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MEMORANDUM

TO: Mr. Bruce Westby

FROM: Chad Setterholm, PE (Lic.MN))

DATE: January 12, 2022

RE: Water Treatment Plant Trunk Watermain Improvements - Elevated Bid Costs
SEH No. RAMSY 159783 14.00

On Tuesday, January 4, 2022, at 10:00 a.m., two (2) bids were received for the above-referenced project. The bids ranged from a high of \$8,391,994.66 to a low of \$6,737,287.45 across two bid schedules. Schedule 1 reflected a combination of open cut and horizontal directional drilling (HDD) installation methods for PVC watermain construction while Schedule 2 reflected only the HDD installation method.

	Contractor	Total Schedule 1 Bid	Total Schedule 2 Bid
1	Park Construction Co.	\$6,737,287.45	\$7,059,102.16
2	Forest Lake Contracting, Inc.	\$7,652,529.55	\$8,391,994.66
	Engineer's Estimate	\$4,875,068.50	\$4,916,194.50

The low bid received was reflected in the Schedule 1 bid and was submitted by Park Construction Company, of Minneapolis, MN in the amount of \$6,737,287.45. This bid was approximately 38% higher than the Engineer's Estimate of \$4,875,068.50, mainly due to highly inflated PVC pipe costs reflected in both bids.

Due to current volatility within the supply chain for components such as resin used for manufacturing PVC pipe and a lingering shortage of pipe extruder labor as manufacturing scaled down due to chemical shortages of available components needed for making PVC pipe. Resin shortages are largely associated with chemical plant shutdowns in Texas and Louisiana during the severe freezing temperatures in early 2021 which also affected pipe manufacturing plant operations. This scenario and the ongoing pandemic drove pipe material and construction costs up substantially by the end of 2021.

If costs continue to rise in 2022, it will increase the likelihood of change orders as contractors pursue claims to recover unforeseen costs not recognized in their bids. This will add additional fiscal challenges for the project.

The low number of bids received was likely reflective of the highly inflated pipe material costs adding to the fiscal risk of prime contractor bonding for the high cost associated with the work being performed by the subcontractor performing the horizontal directional drilling component of the watermain installation. This may have caused some contractors to not submit bids if it reduced the bond capacity available for other projects they were pursuing or were currently under contract.

Accordingly, we recommend the project not be awarded at this time to allow material and construction costs to be monitored during 2022 with the anticipation a rebid for late 2022 or early 2023 will present more favorable bids and additional bidders for 2023 construction of the improvements. While it is difficult

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to predict future trends with the construction market, waiting to rebid allows time for supply chain and pandemic issues possibly work themselves out and influence costs to a lesser degree.

It is also recommended to evaluate the economics of utilizing ductile iron pipe (DIP) as material alternate for areas of the project associated with open cut installation of the water main along with the feasibility of increasing the amount of open cut pipe installation to evaluate any additional cost savings.

Also note, DIP pipe has a current lead time of approximately 30 weeks. If it is determined DIP pipe will be included in the rebid, lead times will need to be evaluated at that time to allow a bid opening date to be set that allows for timely delivery of pipe materials.

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