

The Oregonian

Soaring costs throw Oregon road projects a curve
Rough road - Officials are facing steep price increases for asphalt and other materials

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Oregonians feel the pain of high oil prices behind the wheel, but soon they'll feel it beneath their wheels as fewer roads and bridges get fixed or improved.

Highway construction costs, led by surging asphalt prices, have spiked 13 percent since 2004, adding \$100 million or more to state highway projects on the books. Officials say money to complete current work will have to be diverted from future projects, upsetting plans to repave aging freeways, repair or replace crumbling bridges and relieve traffic jams.

"It's a very, very troubling development that we are going to have to do some hard thinking about," said Stuart Foster, Oregon Transportation Commission chairman.

The sticker shock adds to Oregon's struggle to sustain its 8,000-mile road system, which is already facing erosion of gasoline tax revenues and population increases that could double the amount of driving in the next 20 years.

Asphalt prices lead the pack.

The average price the state paid for liquid asphalt in Portland jumped 61 percent in the first seven months of this year, from \$207 a ton to \$333 a ton. The asphalt bill on some projects has doubled.

Rising oil prices hit asphalt in two ways: The black goo is left over after gasoline is refined from oil. As oil companies squeeze more gasoline out of every barrel of crude, the supply of asphalt goes down, and the price goes up. Liquid asphalt is mixed with rock and sand to make the blacktop applied to road surfaces.

Prices for other products -- steel, cement and concrete -- also have soared. Another factor is the sheer volume of construction projects in the Northwest and around the nation, which drives down competition while pumping up costs. Ideally, state officials like to see four or more bidders on each project, but last year's projects attracted two or three bidders in many cases. Generally, fewer bidders mean higher bids.

The increases are affecting projects across the state. The estimated cost to widen U.S. 101 in Bandon was \$2.57 million. The winning bid came in at \$3.62 million. The South Medford Interchange on Interstate 5 was estimated to cost \$45 million. The bid came in at \$53 million.

The estimate for buying 10,866 tons of asphalt for a paving project on Interstate 205 between the Willamette

River and Interstate 5 was \$2.18 million. The total cost will be \$4.22 million -- nearly double.

"We are now in a period of adjustment and reacting to world events," said Paul Mather, the Oregon Department of Transportation's southern regional manager, who made a presentation to the commission in July. Mather said economists predict the cost increases could last another 18 to 24 months before leveling off, he said.

The state assumed an annual inflation factor of about 3.5 percent in the current four-year construction program, which includes approved spending of about \$500 million a year. A 10 percent annual increase over two years leads to a \$100 million shortfall. And that's if the costs stop rising.

"We expect highway construction costs to rise faster than overall construction, and much faster than residential," said Jessica R.H. Adamson, government affairs manager for the Oregon-Columbia Chapter of the Associated General Contractors.

"It may level off some, but I wouldn't expect much. It is not something that will fix itself overnight."

Other factors include demand for steel in China and the high cost of importing cement from Mexico, she said.

The state's construction program covers four years and is updated every other year. The current program covers 2006 to 2009, and officials are working on the next installment, which will determine how construction dollars will be spent from 2008 to 2011.

Cutting from the bottom of priority lists, which regional planning groups have already sweated blood to write and fund, is where the state plans to make up the losses.

Metro Councilor Rex Burkholder, chairman of the committee that makes transportation funding recommendations for the Portland area, said the state's plan sounds like another short-term solution to a long-term problem.

"Unfortunately, we're doing too much of this mortgaging the future," Burkholder said. "We keep putting off the day of reckoning."

The cost increases are hitting all road-building agencies around the country. Several Oregon cities and counties are putting off paving work planned for this summer. Some states are taking more drastic action. Colorado is rejecting all bids more than 10 percent above estimates, and those with less than three bidders.

"We feel these measures are premature," said Pat Cooney, ODOT spokesman.

Adamson said the contractors group opposes large-scale bid rejections.

"It's not healthy for either side when all bids are rejected," Adamson said.

The state uses escalation clauses to help control excessively high bids. These provisions allow for the state and the contractor to share the risk of price increases -- and decreases -- after the bid is accepted. Then contractors don't have to inflate their bids to cover the risk of higher prices.

"There are some things we can do, but for the most part, we have to ride through it," Mather said. "We can look for some other materials that we can substitute and maintain quality, such as building a steel bridge rather than a concrete bridge."

Foster, the commission chairman, said the state may have to consider shifting from asphalt to concrete, a move certain to ignite debate about which is cheaper and more durable in the long run.

Beyond the details, the bigger picture just deepens the gloom for transportation in Oregon, he said.

"It's not good for any of us. We already had constrained funds. We've tightened our belt in terms of projects to a bare minimum, then inflationary costs are going through the ceiling. You really end up with a devastating impact."

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