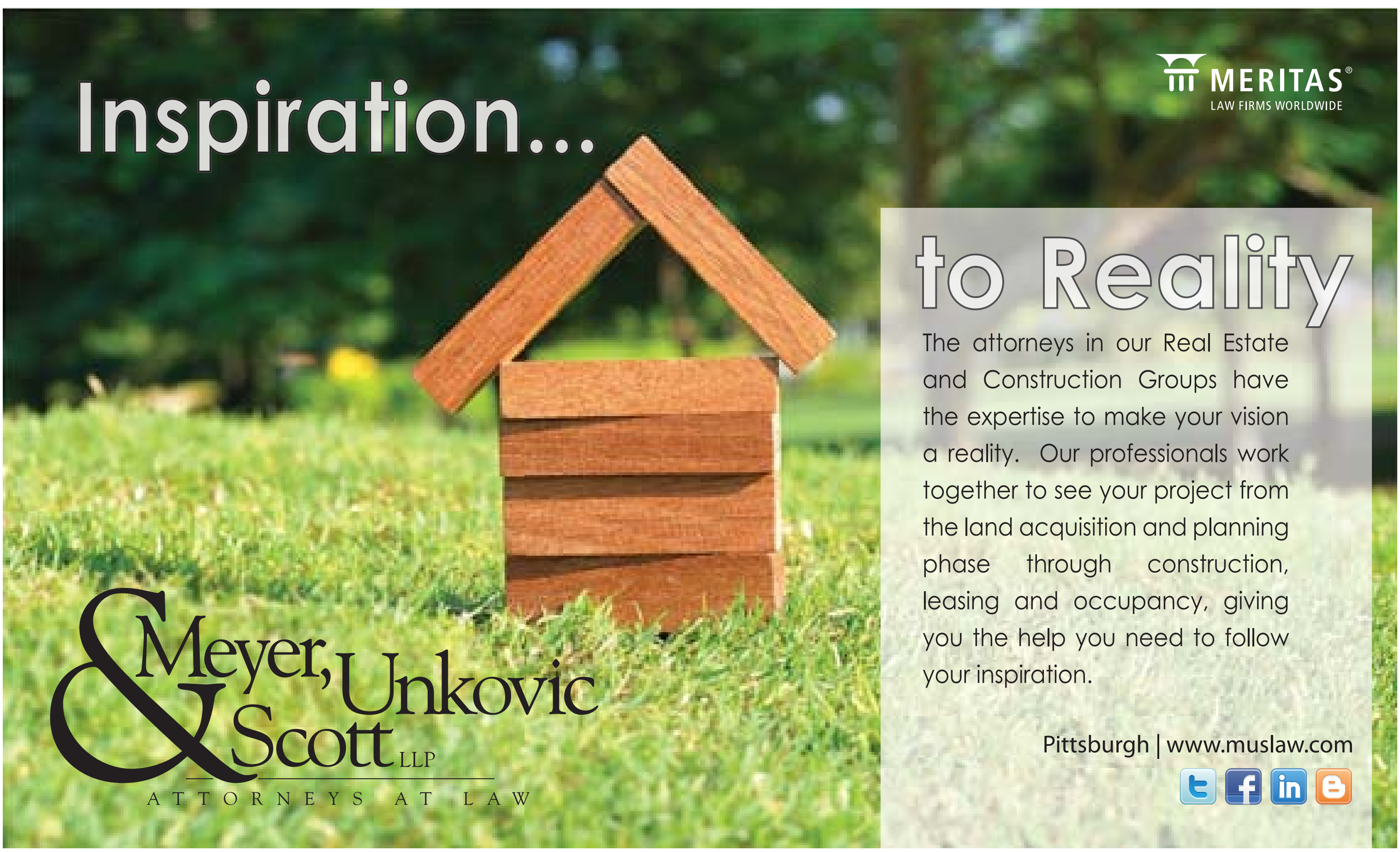
He added, "Our attitude is unique in that we try to put people in creative environments. The glass business is exciting." He wants his company to project a certain look, and try to find and combine product lines that fit the projects and introduce new product technology at the same time.

Specified Systems has supplied and installed glass at several noteworthy projects in the region. He referred to Baldwin High School and Moon High School as banner projects where his team was able to be involved from a design standpoint. They have been at the forefront in product development working with manufacturers to develop new products that bring a lot of value to building owners and architects.

In recent years, the company has worked on significant historic restoration projects. In 2007 they started work on the four Pennsylvania State Capitol buildings in Harrisburg as part of an energy renovation project. He explained, "Each building had different requirements and the work continued for more than three years. " He said it was extremely challenging from a design standpoint and erection standpoint, partly because they were working in occupied offices most of the time. The company also had to be well capitalized, to sustain itself with the large volume of product and labor cost over years. "(We) got through that without a lot of problems – just the normal problems," he said.

Increasingly, they've been assisting with project design in educational and commercial building. In 2011, the company finished the windows on the School for the Blind building in Oakland. For that project, they matched the original windows, and he proudly said, "You can't tell from the street that those windows were replaced," and adds that the project was very complex. The same was true for the main Administration Building at Seton Hill University. "Our clients bring us in because they know we know what to do, and have good suppliers behind us in those noteworthy challenges. They are currently installing Sage's electro-chromic glass at Grove City College. This is the first installation of this product in the region.

In the past year, The Bakery Square development in East Liberty is a point of pride for Wilson and the company. Working with PJ Dick, they did the glass work on the former Nabisco plant in East



Liberty. Bill said, "When we went in there the first time we thought, oh my gosh maybe they should tear this down, but if you look at the building today, it's beautiful." The facility is actually a series of adjoined old buildings and nothing lined up. It's an optical illusion that the windows are aligned, and he added "That was easier said than done". During construction, there were multiple projects in varying stages of construction going on concurrently. Other teams were building the hotel and fitness facility while they were performing the window installations, which made for a very hectic jobsite. He added that the project utilized every product in their line.

"We started out supplying basic orders to our first GC customers, Nello Construction and Yarborough Development, and we are still working with them today," he explained. Now they're planning for the future. Bill's not looking for a luxurious retirement, but actively planning the company's next steps to perpetuate the company. "Our company has grown from $135,000 to $11.5 million in sales, and we have 29 staff people plus the field personnel. I know that nothing happens by accident, we've worked hard and for whatever reason, we were able to be successful. We weren't smarter – we've had good fortune," he said. He has always looked at the business as a responsibility, and with so many employees planning is the key. Now the Specified Systems team is developing the strategies and plans to keep the company strong - someday without him.

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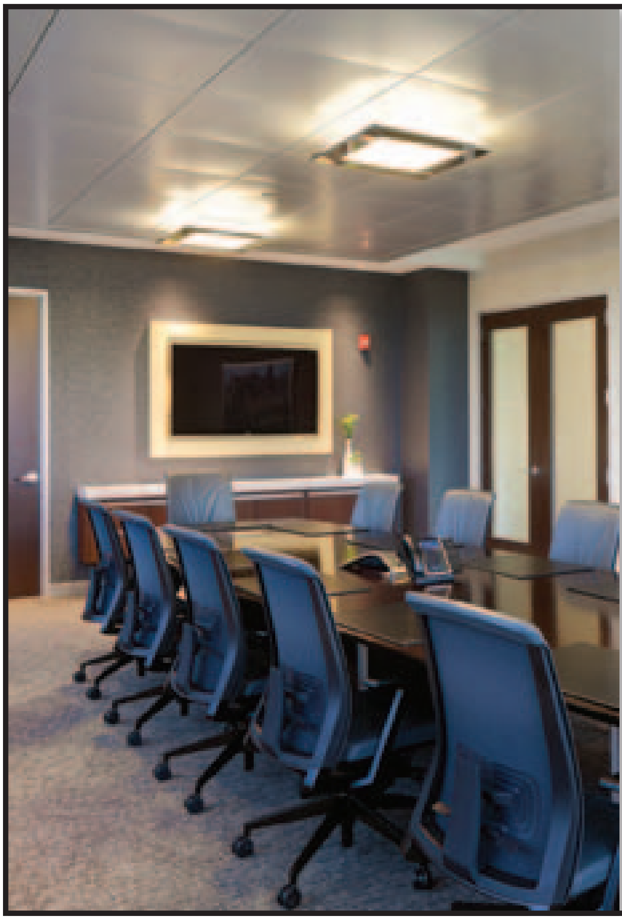

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Working Out of State in Ohio and West Virginia: Exploring Projects Throughout the Tri-State Area

By Ross A. Giorgianni, Esq. and Michael D. Klein, Esq.

Depending on how you celebrated Columbus Day earlier this fall, you may have heard the following well-known poem:

In fourteen hundred ninety-two
Columbus sailed the ocean blue.
He had three ships and left from Spain;
he sailed through sunshine, wind and rain.

In a similar vein, Star Trek's Captain Kirk explored strange new worlds and went boldly where no man had gone before. As these two gentlemen understood, exploration can lead to glory and treasure, but only for those wise enough to survive the dangers.

Pennsylvania contractors are increasingly seeking to take advantage of public and private opportunities in West Virginia and Ohio, and doing business with subcontractors and suppliers from these states. Emergent opportunities which may tempt a contractor to traverse its traditional Pennsylvania boundaries include design-build projects, public work, and rapidly growing energy development ventures, including work related to extraction of Marcellus Shale gas.

While exploring such opportunities may not equate to the discovery of a new world or battling Klingons in outer space – as unwary contractors have learned the hard way, it can nevertheless present its own set of challenges for an unprepared stranger in a strange land. Along with the benefits of these expanded opportunities, there are also increased inherent risks which must be understood and assessed to maximize the probability of a successful project.

Project Control

As a purely practical matter, a contractor's risk increases as a function of its geographic distance from the project site and from the area within which the contractor may have a history of successful projects and well-established relationships. The benefits of such experience and relationships diminish as the contractor loses some degree of control as a result of engaging subcontractors and suppliers about which little is known, potentially using out of town personnel or an unknown work force, and working with architects and owners about which very little is known. As famed musical explorers Led Zeppelin sang, your project is Over the hills and Far away. Your standard operations and procedures may be extended beyond the comfort zone from which and for which they developed. As a result, the ability to carefully monitor progress and performance, and keep intimately apprised of issues as they occur and develop becomes more costly and less likely to occur. Of course, the increased costs of identifying the potentially most risky subcontractors or suppliers and keeping track of their performance including their payment of all vendors, subcontractors and benefits can be critical. Such costs must be understood and taken into account from the onset.

Construction-Related Legal Issues in Ohio and West Virginia

With respect to construction law, the State of Ohio has several statutes specifically applicable to construction issues such as Ohio's Fairness in Contracting Act, Anti-Indemnification Statute and Prompt Payment Act. By way of example, under Ohio's Fairness in Contracting Act, the following provisions are void and unenforceable in any contract for a project located in Ohio:

- Any waiver of bond rights;
- Any waiver of claims upon final payment where there has been notice of the claim;
- Any waiver of delay damages where the delay was caused by the party asserting the clause;
- Any agreement that the laws of a state other than Ohio will govern the contract; and
- Any agreement that resolution of disputes concerning the contract will occur in a state other than Ohio.

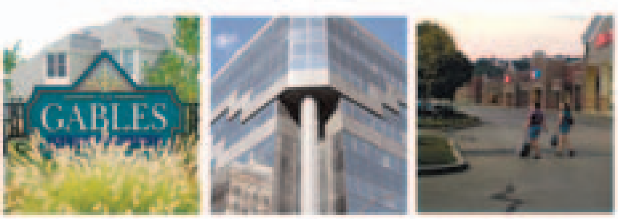
The State of West Virginia does not have similar construction specific statutes. Indeed, few states presently have as thorough a statutory framework for construction-related issues as is found in Ohio. As in Pennsylvania, both Ohio and West Virginia do have statutes governing bid, performance and payment bonds on public projects and mechanics' liens on private projects. In Ohio, lien and payment bond rights extend to every tier of subcontractor or supplier. Ohio law requires that notice of payment bond claims be provided within 90 days of acceptance of the project, and that suit on the payment bond claim be filed within one year of acceptance of the project. Affidavits of mechanics' liens must be filed within 75 days of the claimant's last work on private commercial projects in Ohio. In West Virginia, lien and payment bond rights in most cases extend to contractors, subcontractors, sub-subcontractors and suppliers to subcontractors, but not to more remote tiers or to a materialman's supplier. Absent contrary language in the bond, West Virginia law generally allows payment bond claims to be asserted for up to 10 years after the claim accrues. Notice of mechanics' liens must be recorded and served within 100 days of the claimant's last work under West Virginia law.

To account for the significant risk to the contractor of unknown claimants which results from such an expansive field of prospective claimants, Ohio implements a system whereby if the owner has filed an appropriate Notice of Commencement, claimants not in privity with the general contractor are required to serve a Notice of Furnishing in order to preserve their rights. The Notice of Commencement/Notice of Furnishing mechanism ultimately benefits both general contractors and owners by precluding unexpected claims from unknown sub-subcontractors or vendors which can otherwise come completely out of the blue. It should also be noted that legislation requiring similar Notice of Commencement/Notice of Furnishing mechanisms was passed earlier this year by the Pennsylvania House of Representatives and is currently pending in a Pennsylvania Senate Committee.

While West Virginia lacks the broad statutory framework of Ohio, West Virginia courts have established through case law that clear "pay-if-paid" provisions will be enforced, and that contractors can assert direct actions against design professionals despite a lack of contractual privity. Likewise, clear and unambiguous "pay-if-paid" provisions are enforceable under Ohio law, although Ohio's Fairness in Contracting Act prohibits asserting any such conditional payment provision as a defense to a lien or bond claim. The Supreme Court of Ohio has also recognized the possibility that, under appropriate circumstances, a contractor could have a claim against a design professional despite the lack of privity between the parties. The cases in Ohio, however, appear thus far to take a more narrow and restrictive view of this possibility than have the courts of West Virginia or Pennsylvania.

Nevertheless, the relative scarcity of statutory or clear case law as to specific construction issues creates a heightened level of uncertainty under West Virginia law. What John Denver deemed Almost Heaven, is not necessarily heavenly for the contractor seeking to assess and manage project risks under West Virginia law. Both West Virginia and Ohio have specific procedures and courts to adjudicate claims against public entities, and it is critical that all statutory and contractual

Results.



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requirements for time extensions, change orders and claims be strictly followed. Indeed, recent cases from the appellate courts of Ohio have affirmed the dismissal of contractor claims based on untimely notice and failure to follow contractual procedures. In other words, having dismissed the contractor's claim on a procedural basis, the merits of the claim are not even considered by the court. Fellow musical explorer Neil Young could lament their claims – Tin Soldiers and Nixon Coming, Untimely Claims Dead in Ohio.

Finally, it should be noted that the availability of design-build and other alternative project delivery systems is on the rise in West Virginia and Ohio. The West Virginia Design-Build Procurement Act has been in place since 1999 authorizing the use of design-build for non-highway public projects. The similar Ohio Construction Reform Act was passed in 2011. The regulations governing the use of design-build, and the procedures for contractors seeking qualification and submitting proposals are intensive and costly. Given the relative newness of the use of such systems on public projects, particularly in Ohio, significant law remains to be developed in these areas.

Conclusion

In order to maximize the benefits of expanding the area within which a contractor can bid and perform projects, the contractor must carefully assess and account for the likely impact of the practical and legal issues that arise from such an expansion. Not every risk can be completely controlled, but the importance of carefully identifying the most likely and significant of those risks and implementing reasonable measures to minimize them cannot be overstated. Renowned musical expeditionary Bob Dylan correctly sang, you don't need a weatherman to know which way the wind blows. You do need, however, to take the necessary pro-active steps to know how the winds are blowing on your geographically remote projects and when to exercise the controls available.

Remember that to "explore" not only means to enter into new areas for the purpose of discovery; but it also means to scrutinize or examine closely. Do both. Do the work to understand and manage upfront the practical, logistic and legal risks of doing business in any new arena so that (despite conventional wisdom) even your first such endeavor can be profitable. Then, absorb the lessons of that initial endeavor so that subsequent efforts can be even more successful.

Please contact Michael D. Klein, Esquire (mklein@bglaw-llp.com) or Ross A. Giorgianni, Esquire (rgiorgianni@bglaw-llp.com) of Blumling & Gusky, LLP (412-227-2500) if you require any further information about specific contract documents or project issues arising under Pennsylvania, West Virginia or Ohio law. BG

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Financial Perspective

Municipal Bond Market Update

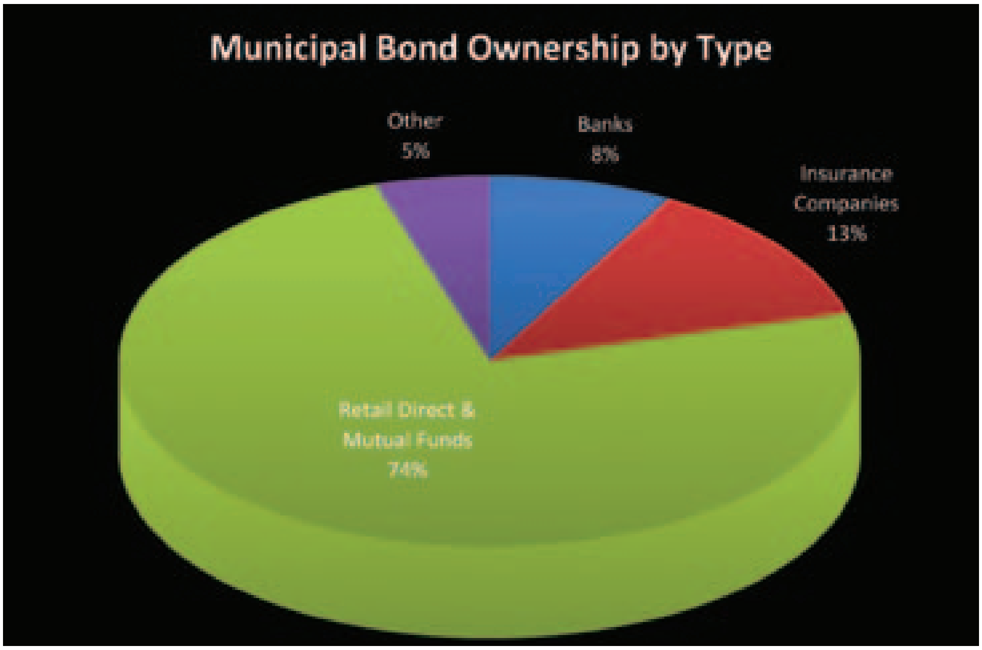
One of the most significant enabling factors for public construction in Pennsylvania has been the ability of public owners to issue bonds to borrow the cost of capital projects. As a funding mechanism, municipal bonds have allowed owners to have access to financing that is reliable and affordable, with predictable debt obligations that also offer the investor a safer and tax-exempt source of income.

Like many debt instruments, however, municipal bonds have endured a rocky few years since the financial crisis of 2008. For the most part, muni bonds remained a safe investment throughout the recession but a number of factors have created an environment that was less desirable for bond issues. Low demand has at times forced owners to offer yields that are above what the market should be and brought bond prices down. While there have been only a handful of periods of low demand in recent years, the volatility is unusual for municipal bonds and has made it more difficult for owners to be sure of the rate and price of the bond issues, removing some of the reliability from the market. With funding sources dwindling for public projects it's important that public agencies can rely on efficient municipal bond markets. Midway through the fourth quarter of 2012, the outlook for 2013 appears to be improving.

For investors, municipal bonds represent two opportunities. One is for the price of the bonds to appreciate with increased demand. The other is the more common return on investment, which is the tax-exempt repayment of the debt. Returns on municipal bonds have historically been conservative and, combined with the tax-free income, the bonds have been attractive to those seeking steady income, like retirees. For this reason, among others, the ownership of municipal bonds has been predominantly by individuals or mutual funds on behalf of individuals.

This heavy share of retail ownership is in part why the bond market has been subject to fits of volatility and suffers from periodic liquidity problems. During the daily shocks of the financial meltdown in fall 2008, fear of total collapse of the financial system gripped investors, making even safe investments undesirable. From mid-September until mid-October of that year the number of municipal bond buyers fell to the point where there were virtually no bids for bonds. Prices plummeted and yields soared. For large regular bond issuers, the costs of the bonds fluctuated and many public owners found they had to sell tens of millions more than expected to raise the necessary debt.

Since the fall of 2008, market conditions have been more consistent, however, because so many bond investors are individuals there have been unusual reactions to the bad headlines of the past few years. The European default threat in the spring of 2010 (and 2011 and 2012) sent bond buyers to the sidelines, as did the downgrading of U. S. credit in August 2011. Defaults like the $4.3 billion Jefferson County, AL bond issue or the city of Harrisburg, have also chilled investors' interest. Minor and temporary defaults have occurred on municipal bonds in many quarters during the past few years but the fear of debt default seems to be out of proportion with the reality.



The dominance of retail ownership of municipal bonds is the main reason that reactions to negative global economic news have been extreme since the 2008 financial crisis.

The Federal Reserve reports that approximately $8.9 billion of tax-exempt debt is in default, compared with approximately $3.7 trillion outstanding, a default rate of 0.24 percent. Priced into the cost of any bond issue is the allowance for the risk of default but the spikes in yield for municipal bonds have been well out of step with a default rate that is less than one-quarter of a percent.

It may have taken a few years but it appears that investors have begun to accept that beyond the scary headlines there has been little to change the dynamics of municipal bonds. They represent a very low risk of default and with yields that nearly match those of Treasury bills, recent inflows of investment in municipal bonds have been higher than any time in 20 years.

"There's a lot of cash out there, looking to be put somewhere," says Lisa Chiesa, partner in the public finance group of Thorp Reed Armstrong. "Investors don't want to put it in Europe and they are not getting anything from Treasuries so there should be plenty of opportunities."

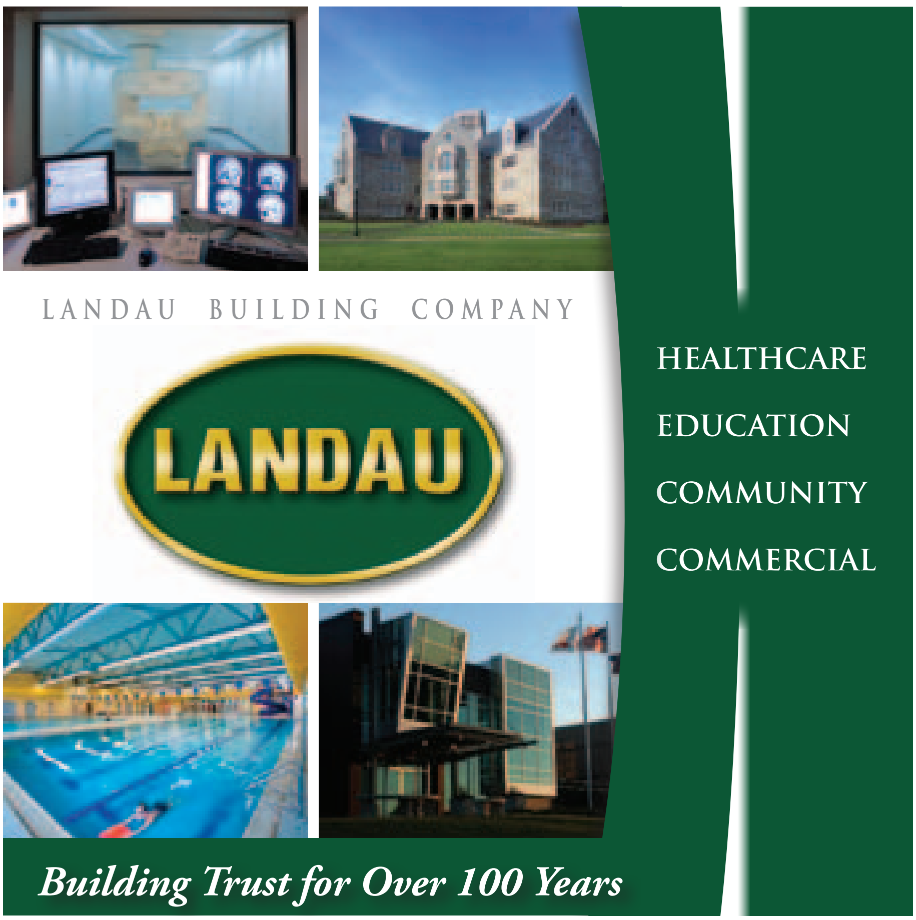
The need for infrastructure projects has not declined, even though cost-cutting has reduced the amount of construction in 2011 and 2012. A report by BNY Mellon estimates that public construction requires between $210 and $280 billion of tax-exempt borrowing and forecasts that municipal bond needs will average $250 billion through 2015. With the Federal Reserve committed to near zero interest rates during that same period, demand for municipal bonds should grow at least as fast as the supply of bond issues. Liquidity should be more than adequate, giving borrowers a return to the kinds of conditions that marked the municipal bond market historically.

Those conditions have in fact been very favorable to PA borrowers. Chiesa recalls that many public owners were able to use the bond issue mechanism to practice arbitrage with bond proceeds, using a municipal bond sale to borrow the full amount of a project while investing the unused portions during construction to offset some of the costs. With low-risk investments returning next to nothing in the current market, however, that practice would be ineffective.

What is effective in the current climate is exploiting the low rates as a strategy to manage the problems of uncertain reimbursement and tax revenue expectations.

"I just closed a bond issue for Conemaugh Township School District [in Johnstown] for a total of three schools," recounts Chiesa. "It got to the point where they had to do something. We did calculations based on getting nothing from the state and decided to go ahead by issuing bonds."

The Conemaugh school district case is a good one for examining how the mechanism works. The district has been wrestling with the need to update facilities and manage changes in educational practices in a community that is not growing or attracting taxable business fast enough to keep up. In 2006, the school board authorized



a $24 million bond issue. Over the past half decade little has changed to make the overall project more affordable for Conemaugh Township but by 2012 work had become necessary. The enabling statute, fortunately allows districts like Conemaugh's to create a parameters resolution, which sets outside parameters for a bond issue without necessarily knowing the specifics of the construction needs. For Conemaugh, the parameters resolution allowed them to issue $8.2 million in municipal bonds as a sort of draw down from the original $24 million authorized in 2006.

Conemaugh, or any school district for that matter has the authority to issue bonds because it is a taxing body, as opposed to an authority that manages a municipal function like a sewage treatment plant. The enabling statute allows the taxing bodies to issue bonds based upon the revenues generated by the entity. Counties, for example, can borrow 350 percent of the revenue base, which is the previous three years tax revenue, while school districts can borrow 200 percent. Once authorized, the bond issue then takes on a life that resembles an investment security more than a government action.

"It's capitalism at its basics. They really do dicker," explains Lisa Chiesa. "With all the technology today they still get on the phone and negotiate."

Like any other financial instrument, bond issues are subject to the same fluctuating evaluation of risk and return that investors must make before buying. Thus a bond floated at a specific interest rate and price expectation will usually experience price differences of ten or twenty basis points or a few dollars per thousand as buyers evaluate the opportunity. What is true of the current municipal bond market is that regardless of minor price fluctuations, the stars are beginning to realign so that public debt is attractive.

That doesn't mean that potential headaches don't exist. The so-called 'fiscal cliff' of expiring Bush era tax cuts and mandatory federal spending cuts, the fear of the elimination of the tax exemption for municipal bond interest – which was proposed in the 2010 Bowles-Simpson plan – or further declines in GDP all loom as potential red flags that could send bond buyers to the sidelines again.

Absent one of these doomsday scenarios playing out however, the extremely favorable borrowing climate will help public owners use debt to fill in the gap that has been left by the stressed fiscal conditions of government at all levels. In Pennsylvania, municipal bonds offer the opportunity to proceed with needed construction projects that wouldn't be feasible if funding only came from normal governmental sources.

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Howard Graves

Architect Howard Graves founded his firm almost a quarter century ago to help break new ground for African American architects. His legacy may well be that success has allowed him to create opportunities for architects regardless of their race.

Graves attended Carnegie Mellon University at a time when less than a handful of African-Americans studied architecture. After graduation, Graves worked for Milan Liptak and then took a position in the Pittsburgh office that Ohio-based architect Frank Brainard had opened to pursue the ecclesiastical market here. Brainard specialized in churches but also in a delivery system, design-build, that was not being commonly used in Western PA. Graves considers that experience very formative and thinks the emphasis on designing solutions that had to meet budget throughout the planning process has served him well ever since.

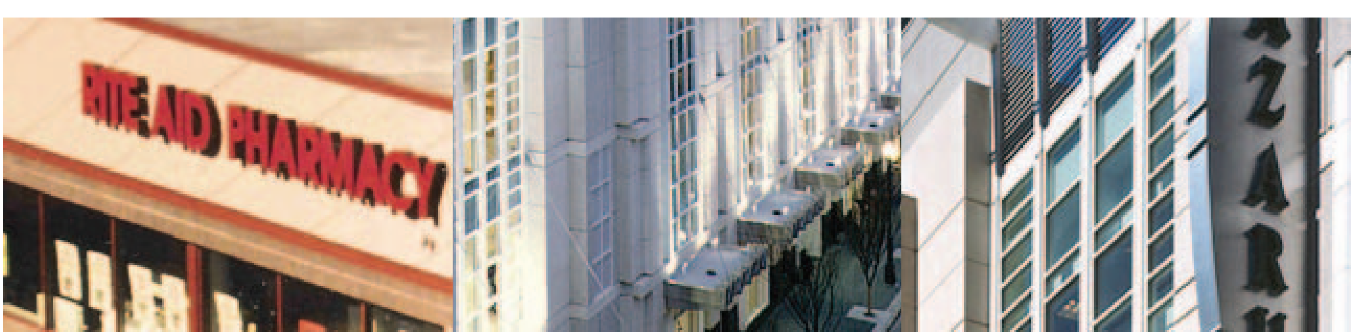
His final formative stop was a three-and-a-half year stint with the Urban Redevelopment Authority. During his time with the URA, Graves was given primary responsibility for the Manchester redevelopment program. The program involved a wide variety of solutions to the decaying housing situation in the North Side neighborhood, from entrance/exterior rehabilitation to renovations of older homes into two-unit dwellings that could produce income for the homeowner. The project gave Graves a broad spectrum of problems to solve and the resources to create solutions.

"I was well-equipped when I was hired by [then URA executive director] Steve George for the Manchester job," recalls Graves. "I had a staff of 17 working on the project and a great mentor in George Perinis."

That experience was the final piece of the puzzle for Howard Graves' career. In his mid-30's, Graves felt the call to put his experience and skill to work for himself. What he learned about his capabilities in Manchester gave him the confidence to start his own practice in 1988.

"I always wanted to go out on my own and I didn't really see it as a risk. My wife says it's because I never truly see the gravity of the situation," he jokes. "I understand her point but the minute I think a situation is lost I'm no good. I was committed to community work. I grew up in the Hill and wanted to be part of the rebirth of the Hill."

At the time Graves Architects was founded, however the Hill District wasn't as far along in its revitalization. Graves rented an office on Kelly Street in Homewood-Brushton and his early



THE CORPORATE RESUME FOR GRAVES DESIGN GROUP READS LIKE A LIST OF THE REGION'S TOP EMPLOYERS.

work had a strong community component. Graves landed a number of commercial projects in the East End doing adaptive re-use for housing or mixed purposes. The firm was able to win commissions working for the city's Housing Authority. While the work matched his mission, Graves saw that he needed to shift into a higher gear to meet the goals he set for himself when he founded the practice.

"I decided that I had to grow the business in terms of revenue not size so that I could attract and retain the kind of people we needed," he says. "Good employees need more money and benefits – things we weren't able to do – so we had to grow. We had to become a real business."

Graves saw a significant opportunity in the education sector of the market. He had both interest and some experience in the field and developed a strategy for growing the practice through work in the K-12 market. Public education was a market with a limited number of players but Graves kept nibbling around the edges. Because Graves Architects was a certified minority-owned business there were opportunities at the Pittsburgh Public Schools that the firm was able to successfully land. The K-12 work gradually became a foundation from which Graves could develop working relationships with Carnegie Mellon and the University of Pittsburgh. The MBE certification also led to an opportunity that would become one of Graves Architects' areas of expertise.

"We had plenty of experience with restoration work but we got the opportunity to do a 'Main Street" garage as a sub-consultant to WTW on the Second Avenue Garage," Graves explains. "It was at a time when parking garages went from the background to front and center in urban design. Now clients seek us out because of our expertise in that area."

That expertise includes the parking garages that make up many of the storefront elevations at the South Side Works, as well as the Lazarus garage and the CONSOL Energy Center. Graves hopes that track record will serve them well with the garage planned for the former Saks Fifth Avenue site on Smithfield Street downtown.

Graves chuckles at the perception that his firm is concentrated with URA garage or public housing work. "Someone recently referred to us as doing a lot of Housing Authority work but the Housing Authority made up less than five percent of our billing last year and this year it will be less than two percent," he says. "Our practice was 55 percent K-12 in 2009 but right now our projects are split about 25 percent education, 25 percent garages, 40 percent residential and 10 percent corporate projects."

The corporate resume for Graves Design Group reads like a list of the region's top employers. The firm is working for UPMC, PNC Financial Services, and EQT and designed the 23,000 square foot green roof for Highmark. Graves also developed a very fruitful relationship with McDonald's a few years back that could have launched his business into a national practice but turned down the opportunity to become "McDonald's architect" to avoid becoming locked into one client.

Although he still is the firm's principal designer and manages projects, Graves has begun to step back. He brought on his son after he completed his business degree and he has been managing the business side of the practice for a dozen years. In addition to his son, there are other younger members of the staff that Graves sees as becoming equity partners in the firm. Assuming that his vision for the firm's future plays out, Graves says the company he founded will have owners that are both African American and Caucasian. That's a legacy he seems happy to create.

"Four of my employees have spun off their own firms over the years. It was one of my goals when I started to bring other African American architects along," he explains. "But my wife asked me recently if I thought Graves Design would be a minority-owned firm in ten years. I told her I don't think so and I don't think that matters." BG

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Trend to Watch

A Moratorium on PlanCon Projects Highlights Challenges in K-12 Funding

For several years the K-12 education market has been slowing down. Echo Boomers had mostly moved through the school system. Pennsylvania's Act One and subsequent Act 25 limited the local taxing options. And the boom of construction that took place for a decade beginning in the mid-1990's had seen a majority of school districts undertake building programs that allowed them to upgrade or expand facilities. In mid-February of this year, however, school districts received a chilling surprise that ground a slow market to a halt.

When the Governor's Executive Review for the 2012-2013 budget was released, it contained a paragraph referencing a one-year moratorium on school construction projects going through the PlanCon process. For the cottage industry within an industry that is the K-12 market, the idea that all public school projects in design would be on hold for a year was a serious blow. During the months that followed, the details of the moratorium became more focused and what was finally enacted with the 2012-2013 budget was a moratorium on any new projects while the Department of Education (PDE) conducted a study of the PlanCon system through June 30, 2013. The working moratorium went into effect October 1, 2012 for any project that had not submitted a completed PlanCon A application.

PlanCon is an abbreviation for what the Commonwealth calls its Planning and Construction Workbook, a set of forms that are used to guide school districts through the funding reimbursement process. According to the PDE, "The PlanCon forms are designed to: (1) document a local school district's planning process; (2) provide justification for a project to the public; (3) ascertain compliance with state laws and regulations; and (4) establish the level of state participation in the cost of the project."

The process involves a series of ten steps – eleven if refinancing is involved – that are lettered Part A through K. PlanCon Part A involves the description and justification for the process, including a feasibility study sufficient to explain the rationale behind the construction. Parts B through F involve design and Part G is the bidding process. Because PlanCon ultimately reimburses less than 100 percent – usually significantly less – school districts must come up with funding for the project as well and generally have the resources to fund the design stages of the project. For this reason the moratorium should not have a great impact on projects that are being planned, except for those districts unable to get a justification pulled together by October 1. The problems in the system have come from the projects that have already begun construction and are at Part H, which is the verification of financing and the distribution of the reimbursement itself.

According to professionals involved in K-12 projects, the headaches for schools in the middle of construction have grown. Officials at PDE feel that the problems are the reason for the moratorium.

The PlanCon process has been running less smoothly in recent years. In addition to the Act One legislation, several other factors have influenced the reimbursement environment, making it difficult for PDE to keep up with the requests for reimbursement.

"The appropriation for PlanCon is down ten percent from two years ago when it was $330 million," says Jay Himes, the executive director of the Pennsylvania Association of School Business Officials. "At the same time the state allowed charter school leases to be reimbursed from PlanCon. Plus, PDE introduced a ten percent incentive for green building. It has been a perfect storm."

While the latter two developments seem innocuous and sensible enough, their timing has put a big strain on the system. The mechanics of the lease reimbursement are much timelier than a construction project, so the funds leave the PlanCon coffers immediately. The green incentive for building a sustainable and high performance project is a positive program that is available for all school districts undertaking projects. But from the perspective of the total funding available for reimbursement, the incentive for any individual project makes less funds available for the remaining projects, since the legislation enabling the incentive did not increase the appropriation by ten percent. When all of the factors are weighed, the reduction of funding available for reimbursement of construction projects is closer to $50 million less than the funding in 2010.

The result has been a backlog in the PlanCon system. Since the reimbursement doesn't occur until after contracts are awarded, the bottleneck is occurring at the time the school districts are most vulnerable and often after the district has taken on debt. The anecdotes of problems are focused on PlanCon Part H.

"Documenting how the school district is financing the project used to take about two weeks," explains David Esposito, partner at Eckles Architecture. "We have a major project at Sharon School District that is well into construction and there is still no PlanCon H approval. The paperwork has been sitting on a desk at PDE for a year now. The school will be done in summer 2013 and they don't have any of their 30 percent reimbursement."

"There are still major problems with payments. We have school districts waiting well beyond one year," says Himes. "It puts school districts in a very difficult position at a very difficult time. There are other funding cuts going on and districts aren't able to collect revenue that they were entitled to think was coming. I am aware of districts where their auditors required them to take the reimbursement off the books as a receivable."

Department of Education press secretary Tim Eller disagrees that there are shortfalls in funding or inordinate delays, explaining that the moratorium is in place to look at a long-term systemic concern.

"What the Governor wanted was to put a moratorium through June 2013 to look at the program from top to bottom to see if it is meeting the needs of the school districts," Eller says. "Everything is being examined from A to Z, including streamlining the process and exploring if reimbursement should be done by the state of Pennsylvania at all."

The latter point is one that sends a chill through architects, contractors and the supply chain for the K-12 construction market. Funding school construction has become part of the obligation that the Commonwealth assumes for the public. A change in philosophy would bring wrenching change to the market and require a major adjustment by those that serve it, but the mechanism for funding projects isn't going to reduce the need for building and maintaining school facilities. A withdrawal from reimbursement by the state would be painful for a time but the school districts would adapt and at some point the lack of construction would create another boom.

Demographer Bill DeJong points to similar financial distress in the 1980's as the catalyst for the boom that followed a decade later. He notes that the maintenance and renovation that was deferred in the 1980's still required attention and hopes that the PA school districts take a lesson from that era.

"School districts should take advantage of the moratorium as an opportunity to plan out the future and prepare for various scenarios that may result from it," he says. "They should also be prepared so once funds become available again they are ready to move ahead rather than taking another year or two to start planning at that point."

Architect Dan Engen feels that the fear of the moratorium may not be as bad as the reality, especially in light of the normal reimbursement rates in less rural areas.

"From my perspective, it is more of a scare tactic than the reality of the money. Most projects aren't getting that big a reimbursement after factoring in the ratio, maybe 15 percent," he says. Engen feels that with interest rates at record levels the low cost of borrowing is as valuable as the PDE reimbursement. "The moratorium might make people really understand that the state is funding projects at a very low rate in the greater scheme of things. Ohio gives 75 to 80 percent after referendum."

At the end of the day it may well be the discussion of what the Commonwealth of Pennsylvania wants to do about funding school construction that is the point of the moratorium. Opponents fear that the moratorium was to squelch construction but by establishing the rules of the moratorium that they did, PDE certainly did not discourage schools from going forward; in fact, according to Tim Eller 87 schools submitted PlanCon Part A applications between the announcement and October 1. That added another 45 percent more to the 200 or so projects already in the backlog.

The rules of the moratorium also failed to stop schools with an approved Part F from bidding and awarding projects, so that if the moratorium is intended to give PDE a year to get a breather from reimbursements it was not set up to do that. That wouldn't stop the Department from imposing a de facto moratorium on reimbursements by extending the approval process on Part H, which is a concern Jay Himes expresses.

"There's an acknowledgement that PDE is well behind but that acknowledgement alone won't solve the funding problem," he says. "There are schools left holding 100 percent of the debt despite the state's commitment to help them."

PlanCon has been a significant help in dealing with the Commonwealth's challenging demographic realities. Without the reimbursement, much of the modernization of rural school districts that occurred since the 1980's would not have gone ahead. That's especially important since the majority of rural construction has been done to enable consolidation of schools and districts, bringing efficiency and an end to maintaining buildings that were past their useful life. A renovation of the PlanCon process sounds like it is in order but ultimately no administrative process for reimbursement will be effective if the state lacks the will to adequately fund it.

Critics of PlanCon and state funding of school district construction have made a compelling case for local taxpayers to approve and fund local school projects; however, the property tax protections that were put in place during the Rendell administration severely limit the local options.

How thorough the top-to-bottom examination will be is the concern of Georgia Glass, director of marketing and business development for Architectural Innovations. As you might expect, she is opposed to a decision not to fund school construction at all but wants to see such a decision be completely vetted.

"Is there a group out there studying the tax implications of the moratorium and where are they?" she asks. "Is there a study being done on the economic impact? There are three parts to this: there's the PlanCon piece; the tax implications; and then there's the economic impact to companies like ours and the people like our vendors and suppliers."

Whatever the final outcome Jay Himes shakes his head at the timing of the moratorium and the lost opportunity for the long haul.

"The irony is, how things are now is ideal. You have historically low interest rates and a relatively hungry contractor base. You can't usually get a combination like that," he says. "From a financial perspective you couldn't pick a better time to do a construction project." BG

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Event details to be posted first on the Evening of Excellence group on LinkedIn.
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See you on February 28th at the Evening of Excellence!

Low Impact Development – It Just Makes Good Economic Sense

By Brian N. Neilson, PE, LEED AP

The use of Low Impact Development techniques for site development has finally come of age. The arguments that green infrastructure is too expensive and there is no economic value of using it have been soundly rebuked with each new project over the past 15 years. It isn't just an East or West Coast environmental fad or phenomenon. It has become the industry trend, if not standard, in providing potential cost savings for new development as well as re-development opportunities. It is also just good business.

So what is Low Impact Development or LID? Simply put, it is a site specific sustainable stormwater management approach that is modeled after nature. Its primary design intent is to manage rainfall at the source using uniformly distributed, decentralized site-scaled controls. The goal is to mimic a site's predevelopment hydrology by using a lot of smaller, vegetated landscaped areas or sub-pavement storage to hold your stormwater instead of one large, open basin. LID works on its own when replacing conventional site stormwater design or in conjunction with it. LID is a versatile approach that can be applied equally well to new development, urban retrofits, and redevelopment / revitalization projects. All components of the site's environment have potential to be included. These include open space, rooftops, streetscapes, parking lots, sidewalks, and medians.

Green Infrastructure is the cornerstone of LID. Green infrastructure is both the structural and non-structural stormwater Best Management Practices (BMPs) used for water quality and water quantity management. Non structural BMPs are ordinances, policies and education programs that promote non point source and stormwater pollution prevention. The structural BMPs are those onsite engineered treatment systems designed to infiltrate, filter, store, evaporate, and detain runoff close to its source. These structural BMP functions are designed into a site through rain gardens, bioretention, permeable pavement, green roofs, infiltration galleries, vegetative buffer strips, constructed wetlands as well as cisterns and rain barrels, to name but a few.

Although it sounds complex, it is as straightforward as integrating your required stormwater management and BMP requirements directly into your required landscaping and required parking designs. Additional benefits also come from working these techniques into any proposed buildings or structures on the site.

Utilizing the local landscaping requirements for a development site's stormwater retention and treatment through green infrastructure distributed storage, will provide enough stormwater management to partially or completely treat the entire site's stormwater runoff. Distributed storage is a design technique that uses all planters, tree areas, lawns or grassy areas, parking medians, pavement sub-grades (via permeable pavement), etc. to hold as much water as they possibly can. It is through this integration of the entire landscape and parking areas into your stormwater collection and treatment system that allows you to meet the post-construction water quality and quantity (retention) requirements. These requirements are typically dictated by the local Municipal Separate Stormwater System (MS4) regulatory agency. This is usually through your local stormwater utility, city development codes or related stormwater management and design manual.

By using areas for "double duty" to meet landscaping, parking and stormwater treatment and retention, you eliminate the need to give up valuable land historically used only for stormwater retention. This is as easy as reversing the landscaping from being "mounded" to being "cupped". For many sites, it is also a means to use stormwater runoff to water the landscaped areas instead of irrigating. The cost savings or increased revenue is actually as simple as having more available land to build on, rent, lease or sell at the end of the day.

Okay, so it sounds simple enough, what's the catch? In essence, in order to achieve this "double duty" of your designs, you will need very important considerations from your regulators (the MS4's), your site designers (Architects, Landscape Architects and Civil Engineers) and YOU, the developer.

The use of Low Impact Development, specifically green infrastructure takes a base understanding on all parties involved in site development, before you begin design! From municipal design manuals and requirements to the site civil engineer, the architect, landscape architect and especially the developer, it takes an integrated design

Team communication has to start before site layout, before infrastructure design and especially before permit preparation begins.

process as a team working together. As the team leader, your job is to focus the team's efforts on efficiently integrating site grading, landscaping, parking and buildings into a single site water management system.

Team communication has to start before site layout, before infrastructure design and especially before permit preparation begins. Where use of LID or green infrastructure in this manner is not commonplace, there is typically a need to bring the municipal design, permitting and compliance group(s) together with the design team to educate them on how it all fits together, how it functions and how it meets all of their requirements.

There can be many obstacles before a community or design team accepts LID. The biggest is typically "status quo" or "the way we have always done it." Many times municipal review processes have not been revised to handle such concepts. Green infrastructure may not fit neatly in their "checked box" review format. Without local pilot projects to provide actual locations to watch the construction and operation of these facilities, there can be the lack of experience and belief that it isn't anything more than "bugs and bunnies." After decades of conventional development, there can be suspicion of projects and processes that are supposed to provide both the developer and the community with a "win-win" development proposal. It is our experience that the value of the savings for each site and each project is worth the education efforts you may need to put forth to get the regulatory staff, elected officials and the overall community to understand how it all comes together.

"Win-Win"? Absolutely! MS4 communities are required to perform various water quality enhancements throughout their area. And they are required to provide an annual report to the State or USEPA on how they are meeting all of their National Pollutant Discharge Elimination System (NPDES) Post Construction stormwater runoff treatment requirements. This includes areas being newly developed (green field) and areas being re-developed. When a community establishes development standards that allow for the use of green infrastructure, they have the opportunity to take credit for the water quality benefits provided by them. In other words they can use the water quality benefits of your required construction, operation and maintenance of your green infrastructure stormwater systems as paid for by you, for their annual report, every year!

CSO's Are Going Green

Let's talk briefly about the potential benefits from your green infrastructure water quality investment in a Combined Sewer Overflow (CSO) community. A combined sewer, state of the art engineering 100 to 150 years ago, in effect connects all sanitary and industrial waste to a stormwater system. During dry weather, the concentrated waste (sanitary only) is directed to treatment plants and dealt with completely. When it rains enough to exceed this system's capacity to transport this now more dilute waste (sanitary + storm runoff) to the treatment plants, it gets discharged directly to the local creeks, streams and rivers. There is another set of NPDES discharge requirements for CSO's similar but in an addition to the MS4 requirements. CSO communities are very aware of these requirements and the associated large price tag for compliance.

The integrated use of green infrastructure for site development provides the same benefit in a CSO area as a MS4 area. Whether a site will allow for infiltration or not, a green infrastructure developed property reduces the amount of stormwater reaching a combined sewer. In addition, a green infrastructure site will slow down the typical "flash peaking" of stormwater runoff to a combined system. This reduced or delayed peaking effect has potential to provide a combined sewer greater transport capacity thereby potentially reducing the volume and number of overflows related to rain events.

Over the past 10 years, there are more and more case studies showing how communities have worked with the development community to implement Low Impact Development. Green infrastructure design standards for both private and public projects continue to reduce stormwater impacts while providing direct economic benefits in cost savings. Cities all over the country are looking to use streetscape techniques and LID designs to revitalize their hardest hit neighborhoods. These neighborhoods typically have stormwater issues or are served by combined sewers. These streetscape and LID designs are directly integrated with the community's stormwater /combined sewer overflow management.

As an example, Pennsylvania DEP and Philadelphia are pioneering green infrastructure NPDES Stormwater and CSO compliance. It takes stormwater and combined sewer regulatory compliance and integrates it directly to private site development and public community reinvestment. This leadership has provided a model green infrastructure design and implementation guidance document being copied nationally. The DEP's experience gives the Pittsburgh metropolitan area a "leg up" on many of their neighboring states in being able to beat a steep learning curve.

The use of green infrastructure requires a variety of clear and consistent permitting and design protocols and design standards integrated in their stormwater management requirements. There is a need for municipalities to "allow" for site specific flexibility in the application of green infrastructure in site development. For the Pittsburgh metropolitan area, this includes a need for regional cooperation and communication to establish consistent, regional green infrastructure development standards.

If there is anything to take from this discussion, remember the landscape and the pavements. If you're going to landscape anyway, you might as well get multiple benefits from your investment.

By integrating these two elements with stormwater management, you create a "win-win" economic benefit for everyone. From my perspective as a water quality professional, the true "win-win" consideration isn't just everyone's bottom line, it is also that in the end, our water resources are cleaner.

Terminology of the Green

Many use the terminology of sustainable development a little too freely and it can get confusing. There is Conservation Design, Low Impact Development, Sustainable Site Design, and Green Infrastructure, to name a few.

Conservation Design is a system that facilitates development while maintaining the most valuable natural landscape features and ecological functions of the site. The main principles for conservation design are: (1) flexibility in site design and lot size, (2) thoughtful protection and management of natural areas, (3) reduction of impervious surface areas, and (4) sustainable stormwater management.

Sustainable Site Design is defined as balancing the fulfillment of human needs with the protection of the natural environment so that these needs can be met not only in the present, but in the indefinite future.

Low Impact Development (LID) is simply a site specific sustainable stormwater management approach that is modeled after nature. Its primary design intent is to manage rainfall at the source using uniformly distributed decentralized site-scaled controls. The goal is to mimic a site's predevelopment hydrology by using design techniques that infiltrate, filter, store, evaporate, and detain runoff close to its source.

Green Infrastructure is the structural and non-structural stormwater Best Management Practices (BMPs) used for water quality and quantity management. Non structural BMPs are ordinances, policies and education programs that promote non point source, stormwater pollution prevention. The structural BMPs are those onsite engineered and constructed treatment systems typically called bioretention, rain gardens, permeable pavement, green roofs, infiltration galleries, etc. designed to treat and detain runoff as close as possible to its source.

So how is all this related? Green Infrastructure is the cornerstone of LID. LID is Sustainable Design, and is used in Conservation Design.

Brian Neilson is engineering manager for GAI Consultants Inc. For more information he can be reached at b.neilson@gaiconsultants.com or contact Scott Quinlan at s.quinlan@gaiconsultants.com. BG

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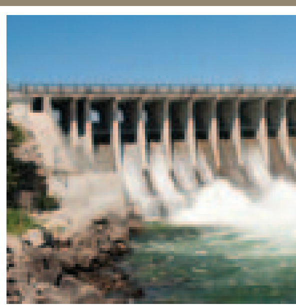

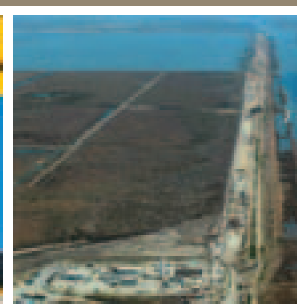


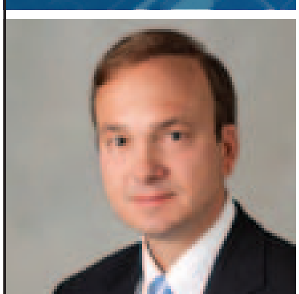

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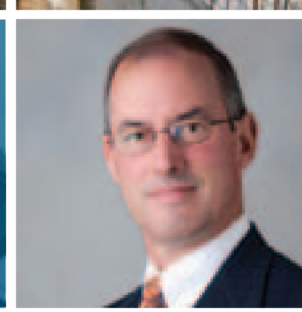

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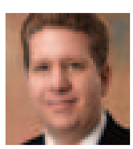

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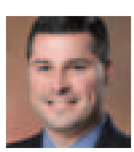

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INDUSTRY & COMMUNITY NEWS

Massaro Spruces Up at Auberle

On September 21, 2012 a group of Massaro Corporation employees spent the day on campus at Auberle in McKeesport. The team worked to build a new shed and performed some much needed landscaping. A great day was had by all and Auberle was very appreciative of the hard work!

Members of the Massaro team relax after a day of work at the McKeesport Auberle campus.

InsulRight's Andy Imro and Joe Morrone (right) at the PBX Customer Apreciation Day.

Gold Medal Winner Lisa Schroeder, CEO of Riverlife, with AIA board president Mark Dietrick, from Case Technologies and AIA Pittsburgh executive director Anne Swager (right).

UDA's Eric Osth (left) with Paul Rosenblatt of Springboard Design at the AIA Pittsburgh Design Gala.

Ductmate's Ray Yeager with wife Tammy at the GBA Hallowgreen event.

EMCOR/Scalise, Oxford, Rycon and Hyatt Raise Awareness for Breast Cancer

140 employees of EMCOR Services Scalise Industries subsidiary and those of its clients HYATT house, Oxford Development Company, and Rycon Construction donned EMCOR Pink Hard Hats and assembled into the shape of a giant pink ribbon, the international symbol of breast cancer awareness, in a "Call to Action" in support of Breast Cancer screening and awareness as part of EMCOR's "Protect Yourself. Get Screened Today" campaign. The event was held at the HYATT House Pittsburgh South Side Works construction site in Pittsburgh on October 24.

(Front row from left) URA's Kyra Straussman, Mike Rhoten, GM of Hyatt House, EMCOR's Mark Scalise, Grant Mason from Oxford Development and Rycon's Lou Ferraro at the Pink Hard Hat ceremony.

Sargent Electric's Brenda Henwood was the iPad winner at the Builders Exchange Customer Appreciation Day, with Scott Tovisi of BXBenefits.

Dave Desuta (left) from Desuta Concrete Forms with Brian Kelley of PBX.

John Paul Busse (left) with Burchick's Joe Scaramuzzo.

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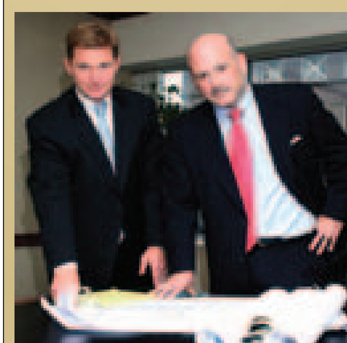

John Tedder (left) & Edward Gentilcore, Chair, SGK Construction Services Group

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(from left) Mike Messner and Cecil Foster from Mind Over Media with CBRE's Jeffrey Ackerman.

PNC's Hollis Hanes (left) and Alyssa Sinicrope flank Lucas Piatt from Millcraft Industries.

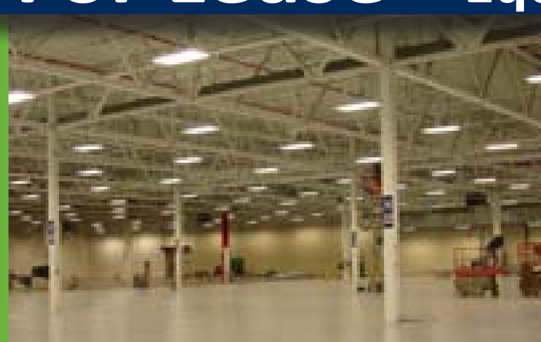
Grandbridge's Dan Puntil (left) with Newmark Grubb's Lou Oliva and Greg Quatchak from CEC (right).

Chic Noll from Desmone with PNC's Joe Pascarella (center) and Mike Sell from RIDC at NAIOP's Night at the Fights.

(from left) Ernie Tillman and Jamie White from LLI Engineering with Jendoco Construction CEO Dom Dozzi, a past president of NAIOP Pittsburgh.

Mike Bozzone (left) from Lynrose Co. with Buchanan Ingersoll's Scott Irmscher at the Night at the Fights.

Tenant fit-outs • For Lease • Equipment loans



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AWARDS & CONTRACTS

TEDCO Construction was the successful contractor on the University of Pittsburgh's emergency bridge replacement project at their Greensburg campus. The bridge was designed by Gateway Engineers Inc.

Landau Building Company will be the construction manager for the new South Hills Honda automotive dealership. The existing dealership will be replaced with a 42,000 square foot facility on Rt. 19 in Peters Township. Construction will be completed in phases, to keep the existing dealership operational. Dean Hess is the architect.

Yarborough Development Inc. was awarded a $1,176,000 contract for general construction by the Housing Authority of City of McKeesport for renovations to the Yester Square Buildings 200 and 1400. The $1.7 million project involves work to bring the apartment to Uniform Federal Accessibility Standards.

The US Postal Service awarded Burchick Construction a $2.3 million contract for replacement and structural repairs to the main workroom at the USPS General Mail Facility at 1001 California Avenue on the North Side. LLI Engineering designed the project.

PJ Dick was awarded Construction Management at Risk services for the renovation of Penn State University's Burrowes Building. The $40 million project consists of 3 phases and is expected to be completed in July of 2014. Bower Lewis Thrower is the architect.

PJ Dick was awarded General Contracting services by West Virginia State University for its $17.7 million Fleming Hall renovation and addition in Institute, WV. Silling Associates Inc. is the architect.

PJ Dick was awarded Design/Build services for a 1,600 square foot tenant fit-out at Bakery Square for the University of Pittsburgh's Biomechanics Lab.

PJ Dick was awarded Preconstruction Services for Point Park University's $45 million Conservatory of Performing Arts. The project is in schematic design in preparation for the renovation and expansion of the historic Allen Theatre. Westlake Reed Leskosky is the architect.

PJ Dick was awarded Construction Management services for the construction of a Locomotive Test Cell for General Electric at its Grove City, PA plant.

Rycon Construction is responsible for renovating a Jo-Ann Fabric & Craft Store in Sault Ste. Marie, MI. This 18,000 sq. ft. project is scheduled for completion by December.

In Lynchburg, VA, Rycon Construction is converting eight different tenant spaces at River Ridge Mall into a new T.J. Maxx. The 26,000 sq. ft., $1.5 million project is scheduled for completion in January.

Rycon's Special Projects Group is renovating the 7th and 9th floor restrooms within One PNC Plaza along with a portion of the 14th floor. The 18,000 sq. ft. project, designed by Gensler, is scheduled for completion in February.

At 11 Stanwix Street office building, Rycon Special Projects is currently completing a $3.6 million renovation of the lobby area. Designed by Desmone & Associates Architects, the 20,000 sq. ft. project is scheduled for completion in February.

The Highwoods Management Office, located in Three PPG Place, is receiving upgrades by Rycon's Special Projects Group. The eight-week project was designed by IKM Architects.

Rycon Special Projects Group is remodeling portions of the 3rd and 5th floor of the new Dick's Sporting Goods headquarters. The $500,000 project is scheduled for completion before the New Year.

UPMC awarded Rycon's Special Projects Group contracts to renovate an Urgent Care facility in Cranberry along with a 64,000 sq. ft. renovation of the 5th and 14th floors within the USS Tower.

WTW Architects selected Rycon's Special Projects Group to complete an 18,000 sq. ft. renovation of their offices before the spring season.

Rycon Construction was the successful contractor for Southpointe Town Center Buildings 100 and 101, the first two buildings in the project being developed by Horizon Properties. The buildings are two-story, with retail on the ground floor and office above, totaling approximately 120,000 square feet. Cooper Carry is the architect.

Verizon awarded a contract to John Deklewa & Sons for the renovation of their Bridgeville switching facility in Abele Business Park in South Fayette Township. The architect for the $3 million project is Madden McMillan.

Nello Construction Co. was the successful contractor on the $13 million general construction contract for the Natali Student Center at the California University of PA. WTW Architects is the architect for the $23.6 million project.

Mosites Construction is construction manager for the new UPMC Mercy Emergency Center Chiller Plant and Parking Garage that will start construction in January. The project involves a 413,750 square foot, 1,218-car garage and 52,465 square foot boiler/chiller plant with labs and offices. GBBN Architects is designing the building.

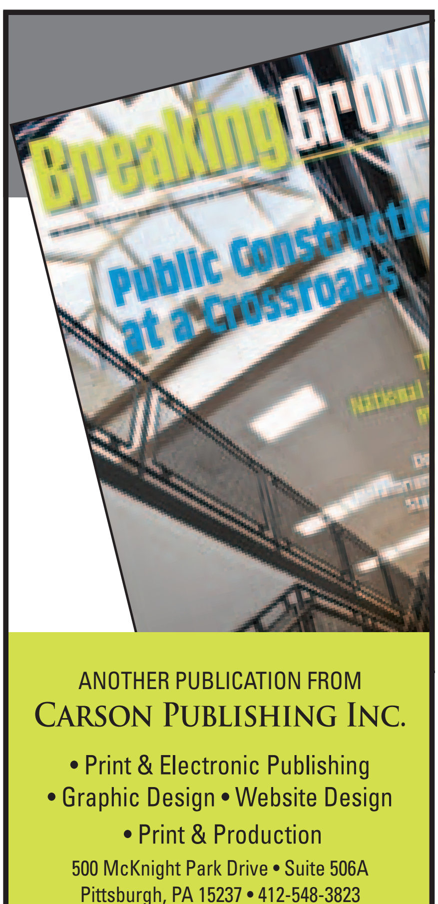
Chevron selected A. Martini & Co. as contractor for their tenant improvements to the first and second floors at 400 Cherrington. HOK is the architect.

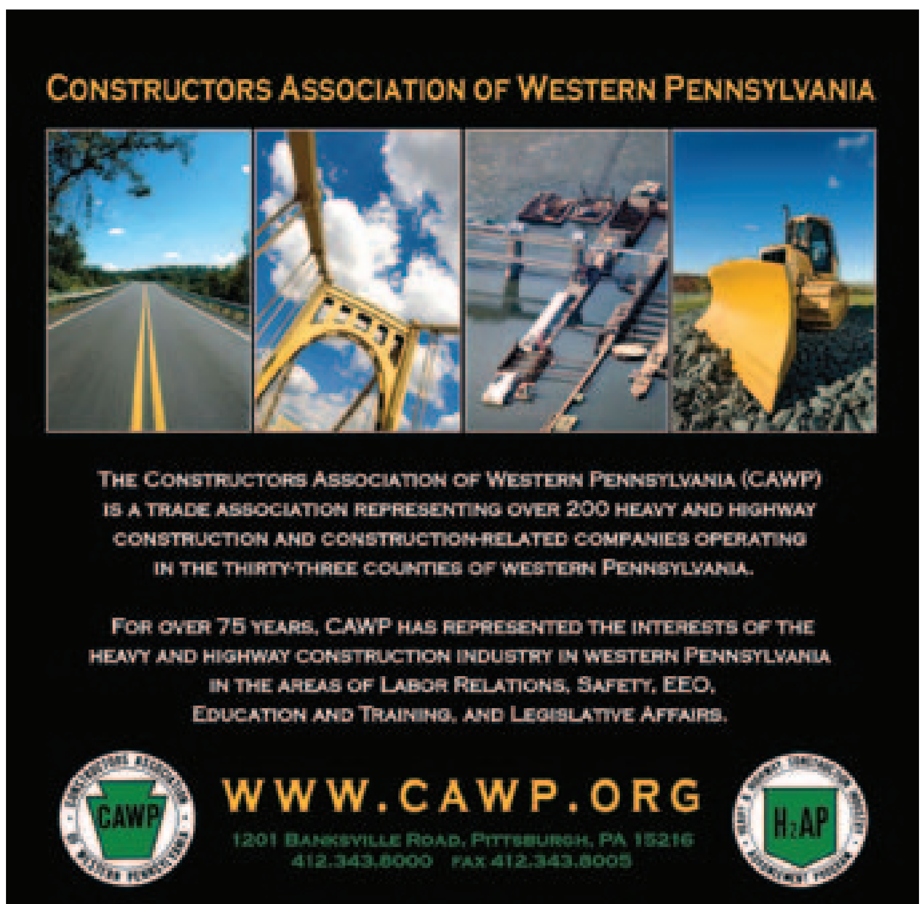
A. Martini & Co. was the successful contractor for the tenant fit-out for Williams Midstream, a 75,000 square foot space in Park Place, Corporate Center Two in Findlay Township. The architect is HOK.

REIT Management awarded a contract to A. Martini for renovations to 4,000 square feet of space for URS in Foster Plaza. The architect for the project is Gensler.

dck north america, a dck worldwide company, was awarded a $15.4 million design-build contract by Bechtel Marine Propulsion Corporation. The project involves both the Materials Research & Technology Complex and the A-6 Office Buildings at the Bettis Atomic Power Laboratory Facility in West Mifflin, Allegheny County, Pennsylvania.

dck north america, a dck worldwide company, was awarded an interior fit-out contract for a new Jimmy John's restaurant in Oak Tree Place, Cranberry Township.





A $5.6 million project has been awarded to Oakview dck, a dck worldwide company, by Wal-Mart. This ground-up construction project, which is a 42,711 square foot Neighborhood Market store located in Omaha, Nebraska, represents Oakview dck's 42nd project for Wal-Mart.

Oakview dck, a dck worldwide company, has been awarded an $886,000 contract to build a new bathhouse/community safe room for the city of Mount Ayr, Iowa.

Massaro Corporation was recently awarded an interior renovation project at General Electric Transportation at their Erie campus. The 30,000 square foot fit out is slated to be completed by December 2012. The architect on the project is HMH Architects and CH2MHill is serving as the Owner's Rep.

Massaro Corp. has been selected to perform as the general contractor for Riverview Towers for the 30,000 square foot interior renovation to their multi-purpose room and corridor into additional office space. The project will be completed by the end of the calendar year. Rothschild Doyno Collaborative is the architect on the project.

Volpatt Construction was the successful contractor on the $525,000 Wound Care project at UPMC McKeesport Hospital. The architect for the project is Image Associates.

UPMC has awarded contracts to Volpatt Construction for five projects ongoing at the UPMC McKeesport campus. Under construction are renovations to the Retail Pharmacy, 6 Shaw Respiratory, 4/5M Swap, 3 Painter Building and 2 Painter Building.

Faces & New Places

Jendoco Construction Corporation would like to announce the promotion of Michael Kuhn from Vice President to Executive Vice President. Michael is a graduate of the Pennsylvania State University's Architectural Engineering Program, and has been involved in all aspects of the business since joining Jendoco in 1997. He is a Leadership Pittsburgh graduate (XXVI) and a LEED Accredited Professional, and currently serves as President of the Board of Directors for the Green Building Alliance, Chairman of the MBA Green Builder's Committee, and is a member of the City of Pittsburgh's Contextual Design Advisory Panel.

Burchick Construction promoted Brian Chlop to Senior Estimator. Chlop joined Burchick as estimator in 2004.

PJ Dick is proud to announce that Phil Palermo, LEED AP BD+C has been hired as a Mechanical Estimator. Palermo graduated from the University of Southern California with a Bachelor's Degree in Mechanical Engineering. Palermo also graduated from RMIT University in Melbourne, Australia with an MBA.

Landau Building Company is pleased to announce that Steve Bishop has been promoted to Vice President. Steve has been with Landau since 1989. For the past seven years, Steve has been the senior project manager for the healthcare construction team. He will continue his role as the healthcare team leader

dck worldwide and Summit Builders announced that dck has purchased Summit Builders to form Summit dck. Summit Builders is based in Phoenix, AZ and has provided preconstruction and construction services for the last 26 years to markets such as hospitality, retail, commercial, education, healthcare, and multi-family for private, public, and federal clients. Summit has consistently generated annual revenue in excess of $200 million, including $180 million of revenue in the last 12 months.

dck worldwide is pleased to welcome Joe Belechak to the organization as Senior Vice President, Strategy & Operational Excellence. Mr. Belechak has over 30 years of experience, primarily in the energy, consulting, manufacturing, and communications industries. Most recently with Westinghouse Electric Company, Mr. Belechak was SVP of Nuclear Fuels and served as VP of Strategy. He also was previously COO of Duquesne Light Company.

Dan Hattrup has joined dck worldwide as a Corporate Recruiter. Mr. Hattrup brings to dck more than 15 years of experience in recruiting executives, mid-level managers, and other personnel within the construction and real estate industries throughout the United States.

dck worldwide welcomed Charles Ostiguy as Senior Vice President of Information Technology. Mr. Ostiguy has over 20 years of Global Senior IT leadership experience managing over $100 million in Global Delivery, IT Organizational Management, and IT Service Management across North America, Europe, the Middle East, and Africa.

Massaro Corporation is happy to announce Debbie Gibson as a new project engineer. With five years of experience in the industry, Debbie most recently worked as an assistant project manager for Principal Builders in the San Francisco bay area. Debbie earned a degree in English from the University of California, Berkeley. She is also a LEED Green Associate.

Jennifer Johnson joins Massaro Corporation as a project engineer. She joined Massaro in summer 2012 as an intern and recently joined the team permanently. Jennifer earned an undergraduate degree in Architecture from Florida A&M University as well as a Master's in Urban & Regional planning from Jackson State University.

Civil & Environmental Consultants has hired archaeologist Beth Hillen as principal to lead the company's new cultural resources practice. Hillen has 25 years experience performing and leading cultural resources management services. She received her B. A. in Anthropology from Miami University of Ohio. CEC also hired Jim Kovacs to lead its new Government Services Industry Consulting Group. Prior to joining CEC, Kovacs spent 31 years with American Structurepoint Inc.

Hill Barth & King LLC announces the admittance of Nicholas Demetrios, Philip Denny, Michael Kapics, Christopher Marrie and Dominic Mastropietro as Principals of the firm, effective September 1, 2012.

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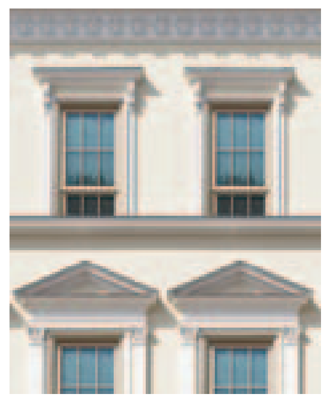

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Closing Out

By Rich Barcaskey

Maybe you witnessed it on television or driving past an Apple store this fall – long lines of consumers, intent on purchasing the iPhone 5, some of whom had been in line for days. These brand-loyal people were willing to spend hundreds of dollars on a new, improved model while discarding a perfectly good iPhone 4S.

And we'll see this phenomenon again. With the approaching holidays, we will see consumers, who are still digesting their turkey and stuffing, racing toward stores in the wee hours of the morning, chasing great deals on the most sought after Christmas presents.

While I have nothing against those of us who love gadgets or those who are committed to shop till they drop, I do question our priorities. We are in an age when people think nothing of paying five dollars for name-brand coffee or bottled vitamin water, but we shudder at the thought of paying slightly more to repair our crumbling infrastructure. For example, the Governor's Transportation Funding Advisory Commission released a report over a year ago that would generate $2.5 billion in additional funding for the Commonwealth's transportation system, while only raising the weekly cost to a typical driver by $2.54. What is the status of that report? It sits on the shelf along with two other state reports highlighting the need for an additional $3.5 billion in annual spending on transportation infrastructure.

We know we must fix this problem, but we continue to kick the can down the road (pun intended) to avoid paying a few more dollars in weekly user fees. Even in a highly charged partisan political environment, our legislators can agree on two things: our infrastructure is important and is deteriorating faster than it can be repaired or replaced. But they are afraid to approach the public to ask for an increase in user fees. They forget doing nothing comes at a price – the cost of gas and loss of time as you sit in traffic, the injury and loss of life resulting from deteriorating road conditions, and the negative impact to our region's industries which rely upon our transportation infrastructure.

Our region's infrastructure is old and badly in need of repair. The last time there was a commitment to building a first-class transportation system was in the 1950s when this region enjoyed a manufacturing boom, sparked by having produced steel for tanks and weapons used to win World War II. Those times are long gone, but the infrastructure is still here, begging to be repaired. Just count the number of water main breaks reported on the news this winter or the number of potholes you hit that you swear were made by a meteor the size of the one that wiped out the dinosaurs.

Let us take stock.

We live in and around a City of Bridges, in a state with the greatest percentage of structurally deficient bridges nationwide. It would be easy to blame PennDOT, but it can only do so much with the resources provided.

Our locks and dams, which allow this region to utilize our waterways for commerce, are on the verge of failure. The National Research Council recently published a report highlighting the impact a 20-year lack of funding has had on our locks and dams. Again, the U.S. Army Corps of Engineers can only do so much with the funding a fickle Congress provides.

Our sanitary sewer system is under a consent decree with the U.S. Environmental Protection Agency, requiring a fix that would result in the largest public works project ever completed in Allegheny County. Yet where are the financial resources going to come from to accomplish this monumental undertaking?

The news isn't all dire. This region possesses a skilled construction workforce ready to put their abilities into action. Additional infrastructure investments at the local, state and federal level will continue to provide these men and women with well-paying jobs that cannot be shipped overseas. Such funding will help restore an industry hit hard by the recent recession.

The next time you drive to an important meeting or take your children to school, remember that the freeway you are using isn't free. When you turn on the faucet, consider the underground water infrastructure that makes it all possible. When you see a barge on the river, remember that it is better to transport materials by waterways than in hundreds of trucks lined up on the parkway during rush hour. When you are talking on your new iPhone 5, remember that a fraction of its cost is all that is necessary to fix an infrastructure system that is vital but so often ignored.

Rich Barcaskey is the executive director of the Constructors Association of Western PA, the trade association for union-affiliated contractors in the heavy, highway, railroad and utility construction industry in Western Pennsylvania.

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