

January 26, 2008

Building Costs Deal Blow to Local Budgets

By [WILLIAM YARDLEY](#)

SEATTLE — State and local governments in many parts of the country are struggling to pay for roads, bridges and other building projects because of rising construction costs, adding another burden to budgets already stressed by the troubled housing market.

The problems have come as many governments pursue ambitious projects to improve roads and airports, build schools and upgrade long-neglected water and sewer systems. Many of the projects were conceived when money from property, sales and income taxes was steady and interest rates low, but officials say the ground has shifted beneath their feet.

“Everybody’s scared,” said Uche Udemezue, director of engineering and transportation for San Leandro, Calif., which will soon put out a request for construction bids on a retiree center and a parking garage. “You don’t know what you’re going to find when you go out to bid.”

Costs have jumped for projects as varied as levee construction in New Orleans, Everglades restoration in Florida and huge sewer system upgrades in Atlanta. The reconstruction of the Interstate 35W bridge in Minneapolis, a \$234 million project, has been fast-tracked for completion by December, and state officials say it is too soon to know whether it will come in on budget.

The impact has been felt in different regions at different times, and not every project has been high-profile. In Oregon, high costs have forced the State Department of Transportation to slow the rate at which it upgrades roads and bridges. In Seattle, school building projects were put on a fast track this fall because of fears of cost overruns.

“We escalated our project schedule to get ahead,” said Fred Stephens, director of facilities and construction for Seattle Public Schools.

Nationwide, increasing costs first became a problem for some projects more than two years ago, and in some regions the rate of increase has dropped in the past year. But some regions are tighter than ever, and the pressure from the high costs can be more acute in the context of general revenue declines.

The list of culprits for the increases often depends on the rate of growth and construction in a particular region, with labor costs playing a role along with the rising prices of materials like steel and concrete, and asphalt, fuel and other petroleum-based products.

Experts say high costs are linked to competition from a global development boom, particularly in China and India; the housing boom in the United States; and the rush to rebuild after [Hurricane Katrina](#) in 2005 and other recent [hurricanes](#) that struck Florida and the Southeast. In the Northwest, public projects have competed with downtown construction surges in Seattle and Portland. Just across the Canadian border, hotels and highways are being built to prepare for the 2010 Winter Olympics in Vancouver.

The costs have added to what has become an increasingly bleak economic forecast for many states and local governments. At least 25 states expect to have budget deficits in 2009, according to the Center on Budget and Policy Priorities, which estimates the combined budget shortfall for 17 of the states at \$31 billion or more. Many cities, too, see difficult times ahead as revenues wane and costs increase for wages, pensions and health care.

“We’re talking about all levels of government being in some revenue constraints at a time when the service costs aren’t going down,” said Chris Hoene, the director of policy and research for the National League of Cities.

In some places, the news is not all bad. Recent declines in residential construction are beginning to force contractors to be more competitive when they bid for government work. Yet some government officials see that as a dubious silver lining.

In Oregon, low bids for recent bridge projects came in at \$18 million, about 10 percent below what the state had projected. That was unimaginable a year ago, but the relief is relative, said Tom Lauer, the major projects manager for the Transportation Department.

“We’ve been getting hit so hard that we’ve been pumping them up the last couple of years,” Mr. Lauer said of the state’s internal cost projections.

“I didn’t get a price break,” he said of the recent bid. “I may just have more predictable pricing. I still can’t afford to do other stuff.”

In Newcastle, a growing Seattle suburb, the situation is emblematic of the struggles confronting towns and school districts across the country. Two main goals prompted the improvements now under way on a main thoroughfare, Coal Creek Parkway. Widening a bottleneck on the road would help relieve congestion on nearby Interstate 405. And doing it with style — using steel on a bridge to evoke an old train trestle and installing landscaped medians between lanes — would send the signal that Newcastle is ready to do business.

Then the bids came back. “Slack-jawed,” said John Starbard, the city manager, when asked his reaction to the bids.

Mr. Starbard said even the project’s engineering consultant, CH2M Hill, was stunned when what they believed was a very conservative \$38 million estimate in March 2007 was met with a low bid of more than

\$44 million for a mile's worth of road and bridge improvements.

But waiting to build was not an option. The city had already received help from Senator [Patty Murray](#), Democrat of Washington, and state lawmakers, as well as the State Transportation Improvement Board. It went back to the board and received \$2 million more.

"It was a shared sticker shock, but they had seen this with other projects so they were not as surprised," Mr. Starbard said of the board.

In Newton, Mass., a Boston suburb with a population of more than 80,000, the estimate for the new Newton North High School was \$104 million in 2004. Four years later, the foundation is about to be poured and the estimate is now at least \$186 million, said Jeremy Solomon, a city spokesman. Mr. Solomon said about \$25 million of the increase involved changes to the original plan, for asbestos abatement, adjustments to the heating and air-conditioning system and other factors. Otherwise, he said, the increase resulted from rising building costs.

"We kind of got caught in a period where construction costs grew rapidly," said Mr. Solomon, citing steel and fuel costs, among others.

The need for public improvements only grows greater. Costs are rising even as engineers across the country say infrastructure is rapidly decaying.

In San Leandro, a city of 78,000 in the San Francisco Bay Area, Mr. Udemezue said the city could not afford to delay work on the parking garage and retiree center.

"We can't wait," he said, "because we don't know if the prices are going to come down or go up."

In the grading guide known as the Pavement Condition Index, zero is not far from a dirt strip and 100 is a fresh new roadway. When Mr. Udemezue began working for San Leandro 16 years ago, the average road ranking in the city was nearly 70. Now it is closer to 60, despite what Mr. Udemezue said were the city's efforts to keep up maintenance.

Years ago, there was more money in the city's general revenue stream that could be diverted to help with basic maintenance, which Mr. Udemezue said required about \$5 million a year.

That general revenue now goes to other needs, like public safety, and the roads go wanting, with flat revenue from gas taxes and other declines leaving about \$1.2 million to maintain roads each year. The \$13 million retiree center and the \$8 million parking garage have been affected, too, with the city dropping plans to build commercial space beneath the garage and reducing the space for social programs in the center.

Mr. Udemezue and others say they have heard that things may be stabilizing, but they cannot be sure.

Even in places where the rise of costs has slowed, said Ken Simonson, chief economist with the Associated General Contractors of America, "it's dormant at best."

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