

## Construction industry in crisis

Contractors say price, supply chain issues put businesses at risk

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Advocates for Minnesota's construction industry say rising costs and supply chain woes have reached crisis proportions in the state and beyond — and they're calling on public entities to share some of the pain.

Construction inflation and delivery logjams are nothing new, but contractors say the current situation isn't expected to end any time soon, and that escalating costs are putting some small businesses working on public projects at risk of going under.

In a recent letter to state and local agencies, the St. Paul-based Association of Women Contractors said the cost of fuel is up 60% since December, freight surcharges are rising at more than 60% in some cases, and businesses have been losing 20% to 30% on projects.

"Reality is that construction businesses continue to suffer enormous losses," the letter states. "Unlike other industries that are in recovery from the pandemic, construction losses are not due to lack of patronage, but due to actual costs with no relief."

Barb Lau, executive director of the Association of Women Contractors, wrote in the letter that Minnesota construction businesses are taking desperate measures to pay for business operations. Measures range from refinancing their homes to cashing in part of their retirement, she said.

And yet, project owners are "holding the line hard" on costs with "no change order approval for escalations," Lau states in the letter.

Finance & Commerce reached out to public agencies mentioned in the letter, including the Metropolitan Airports Commission, the Metropolitan Council, the city of St. Paul, the city of Minneapolis, Hennepin County and Ramsey County.

In general, the public own-



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ers said they are listening to and are sympathetic to the contractors' concerns. Some cited specific examples of relief, such as adding flexibility to price escalation language in their contracts.

For example, the city of Minneapolis' procurement office modified its price escalation language to "allow flexibility to review price increase requests if it falls under 'extraordinary circumstances,'" the city said in an email.

That language is now included in all city bids, the city said, adding that until recently price escalation was capped at 10% and increases were allowed only during the renewal of the contract.

Ramsey County said its contracting process allows for change orders for "justifiable expense increases — such as cost of materials," and that project contingencies "are another way to address rising costs."

"We are committed to our partners as key to our work and we will continue our way of doing business at Ramsey County to make every effort to reasonably adjust to project challenges to ensure mutual success," the county said.

For its part, Hennepin County said price escalation "is a concern to both private and public entities across the nation. The bids we are receiving reflect that risk in the market."

Hennepin County said its contracts include language beneficial to small businesses that supply materials, including "contract award processes to assist in shortening their bid-to-contract award time frame."

Hennepin County also said it's providing "technical assistance and supports" to help emerging construction businesses with estimating

and bidding, scheduling and delivery, contract document reviews, construction accounting and more, among other services.

The Metropolitan Council said it has participated in meetings with contractors and government agencies about rising construction costs and pandemic-related supply chain issues, and that it "recognizes the hardships" imposed on "people, families, companies, industries and institutions."

"We continue to meet with, listen to, and engage with the various partners that are convening around the enormity of the challenge," the council said. "Our commitment is to work together to identify solutions that will move us to action."

### 'Volatile, unpredictable' market

Advocates for Minnesota's construction industry say it's not enough.

The agencies' comments are "welcomed and positive," but the "urgency of the situation demands actions," Tim Worke, CEO



of the Associated General Contractors of Minnesota, said in an email.

“Although we don’t always have information that is specific to particular projects and owners, we have yet to become aware of a specific instance where a change order has been granted to provide relief for price increases,” Worke added.

“Additionally, active discussions on this matter have been occurring since January. It would seem we’d be further along with regard to action by this point on the calendar.

“Lastly, these comments seem to speak more to future bidding practices and accommodation versus addressing the work-under-contract concerns.”

As Hennepin County noted, price and supply chain issues are a national concern.

Citing Bureau of Labor Statistics data, Associated General Contractors of America Chief Economist Ken Simonson reported in April that costs outpaced bid prices in March for the 18th consecutive month on a year-over-year basis.

The producer price index



Tim Worke

for material and services related to nonresidential construction rose 2.7% in March and 21.5% year over year, Simonson noted. Diesel fuel, steel mill products and plastic construction products are up 64%, 43% and 35% respectively year over year.

Lau noted in the letter that the timeline from bidding on a project to contract award and the start of construction can be “years in some cases,” but supply quotes are being held for “no more than seven days and often only 24 hours.”

Worke recalls a recent conversation he had with a group of interior finishers, who informed him that they had just received notice

from gypsum wallboard suppliers of extended delivery dates and a 40% price increase.

Price and supply chain pressures, Worke added, are especially problematic for small, emerging and under-capitalized businesses, which are least able to sustain a rapid run-up in costs.

“It’s in nobody’s long-term interest to have a small handful of established, well-capitalized general contractors running the market,” he said.

Another complicating factor: small construction businesses typically have a direct contractual relationship with the prime contractor, not the owner, and the owner tends to say cost pressures and others concerns are matters for the prime and the sub to work out, Worke noted.

Those dynamics are nothing new, but “we are sitting here today in a completely volatile and unpredictable market,” where contractors are getting bombarded with notices of surcharges and lengthy delays in deliveries of materials, he said.

While COVID-relief money has gone to other busi-

nesses, it’s frustrating that “none of that money could somehow find its way over” to struggling small construction businesses and maybe general contractors, Worke said.

“We want to clear that we’re not asking for the public owners or the taxpayers to bail out private businesses,” Worke said. “What we’re asking for is a shared-risk model where there currently is none.”

Laura Ziegler, AGC-Minnesota’s director of highway/heavy and government affairs, said there’s no indication that the price and supply chain pressures will ease up anytime soon.

“Everything points to a minimum of 18 to 24 more months of this continued price volatility and/or supply chain disruptions in getting the material,” Ziegler said.

Ziegler added, “We’ve been trying to highlight that this is not business as usual. And it’s not hyperbole to say that it’s a crisis in construction for a lot of contractors. ... Some are just trying to break even on a job.