TOP CAPITAL PROGRAMS & OUTLOOK FOR PUBLICLY FUNDED CONSTRUCTION

2019 PUBLIC WORKS CONFERENCE
OCTOBER 17, 2019

Rebekah Morris
President & Founder
BEX

What will we cover today?

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- Funding sources & current revenue levels
- Context in the overall construction market in AZ
- Top Capital Programs
- Procurement Analysis
  - Engineer's Estimates vs. Construction Bid Prices
- Outlook for publicly funded construction in AZ

Funding Sources for Public Infrastructure varies

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STATE AGENCIES:

- Rely on federal funds coming through ADOT or operating funds
- We're not good at funding capital projects from state funds

REGIONAL & LOCAL MUNICIPALITIES:

- Use sales tax revenue (Think T2050, Prop 400 and "Imagine")
- Bonds backed by Property Tax Revenue
- *NEW TREND*: pay as you go funding mentality

Quote from ADOA:

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"*Many of the Building System's structures and major building components have exceeded their useful lives or succumbed to the effects of deferred maintenance.*

There are ***widespread deficiencies in fire and life safety systems, roofs, HVAC, electrical, plumbing, control systems****, parking lots, and interior finishes.*

A chronic lack of funding for basic routine and capital maintenance is the genesis of the poor condition of the Building System."

ADOA
ARIZONA DEPARTMENT OF ADMINISTRATION

Maricopa County Property Tax Levy

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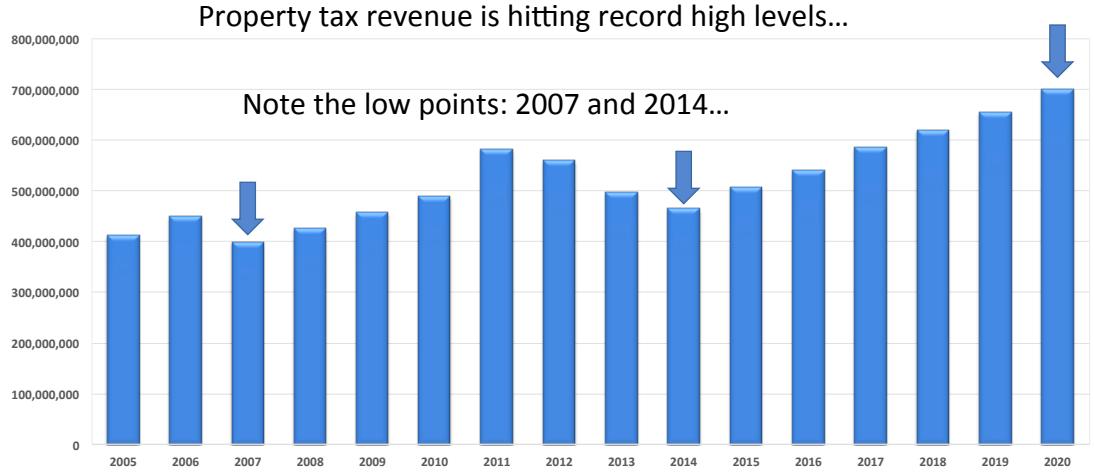
Property tax revenue is hitting record high levels…

Note the low points: 2007 and 2014…



Statewide Total Construction Activity

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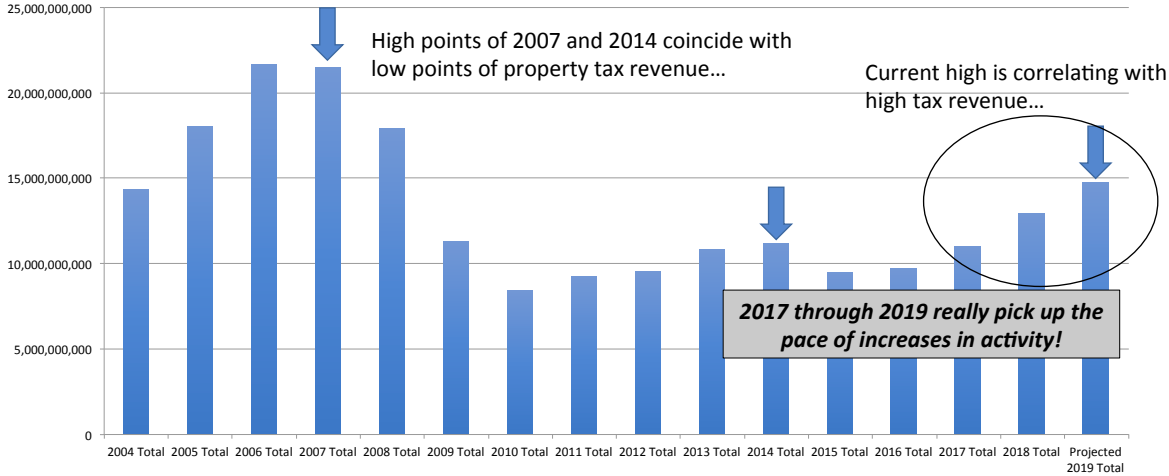
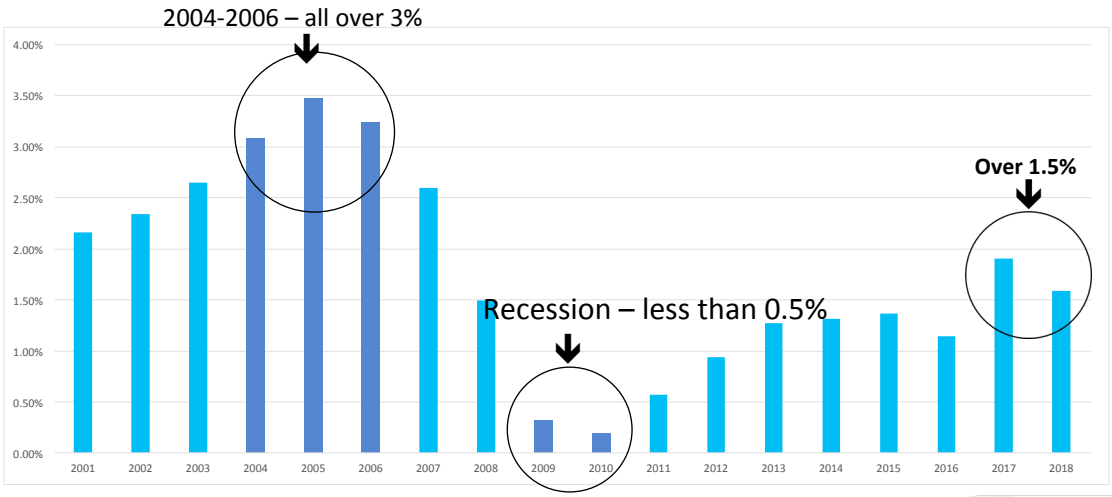
High points of 2007 and 2014 coincide with low points of property tax revenue…

Current high is correlating with high tax revenue…

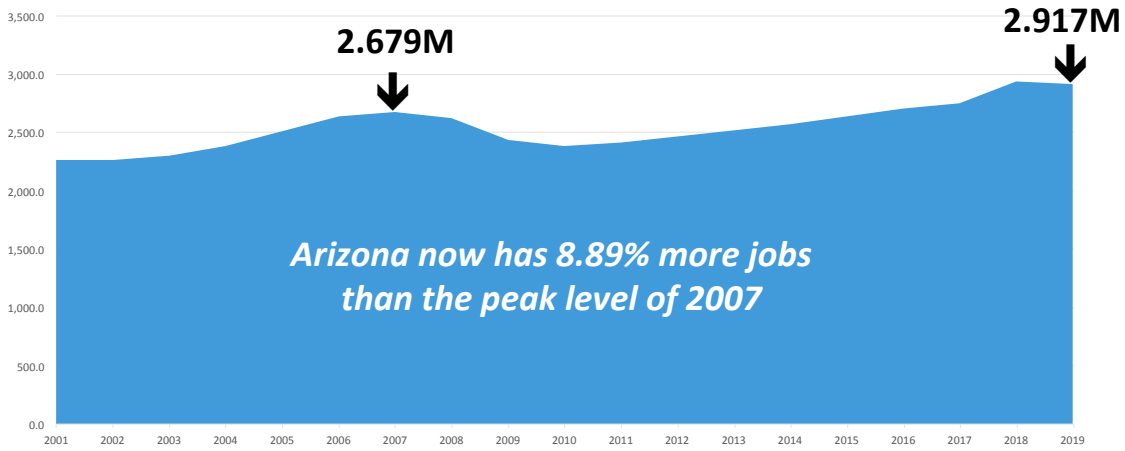
2017 through 2019 really pick up the pace of increases in activity!



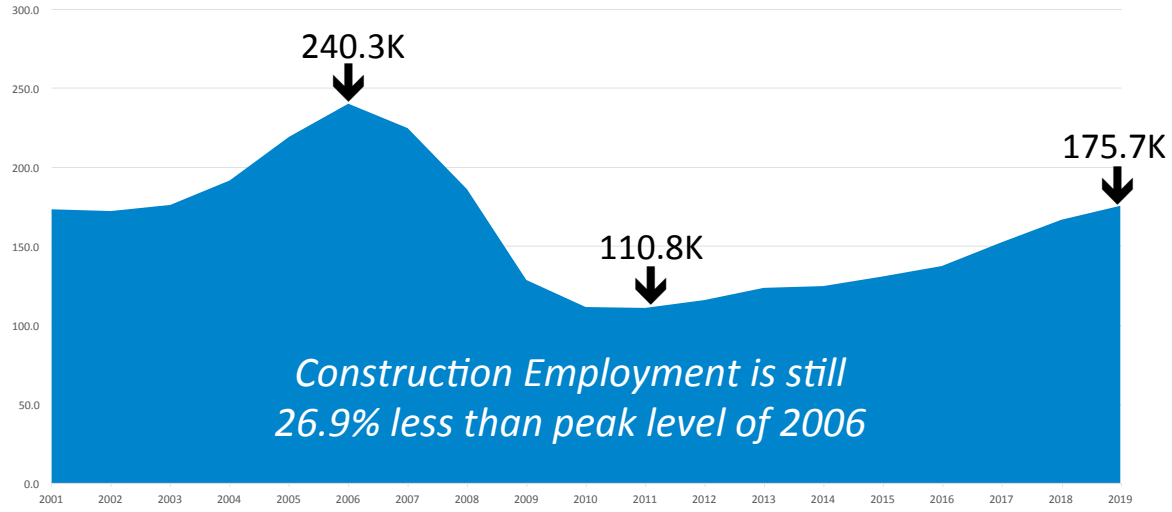
Driver: Population Growth



Driver: Total Employment

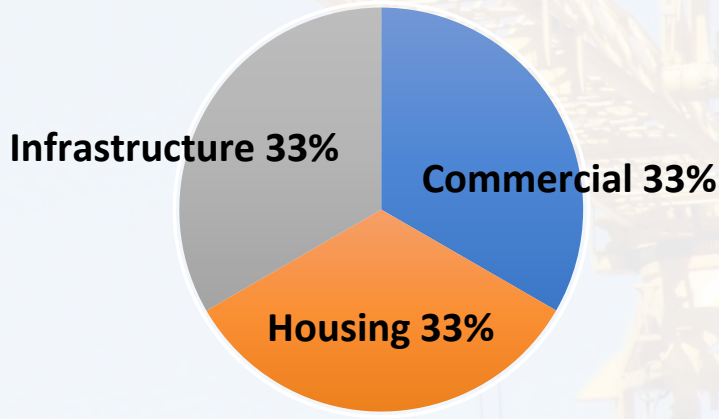


Construction Employment



Construction Employment is still 26.9% less than peak level of 2006

Makeup of Arizona Construction Industry



What does this all mean for public sector construction in AZ?

Public Sector Items of Note

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- 5-yr Capital Improvement Plans produced by *most* municipalities
- Becoming a tool for economic development
- Increasing in detail, graphic design appeal
- Trends for this year: newcomers, changes to top players and funding sources, notable projects being added and dropped

Totals of the Top 10 CIP's

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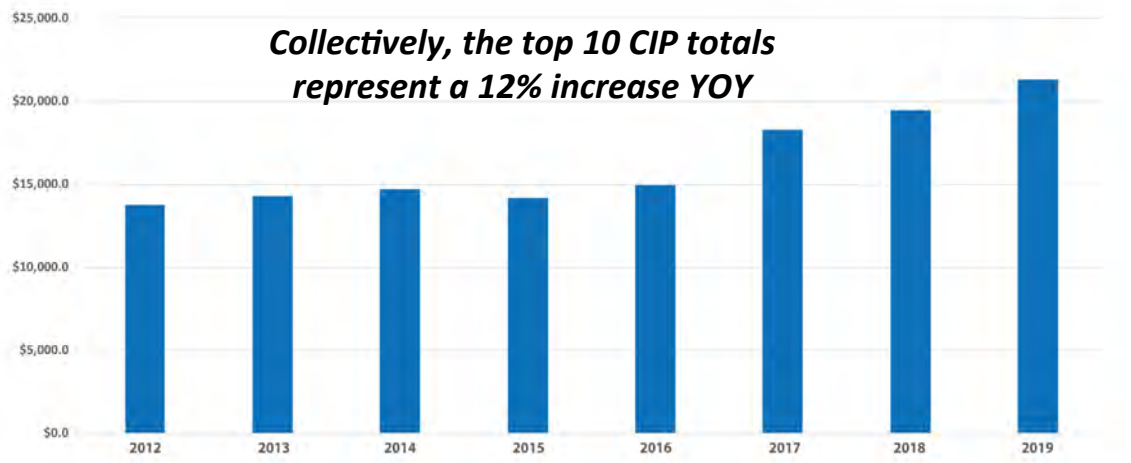

Top 10 Capital Improvement Plans

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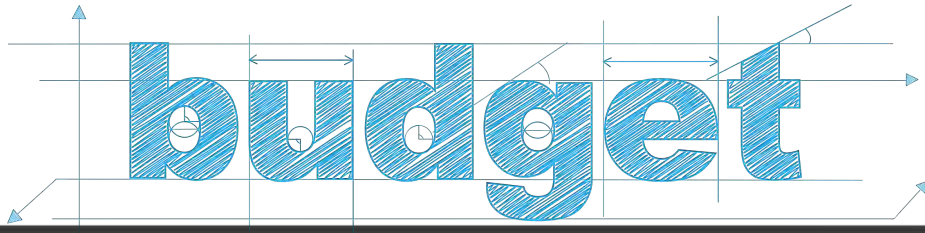
10	**Scottsdale**	$599.0M = **-3.50%**	5	**Maricopa County**	$1.418B = 0.02%+
9	**Buckeye**	$703.1M = 50.36%+	4	**Mesa**	$1.846B = 13.74%+
8	**Tempe**	$740.3M = 14.12%+	3	**Valley Metro**	$2.009B = 3.76%+
7	**Tucson**	$1.161B = 0.82%+	2	**ADOT**	$4.592B = **-6.10%**
6	**Gilbert**	$1.216B = 22.42%+	1	**Phoenix**	$7.004B = 24.01%+



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Not to be forgotten….

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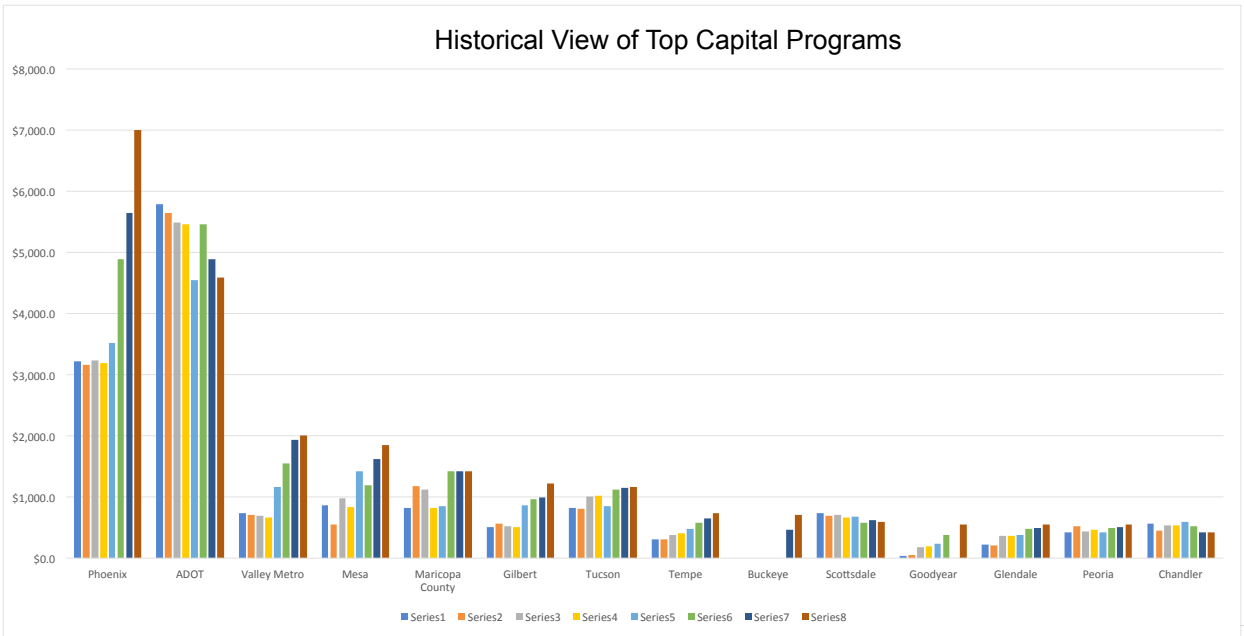
HONORABLE MENTIONS:

- Goodyear $555.2M (***up 47.39***%)
- Glendale $550.4M (up 11%)
- Peoria $544.1M (up 6%)
- Chandler $424.1M (up 1.41%)

NOTABLY ABSENT:

- Pima County
- Paradise Valley
- Casa Grande



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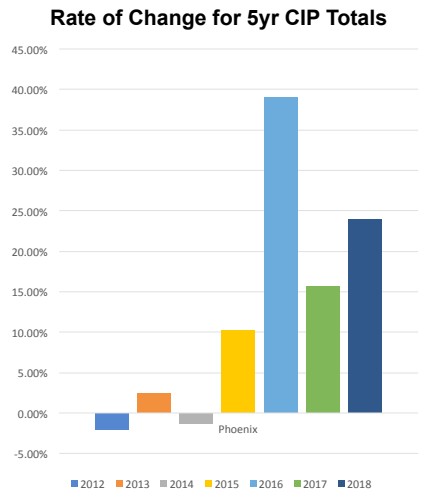
CITY OF PHOENIX



- Hitting pre-recession high of $7B
- T2050 and water rate increase
- Low point in CIP funding was 2013, currently 121.65%+
- Bonds are not in play

CITY OF PHOENIX: Changes to Notable Projects

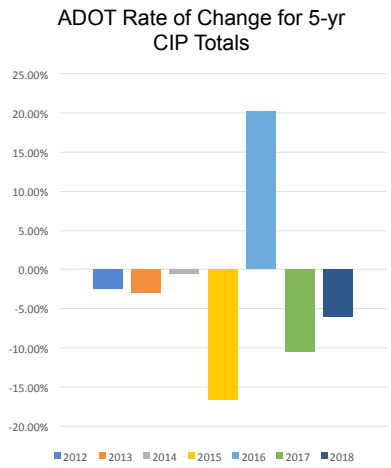
ADDED

- City-owned affordable housing
- Airport Projects
- Laveen & 59th Ave Park & Ride

DROPPED / COMPLETED

- Resource Innovation Solutions Network (RISN)
- Roads & Airport projects
- Condition assessment of 21 mile Salt River Outfall

ADOT



- Declines outweigh increases
- FAST Act provides stability
- No new revenue sources on the horizon
- Focus on preservation and maintenance only, not expansion

ADOT: Notable Project Changes

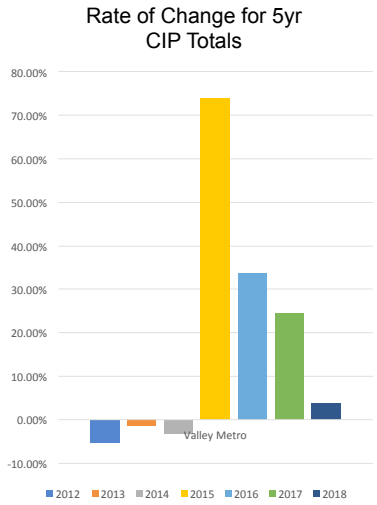
ADDED

- 13 new projects added
- I-10 from SR 202 Santan to SR347
- US 93 from Tegner St. – Wickenburg Ranch Way
- US 60 Queen Creek Bridge

DROPPED / COMPLETED

- 27 projects wrapped up or were dropped
- L202 South Mountain
- L101 Baseline to SR202 Santan

VALLEY METRO



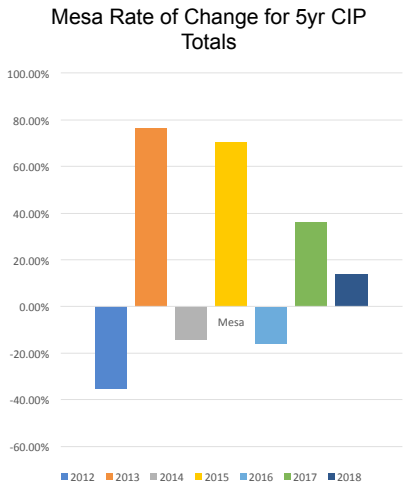
- Slight increase in 5-yr total this year
- Phoenix voters affirmed support for light rail in August 2019, voting down Prop 105
- Construction costs for light rail segments is increasing
- "Imagine" transportation funding being prepared for 2020 ballot

VALLEY METRO

- Significant regional needs still exist
  - Great Recession has led to Proposition 400 project deferrals
  - System expansion still needed
  - Increased need for multimodal investments
  - Considerations of maintenance and modernization
- The region will need to **weigh trade-offs** as the plan is developed
- Policy implications to consider for enabling legislation
- Half-cent sales tax *alone* will not meet regional needs

Source: MAG Presentation to Board, September 2019

CITY OF MESA



- Increase of 13.74% YOY, record high
- Three bond questions approved in 2018 but a sales tax measure was voted down in 2016
- Mesa is the heaviest spender on utility construction projects
- Future bond for transportation

MESA: Notable Project Changes

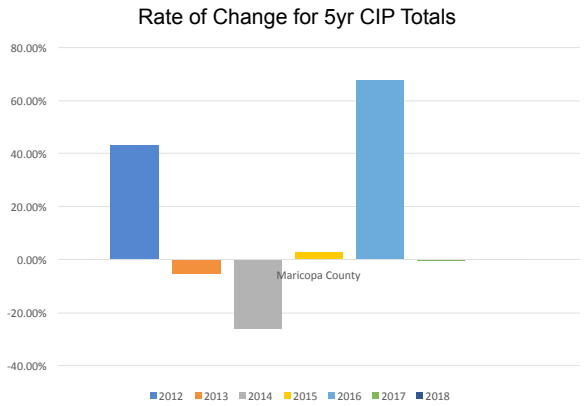
ADDED

- Plaza @ City Center
- North Center Street Athletic Fields
- IDEA Museum
- Red Mountain Athletic Fields

DROPPED / COMPLETED

- Greenfield WRP
- Transportation projects
- Fire station 222
- Well projects
- Innovation Studio @ Mesa City Center

MARICOPA COUNTY



- Pay as you go for capital projects (no bonds)
- Transportation, Justice & public safety projects dominate
- Large projects including Intake Transfer Facility, Madison Street Jail Adaptive Reuse are wrapping up

MARICOPA COUNTY: Notable Project Changes

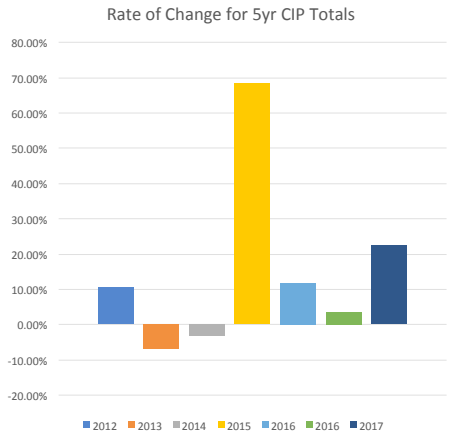
ADDED

- East Valley Animal Care & Control Facility
- MCSO Avondale Substation Campus
- Superior Court Renovations

DROPPED / COMPLETED

- Public Safety Radio system
- Durango Animal Care Expansion
- San Tan Goldmine Trailhead

GILBERT



- Funding is increasing – 22.42% YOY, new record high
- Parks bond planned for 2020

GILBERT ARIZONA

TOWN OF GILBERT: Notable Project Changes

ADDED

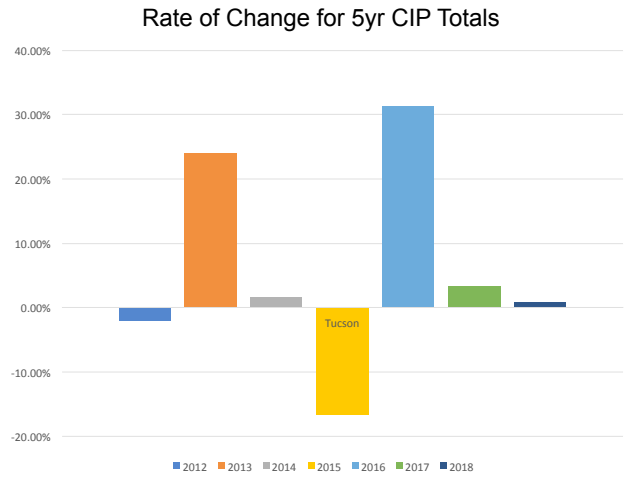
- Living Room Plaza
- Water projects
- Tons of parks projects

DROPPED / COMPLETED

- Streets projects changing from intersection improvements to full reconstructions
- South Area Pool

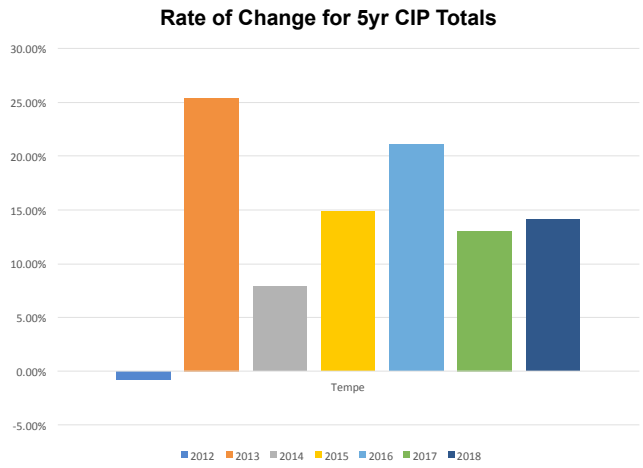
GILBERT ARIZONA

CITY OF TUCSON



- Total is up just slightly at 0.82% YOY
- Capital projects track closely to bonds
- Zoo projects are being defined
- Streets projects

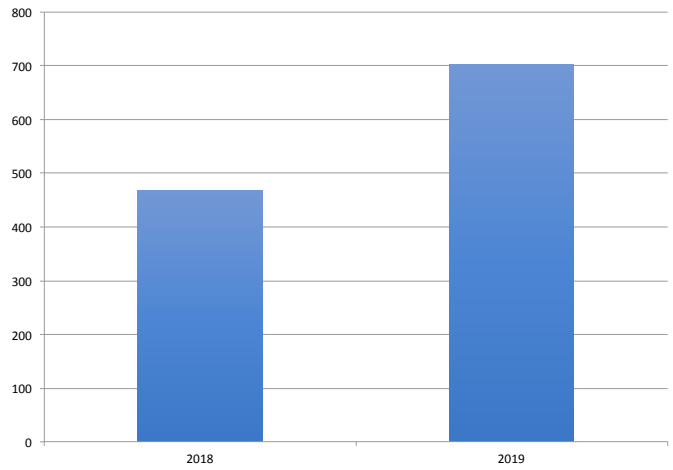
CITY OF TEMPE



- Five-year total is up 14.52% YOY
- Focus on preservation, maintenance and upgrade of existing assets
- New projects include:
  - Clark Park Pool ($10M)
  - 5th Street Streetscape ($5M)
  - Highline Western Canal Storm Drain Improvements ($4M)

Tempe ARIZONA
Making waves in the desert

CITY OF BUCKEYE



- *Six*-year plan produced for the first time in 2018, shows 50.36% increase YOY
- Lots of changes with the first revision – new projects everywhere – roads, water, police/fire, parks, and more.

BUCKEYE, AZ

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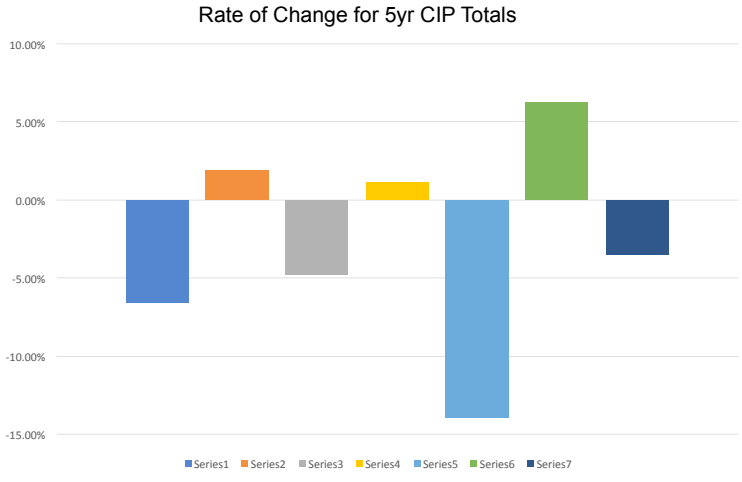
CITY OF SCOTTSDALE



- Five-year total is down **3.50%**
- Voters resist bond questions, but did pass sales tax measure in 2018
- $319M bond question on 2019 ballot
- Most projects are in year 1

CITY OF SCOTTSDALE

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Top 10 Capital Improvement Plans

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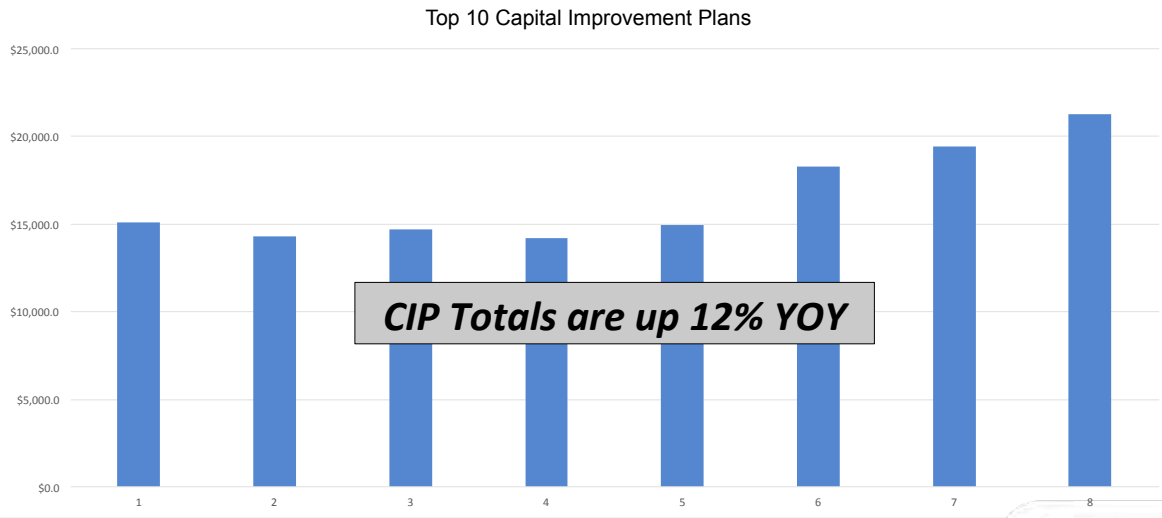
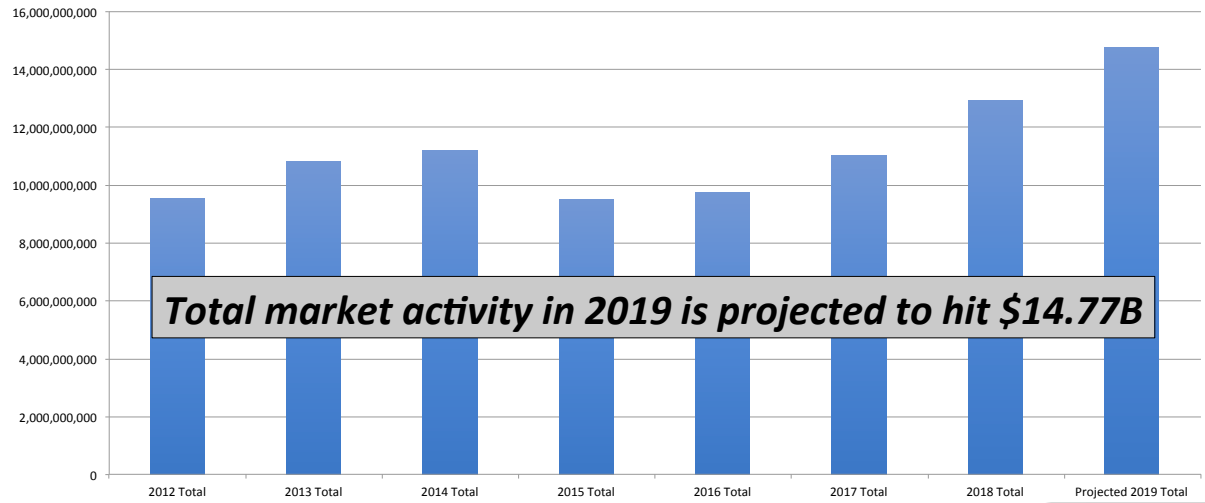
RECAP: Funding for Capital Programs is Increasing…



Along with statewide construction market activity…



PROCUREMENTS

Construction Bid Prices vs. Engineer's Estimates

Sample Project Result

ADOT - **Construct Scour Retrofit, Verde River Bridge STR #1731 & 505, Cordes Jct - Flagstaff Hwy (I-17).**

Due Date: 10/05/18

Reference # BR-017-B(224)T; H854401C

Engineer's Estimate		$1,472,318.20
1.	N.G.U. Contracting, Inc.	$1,835,514.00
2.	Vastco, Inc.	$1,995,788.60
3.	FNF Construction, Inc.	$2,321,134.20
4.	Technology Construction, Inc.	$2,499,999.99
5.	Standard Construction Company, Inc.	$3,135,081.00
6.	J. Banicki Construction, Inc.	$3,633,473.70

ANALYSIS:

Engineer's Estimate = 0
Lowest bid price compared to that as a percentage under/over. In this case, the project is considered 24.67% ***above*** engineer's estimate.

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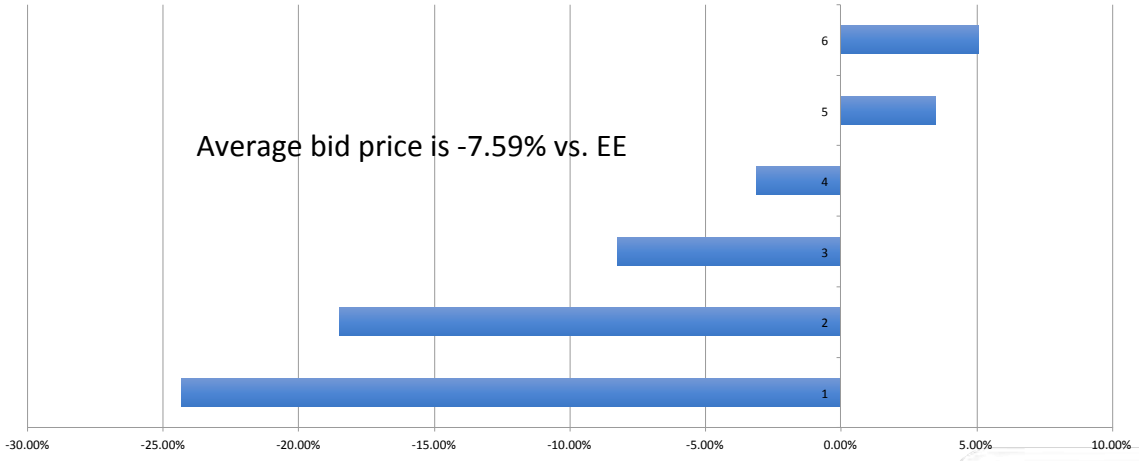
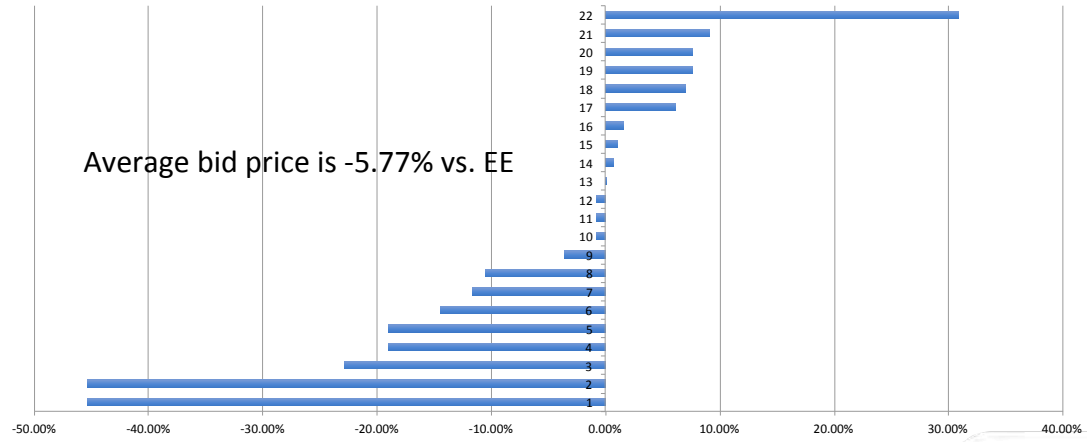
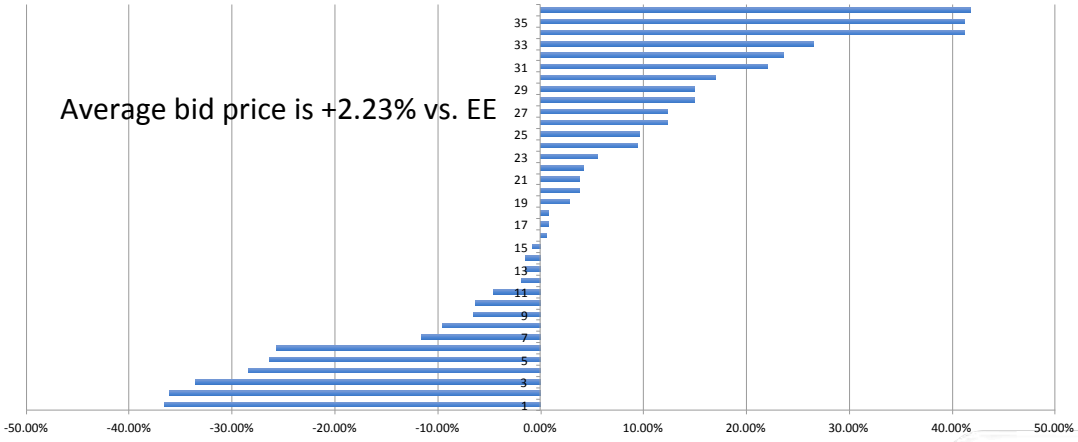
2012 Procurement Analysis



2015 Procurement Analysis



2018 Procurement Analysis



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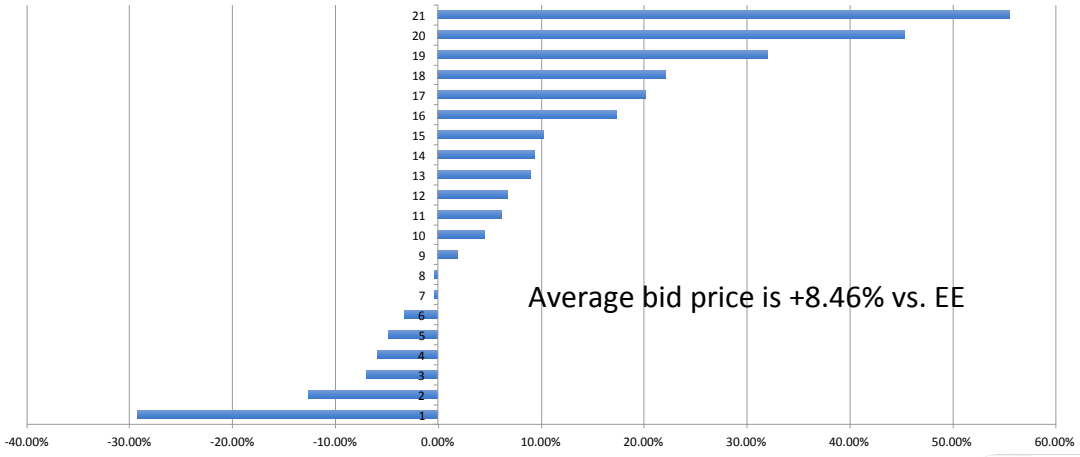
2019 Procurement Analysis



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Conclusions from Procurement Analysis

- Construction bid prices are still well above Engineer's Estimate
- Capital projects take a long time to adjust to market conditions
- Majority of procurements are small (<$5M) low-bid projects
- Municipalities love JOC, cooperative purchasing & piggybacking
- School Districts love CMAR
- Nobody loves Design-Build

RECAP

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- Public Infrastructure is 1/3 of the total construction market
- 2019 statewide construction volume is projected at $14.77B, flat in 2020, slight decline in 2021
- CIP totals continue to rise
- Shift towards pay as you go funding, away from bonds
- Bid prices still above budget

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Outlook on Capital Projects in AZ

- Projects that have dedicated revenue sources are always a good bet
- Public sector is the last sector to rise and fall
- Economic Development hotspots are driving public investment
- Revenue source for transportation projects is needed