CONSTRUCTOR

The Voice of the Kansas City Construction Industry

SUMMER 2008

A Word From the President

Surviving the Dog Days

"Just another day on the job." You've heard that phrase countless times, usually implying there was nothing new or challenging at work that day. Those of us in the heavy/highway construction business, who want to stay in business, know there really is no such thing. Every day brings a new challenge, whether it's dealing with a problem on a current job or figuring out how to land the next one. Lately, my staff and I have been spending a lot more time on the latter, thanks to the dizzying dance of commodity prices.

Greg Kaaz
HCA President

For example, when we sit down to prepare a bid for a subdivision project, we have to factor in the prices for reinforcing steel, diesel fuel and asphalt. Once upon a time (like a couple of years ago), this would entail calling our suppliers to nail down an estimated price on each of those commodities for the month they'd be delivered – often with a guarantee attached. These days, it is nowhere near that simple. Our suppliers are not only offering fewer guarantees, they are often couching their estimates with expressions such

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Material Prices Putting Progress in Jeopardy

Contractors, Public Works Feeling the Pinch

Asphalt. Concrete. Steel. Diesel. These form the lifeblood of heavy construction and public infrastructure, and their current prices are threatening to squeeze the flow to harmful levels.

Constructor recently caught up with a small sampling of HCA membership as well as representatives from the public works sector to learn how they're dealing with the meteoric rise in material costs.

Everything costs more. In most cases, a lot more – reducing the purchasing power the states and municipalities have to spend on public works. In one way or another, the problems can be traced to the price of a barrel of oil. Yet, vital infrastructure still needs to be built and maintained. Unless the prices for critical commodities drop – or at least level off – soon, all signs point to higher bids and fewer jobs on which to bid. They also signal tougher times for taxpayers, who will face poorer driving conditions as the number and scope of projects shrink to fit within already-tight budgets.

Contractors Crunched

As of press time, the price for a ton of liquid asphalt stood at $620. Last November, it was $300. John Bowen of Superior Bowen Asphalt expects it to go up another $100 in the next month. Then there are fuel surcharges for the material haulers. Combined with a jump in his own diesel prices from $2.75 to $4.75 per gallon in the past year, Bowen's cost for a finished ton of asphalt has climbed nearly 50 percent.

"Pretty much everything we do is petroleum-related, from the raw materials, to how they're transported, to the equipment we run," Bowen said. "In a business like ours, there's not a heck of a lot we can do to save money. All we can do is put it in the bid."

Then all Bowen and his fellow contractors can do is hope they don't get burned by more through-the-roof price increases, especially in contracts without escalators to adjust for material costs.

"We've had some projects extend beyond a year, and we all know what the price of fuel has done since then," said Gavin Barmby of Pyramid Contractors. "I have some subs that won't quote certain jobs because they have no control over when an increase or variance happens."

For Barmby and Pyramid, the rising cost of steel has been the biggest hit. "We've been seeing increases of 5 percent month after month," he said. "A supplier may honor a

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Heavy Constructors ...making it better for over 55 years

CONSTRUCTING THE FUTURE

INSIDE

Surviving the Dog Days

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as "the way things look now" or "that could change if …" It is frustrating trying to develop a solid proposal when your commodity estimates are set in Jello.

Actually, it's more than frustrating. It's financially perilous. When the year began, KDOT's index for diesel fuel was $2.72 per gallon. In June, the diesel index price had risen to $3.99 per gallon. If we'd bid in January for a job starting in

"It is frustrating trying to develop a solid proposal when your commodity estimates are set in Jello."

June and estimated the price for that commodity using traditional escalation factors, the impact on the bottom line would be enormous. And I don't mean in a good way.

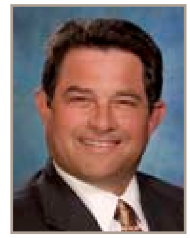
We have always had to deal with cost increases, but I can't remember a time when they were this volatile.

In this issue of *Constructor,* you'll read more about price increases, as well as their impact on the industry and our public works partners. The current situation certainly doesn't offer much to cheer about, except in a misery-loves-company sort of way. We will have to keep working until the economic climate eventually stabilizes. Locally, our industry has a terrific history of weathering these storms and I'm confident we'll do so again if we work at it together. After all, for us, dealing with change is just another day on the job.

Greg Kaaz
HCA President

Seeking Solutions Under the Ceiling

By Edward DeSoignie, HCA Executive Director


Edward DeSoignie
HCA Executive Director

In this issue of *Constructor,* we're seeing how rapidly and steadily increasing commodity prices for highway construction are causing everyone headaches. Public officials are seeing their project budgets increase by leaps and bounds, reducing the number of projects they had planned to get underway. Construction companies bidding on public projects are unsure where prices will be once the project is started, negatively affecting any hoped-for profit margin.

Like the overall American economy and, to a large extent, our society, the heavy construction industry is petroleum-based. Oil touches everything we do. As I write this column, the price for light, sweet crude for August delivery is $145.16 a barrel on the New York Mercantile Exchange. How much higher can it go? We're all wondering where the ceiling for oil will be and when it will be reached.

When I say oil touches everything we do, consider that the traditional user tax for highway construction, the gas tax, is today viewed by the public with the same warmth reserved for an unemployed relative with a large appetite who has overstayed his visit by several months. A recent poll conducted in Missouri found only one in 10 surveyed willing to consider a gas tax increase for highway improvements. Few citizens will look favorably upon an increase anytime soon.

With highway programs ending at the state and federal levels and highway needs continuing to grow, some solution will need to be found. Sitting still and waiting is not an option. Rest assured, your Association will be hard at work in the coming weeks and months, working with our transportation partners to find sensible solutions to a problem that touches all of us.

By the time the Fall 2008 *Constructor* hits your desk, we hope to report on the progress being made – and hopefully some lower material prices. So stay tuned, and enjoy the rest of your summer. ■

Mark Your Calendar

Missouri General Assembly
- Veto session: Sept. 10

Elections
- General elections: Nov. 4

Upcoming HCA Events
- Monday, Sept. 29 – 17th annual HCA Affiliate Golf Tournament – The National Golf Club, Parkville, Mo.
- Thursday, Dec. 11 – Annual HCA Christmas Party – Old Muehlebach Lobby and Tea Room, Downtown

KDOT Lettings
- Wednesday, Sept. 17
- Wednesday, Oct. 15

All at 1 p.m. in the 4th floor auditorium of the Eisenhower State Office Building, 700 Harrison Street, Topeka. For the latest information, visit: www.ksdot.org/burcons-main/lettinginfo.asp

MoDOT Lettings
- Friday, Sept. 19
- Friday, Oct. 24

All at 10 a.m. at the Missouri Department of Transportation General Headquarters, 105 West Capitol, Jefferson City. For the latest information, visit: www.modot.org/business/contractor_ resources.

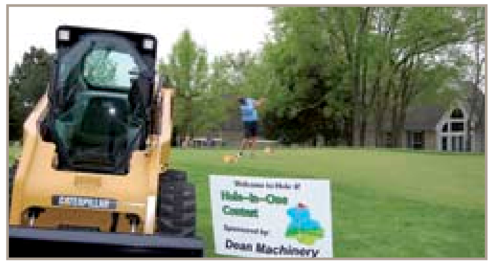
« **Important notice:** MoDOT no longer does a public reading of bids, but does make hard copies of the apparent bids available at its headquarters as soon as they are complete. Here's a link where you can find a guide to viewing apparent bids: www.modot.mo.gov/business/contractor_resources/bid_opening_info/bidGenInfo.shtml

Great Gathering at the 'Glen

What do you get when you combine a great group of golfers, a beautiful course and weather to match? The Don Clarkson Classic. This year, the May 5 tournament returned to Shadow Glen for the second straight year, and more than 200 players had the chance to take another swing at the challenging layout. ■

Watching the Drive
More than 200 HCA members took advantage of a great day for golf by coming out to the beautiful Shadow Glen golf course in Olathe for the Ninth Annual Don Clarkson Classic Golf Tournament on May 5.

Longest Putt
Don McClanahan (left) brought home a new driver after sinking the day's longest putt. HCA President Greg Kaaz made the presentation on behalf of contest sponsor Holliday Sand and Gravel. Not pictured: Closest-to-the-pin contest winner Doug Barcus brought home a cool $300 thanks to contest sponsor Roadbuilders Machinery and Equipment.



No Ace in the Hole
No one managed to sink a hole-in-one at either of the two holes sponsored by Dean Machinery. Thanks to all the sponsors, and congratulations to all the other winners!

Longest Drive
Alex Burkovich (right) receives congratulations – plus a new putter and collector's item – from Matt McNett (left) of Murphy Tractor and Equipment, which sponsored the Longest Drive contest.

Low Team Scores
The winning team from the afternoon flight is pictured with HCA President Greg Kaaz (center). The foursome of (left to right) Mike Colpin, David Robinson, Trey Bowen and Don Clarkson won with an impressive score of 56. The morning flight was won by the team of Brian Cook, Tom English, Doug Joyce and Doug Roback with a score of 61.

Safety Is Par for the Course

HCA Safety Awards Presented Following Clarkson Classic

The Heavy Constructors Association Safety Awards for 2007 were announced following the Clarkson Classic golf tournament. Each year, the Association recognizes general contractor member companies with outstanding job safety records for the previous year. HCA President Greg Kaaz (right in all the photos) presented the awards.

The award recipients in Classes A, D and E all recorded zero workplace accidents in 2007. The following member companies also recorded zero incidents in 2007: APAC-Kansas, Inc. (Class A), Mark One Electric Co., Inc. (Class A), and Tenoch Construction, Inc. (Class E). ■

Treasurer and Equipment Manager Rob Loch (left) accepts the award for Loch Sand and Construction Co. in the Class B category (200,000-299,999 work hours).

General Superintendent Bob Fry (left) accepts the award for Clarkson Construction Co. in the Class A category (more than 300,000 work hours).

Vice-President Don Godfrey accepts the award for Wiedenmann & Godfrey Construction, Inc., in the Class E category (10,000-49,999 work hours).

Vice-President Russ Stark (left) accepts the award for LEXECO in the Class D category (50,000-99,999 work hours).

Not pictured: Damon Pursell Construction Co. for the Class C category (100,000-199,999 work hours)

Heavy Construction Downshifts

By Ken Simonson, Chief Economist, Associated General Contractors of America

The outlook for heavy construction has darkened with each new record set by oil prices. The impact shows in both demand (or funds available) for projects and in the cost to construct them.

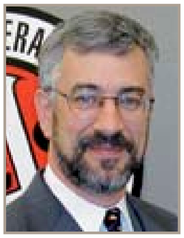
The most visible funding impact is for highway and street construction. Although there is no single "tipping point," every increase in prices at a gas station leads more motorists to skip a trip or even to choose a more fuel-efficient car. Less driving means fewer fuel-tax dollars flowing into federal and state highway trust funds – funds whose gauges are already pointing to empty. The upshot: New highway contract awards will coast to a stop in some states, and sputter along in others. Nowhere is the outlook more dire than in Missouri, where funding could drop by more than 50 percent from the current fiscal year to fiscal 2010, beginning next July.

Rising oil prices are doing more than keeping motorists at home. Every time jet fuel prices take off, airlines ground more planes. When they can, airlines also pass through the fuel costs in ticket prices, which shrinks passenger counts. Airports receive less funding in the form of landing fees, gate rentals and "landside" sales taxes, parking charges and other income from passengers. With fewer planes and travelers paying visits, some airports also will trim or defer expansion plans.

The weight of hefty oil prices falls on heavy construction even more than on other consumers because the industry uses so much diesel fuel for earthmoving and other off-road equipment, as well as for on-highway dump trucks, mobile cranes, concrete mixers and pumpers.

Like other contractors, heavy contractors are paying ever-rising freight bills and diesel fuel surcharges on the myriad deliveries of equipment, materials and hauling away of dirt, debris and equipment. Highway projects use an especially high proportion of petroleum-intensive materials, notably asphalt, but also concrete. Concrete requires diesel fuel to quarry, crush and sort sand and aggregate, deliver those materials to a batch plant, and then mix them with cement and spread the mix on the highway.

From June 2007 to June 2008, the producer price index for inputs to construction industries – a measure of the cost of all materials that go into every type of project, plus materials such as diesel that are consumed during construction – rose 10.4 percent, or more than double the 5 percent rise in the consumer price index. But the comparison was much worse for highway and street construction (18.9 percent) and other heavy construction (15.7 percent).



Ken Simonson

Unfortunately, the prospects are dim for short-term relief. In 2007, asphalt, diesel and steel costs either remained flat or dipped from July until October or November.

This year, however, all of these prices had risen further in July and are widely expected to have at least one more increase before year's end.

It is possible that Congress will enact another "stimulus" bill, either late this year or early in 2009. That would deliver more money to infrastructure projects, perhaps transit and commuter rail facilities in particular. But heavy contractors, who rely on other types of work, may face months of light cash flow until the money spigot opens again. ■

Material Prices Putting Progress in Jeopardy

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purchase order and lock in that month's price for you, but if something comes up down the road, you're stuck with whatever the current price is."

Cities Feel the Pain

Municipal public works departments are getting hit with a one-two punch as well: higher project price tags and declining tax revenues with which to pay for them.

"So far, it hasn't affected what we're planning to do," said Doug Brown, public works director for Overland Park, Kan., "but it may affect when we do it."

Brown said a couple of large planned contracts already have been delayed by one year. "That has more to do with revenue shortcomings than anything," he said. "We're fortunate in that we've had no significant reductions in our maintenance projects. Some of our neighboring cities have had to defer much more."

States Squeezed

"We have not had to shelve or defer any projects … yet," said MoDOT District IV's Beth Wright. "Continued escalation in the cost of materials might change that. And, if fuel prices remain this high or go higher, our fuel tax revenue is bound to drop further, which reduces our allocation."

Wright said MoDOT is approving more projects with alternatives for pavement and calling for recycled content in an effort to stretch the state's shrinking dollar. "We are definitely looking at different ways of doing business. We have to be sure we're getting the most competitive bids we can."

The timing of the double-whammy couldn't be worse in Missouri, as Amendment 3 funding nears expiration and could gut state highway funding by more than half by 2010. No one wants to live off a fuel tax that, itself, doesn't bring in what it used to.

What Will Tomorrow Bring?

Clearly, things are tough all over, and could get worse before they get better.

"Refiners have figured out they can make more money selling $4.75 diesel than making asphalt," Bowen said. "It's a vicious cycle. I do think, long term, that prices will come back down, but not in the near future."

Perhaps the worst part, they say, is not knowing when the ceiling will be reached.

"It's the uncertainty of it, the inability to plan for it," Brown said. "Of course, the companies bidding on the contracts don't know either."

"It's kind of scary, to be honest," Barmby said. "The money has to come from somewhere to accommodate current market pricing. Do we not fix our roads and bridges? Eventually, it will all be passed down to taxpayers."

"At some point, folks will need to decide the best way to invest in our future transportation needs," Wright said. "Our job is to educate citizens on what it means to their communities." ■

Making It Better

31st Street Bridge

The old two-lane bridge by the Association's offices (shown here in February) is being replaced with a three-span, pre-stress girder bridge with curtain walls for the two side spans.

Work on the more than $4.1 million project began last October. The planned completion date is May 2009. HCA Contractor member LEXECO was a sub on the project.

HCA Contractor member L.G. Barcus and Sons, Inc. – the prime contractor on the project – is hard at work on the replacement of the 31st Street Bridge over Wyandotte Street near Penn Valley Park in Kansas City, Mo.

kcICON Groundbreaking

A groundbreaking ceremony for the historic kcICON project took place April 18 in the parking lot of the Isle of Capri Casino. The existing Paseo Bridge (seen in the background) will be replaced with a new landmark, cable-stay bridge crossing – the Christopher S. Bond Bridge. The new bridge is scheduled to open in June 2011.

The new bridge's namesake, U.S. Senator Christopher "Kit" Bond (R-Mo.), was on hand for the event. Sen. Bond secured $50 million in earmarked federal funds for the $245 million project.

The project is being built by HCA member Paseo Corridor Constructors, a joint venture led by partners Clarkson Construction, Massman Construction and Kiewit. The team also includes Parsons Transportation Group and TranSystems Corporation. The project is much more than the bridge; it includes the reconstruction/rehabilitation of about four miles of I-29/I-35 from just north of Route 210/Armour Road to the northeast corner of the downtown Kansas City, Mo., freeway loop.

Helping to ceremonially "turn dirt" were (left to right): Henry Massman, Massman Construction; Clyde McQueen, Full Employment Council (FEC has the contract for recruiting, preparing and helping retain minority, women and economically disadvantaged workers for the project); James Anderson, Vice Chair Missouri Highway and Transportation Commission; and Bill Clarkson, Sr., Clarkson Construction.

NBM Gala

The Associated General Contractors of America has received the National Building Museum's 22nd Annual Honor Award. The AGC and its chapters were recognized for their leadership in shaping, defining and advancing the construction industry for 90 years.

The award was presented during a gala June 4 at the National Building Museum in Washington, D.C. The Museum is housed in the former U.S. Pension Bureau Headquarters – one of the great American buildings of the 19th century and one of the Capital's most spectacular works of public architecture. Executive Director Ed DeSoignie represented the Heavy Constructors Association at the event.

A Night at the 'K' for HCA

The Heavy Constructors Association, employees of member companies and this year's HCA scholarship winners all were honored at Employee Appreciation Night, Saturday, May 31, at Kauffman Stadium.

More than 2,100 HCA member company employees came out for 2008 Employee Appreciation Night. As part of the pre-game ceremonies, HCA Vice President Gavin Barmby (left) accepted an autographed ball during the "Captain's Club" presentation in appreciation for the HCA being one of the Royals' largest group ticket sales supporters.

HCA-IAF scholarship recipients are (front row, left to right): Jarret Gowdy ($2,000), a senior at Kansas State University; Kelly Heitmann ($2,000), a senior at Kansas State University; Angela Jenkins ($1,000), attending Metropolitan Community College; Kendra Rose ($3,000), a sophomore at Pittsburg State University; Abby Evert ($2,000), a sophomore at Baker University; Brad Fry ($2,000), a junior at Kansas State University; (back row) Miles Jaben ($2,000), a sophomore at the University of Central Missouri; Jeremy Sluder ($1,000), a senior at Kansas State University; Kelly Tetrick ($1,000), a junior at Pittsburg State University; Matt Anderson ($4,000), a senior at UMKC; Michael Carpenter ($2,000), a senior at Pittsburg State University; and Brian Glynn ($4,000), a senior at UMKC. Also awarded scholarships but unable to attend the game are: Bryan Connell ($4,000), a junior at the University of Missouri–Columbia; Cody Cook ($3,000), a sophomore at Pittsburg State University; and Drew Powers ($1,000), a senior at the University of Central Missouri.

Also during the pre-game ceremonies, 12 of the 15 HCA-IAF scholarship recipients for academic year 2008-09 took the field to be recognized for their accomplishments. The program awarded $34,000 in scholarships for the coming school year.

www.constructingthefuture.org

CONSTRUCTING THE FUTURE

Want more information on Constructing the Future?

Check out our Web site, www.constructingthefuture.org, for the latest information on the campaign.

This newsletter is brought to you by the Heavy Constructors Association. For additional information, contact Ed DeSoignie at (816) 753-6443 or erdes@swbell.net.

ARTBA American Road & Transportation Builders Association

Heavy Constructors Association
of Greater Kansas City
3101 Broadway, Suite 780
Kansas City, MO 64111