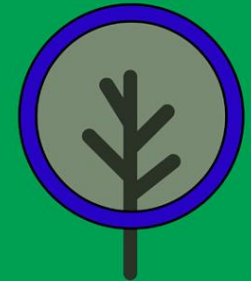


Caltrain Cost Challenges In Line with National Trends

Peninsula Corridor Joint Powers Board

August 7, 2025



The Contorta Group

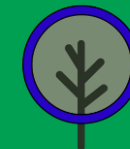
Introduction

Peter M. Rogoff

- Principal & Managing Partner, The Contorta Group
- CEO, Sound Transit (Seattle, WA)
- USDOT Undersecretary for Policy
- Federal Transit Administrator
- U.S. Senate Transportation Appropriations Subcommittee



**Federal Transit
Administration**



Increasing cost challenges not unique

Impacts all major infrastructure areas:

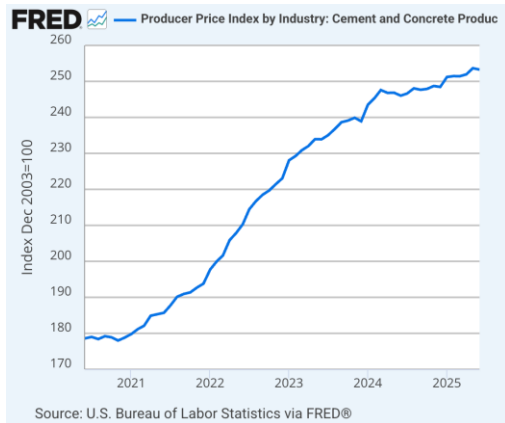
- transit, highway, and airport expansions
- multi-family housing
- arenas
- port infrastructure
- power plants
- commercial real estate



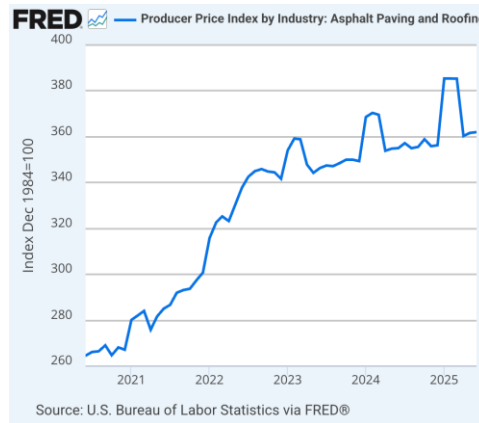
Cost factor: Supply chain challenges and materials costs

No sign of costs returning to pre-pandemic levels.

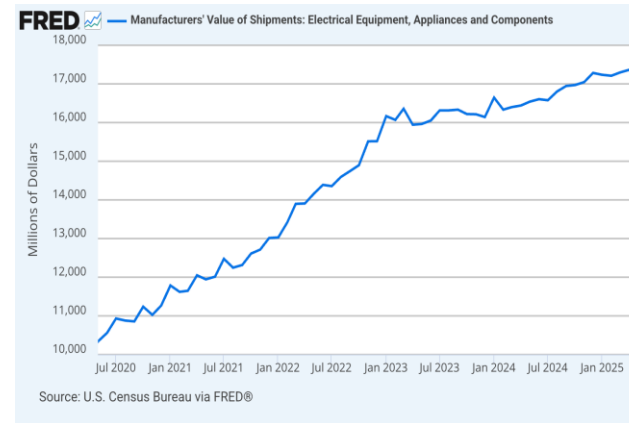
- Supply chain challenges still impacting 55% of industry.
- Rising prices of essential construction materials have not yet reversed in 2025.
- Uncertainty surrounding tariffs keeping prices high and volatile.



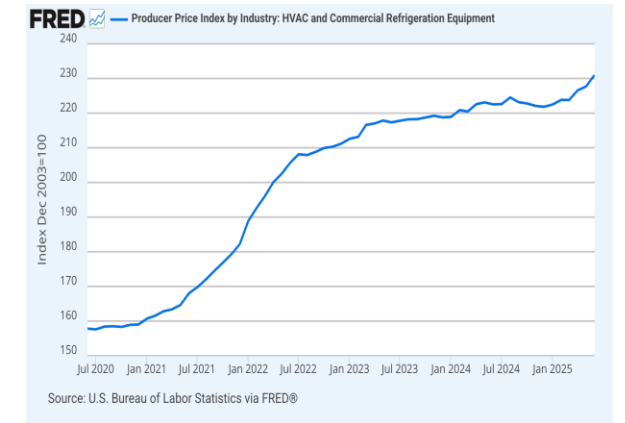
Cement and
Concrete products



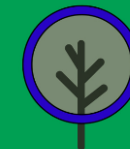
Asphalt and
roofing materials



Electrical
equipment

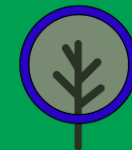


Plumbing and HVAC
equipment



Cost factor: Supply chain challenges and materials costs

- Transit projects are highly dependent on specialized components that require long lead times.
- Delivery delays and can endanger timely delivery of entire projects.
- Geopolitical instability has accelerated spiking materials costs.
- Recent fluctuations in tariff policies have further increased prices that contractors must guard against by boosting bid prices.



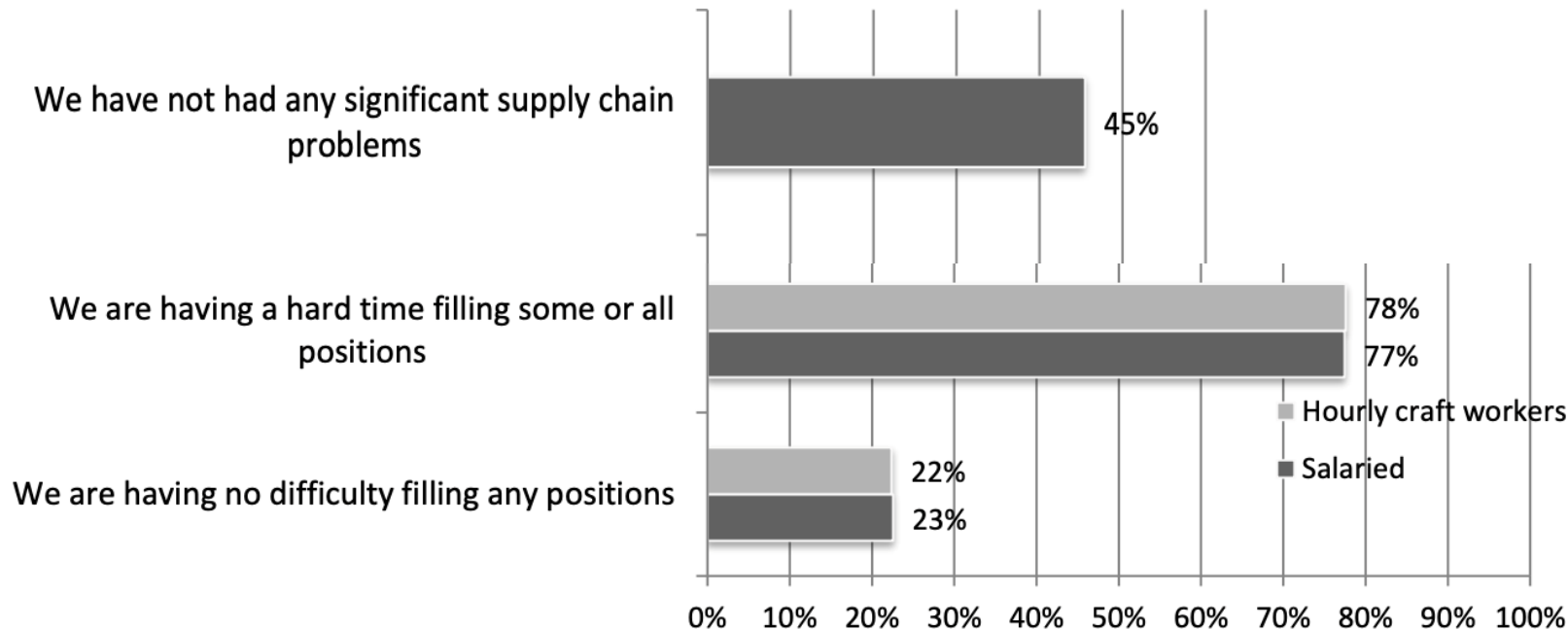
Contractors and their bid prices continue to assume supply chain challenges, volatile materials costs, and workforce shortages



AGC
THE CONSTRUCTION
ASSOCIATION

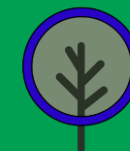
Sage

2025 Construction Outlook



“...more than anything else, construction firms are worried about the supply of labor and the potential for materials prices to rise in 2025. This is, in part, because labor is already in short supply and materials prices have been volatile since 2020.”

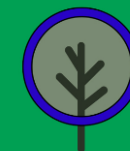
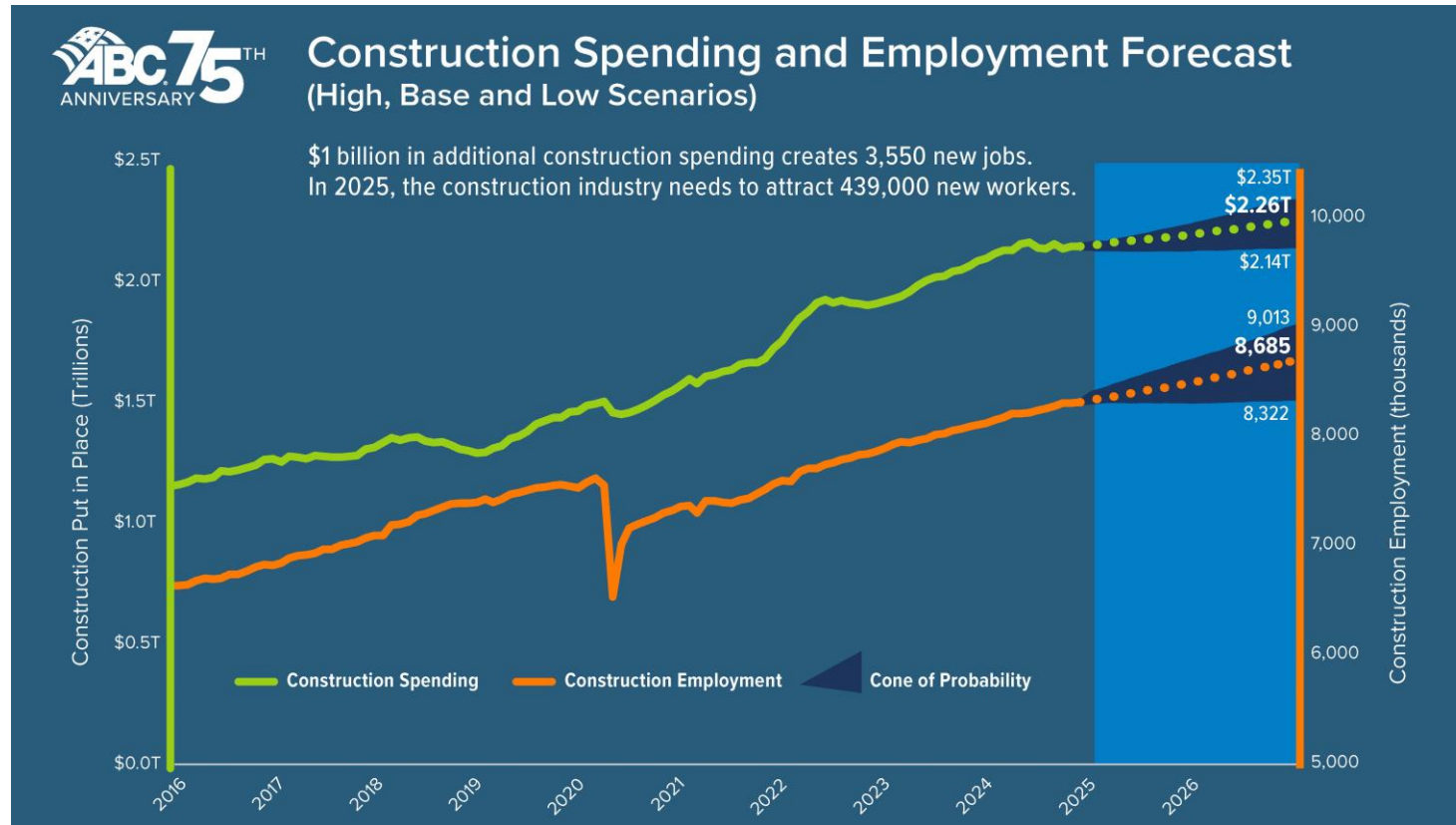
--Ken Simonson
AGC Chief
Economist
Jan. 2025



Cost Factor: Labor shortages

“...the industry still must attract 439,000 new workers in 2025 to balance demand and supply. If it fails to do so, industrywide labor cost escalation will accelerate, exacerbating already high construction costs and reducing the volume of work that is financially feasible.”

--ABC Chief Economist Anirban Basu (January 2025)



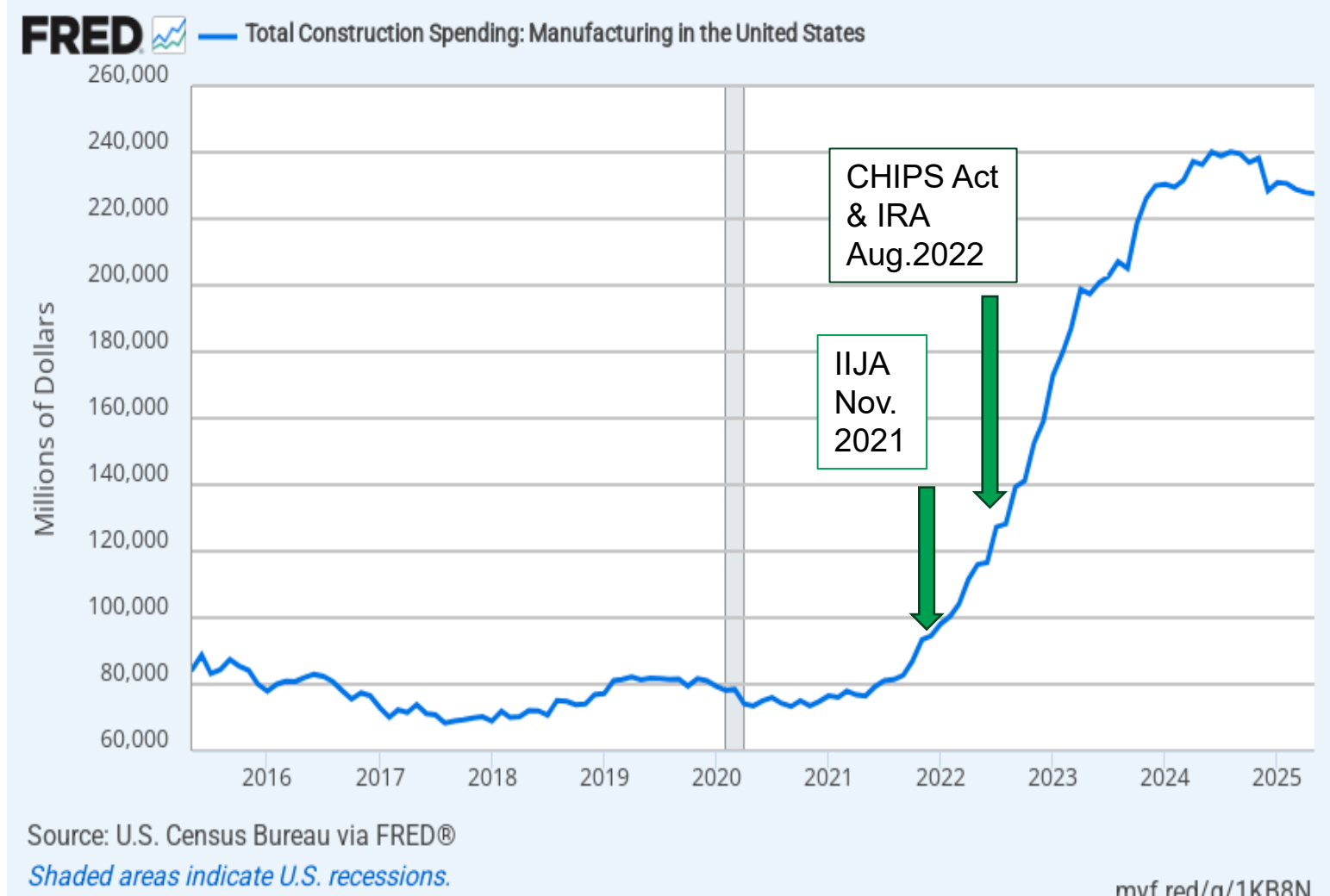
Cost factor: Labor shortages not abating

National Federation of Independent Business
Economic Trend Survey - **June, 2025**

“Job openings were the highest in the construction, manufacturing, and transportation industries, and the lowest in finance and agriculture. Job openings in construction were up 5 points from last month, and up 2 points from June 2024.”

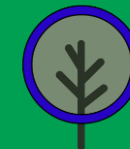


Historic level of construction spending strains capacity

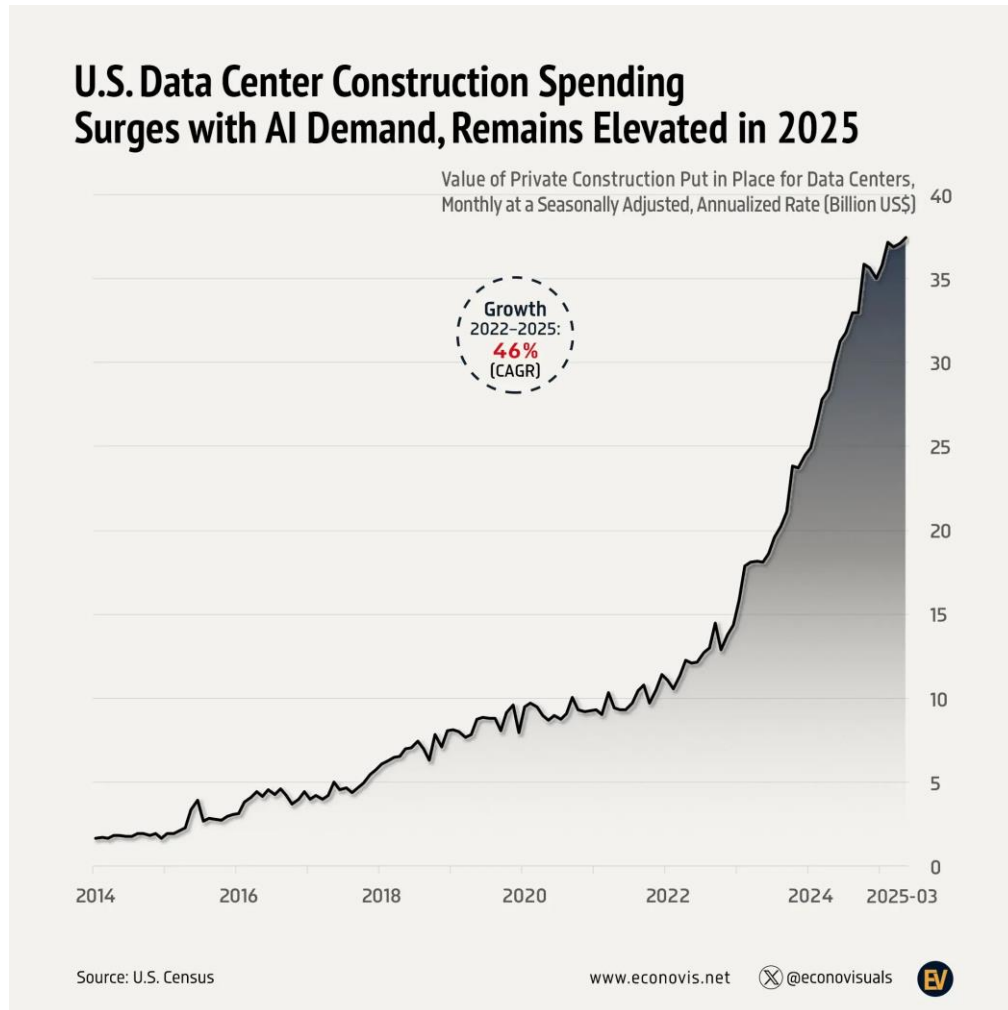


“Demand for construction remains strong, but unfortunately demand for workers remains even stronger.”

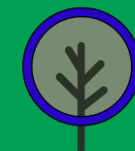
**---Jeff Shoaf: CEO
Associated General
Contractors (AGC)**



Strained construction industry capacity:



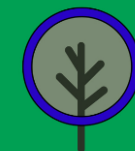
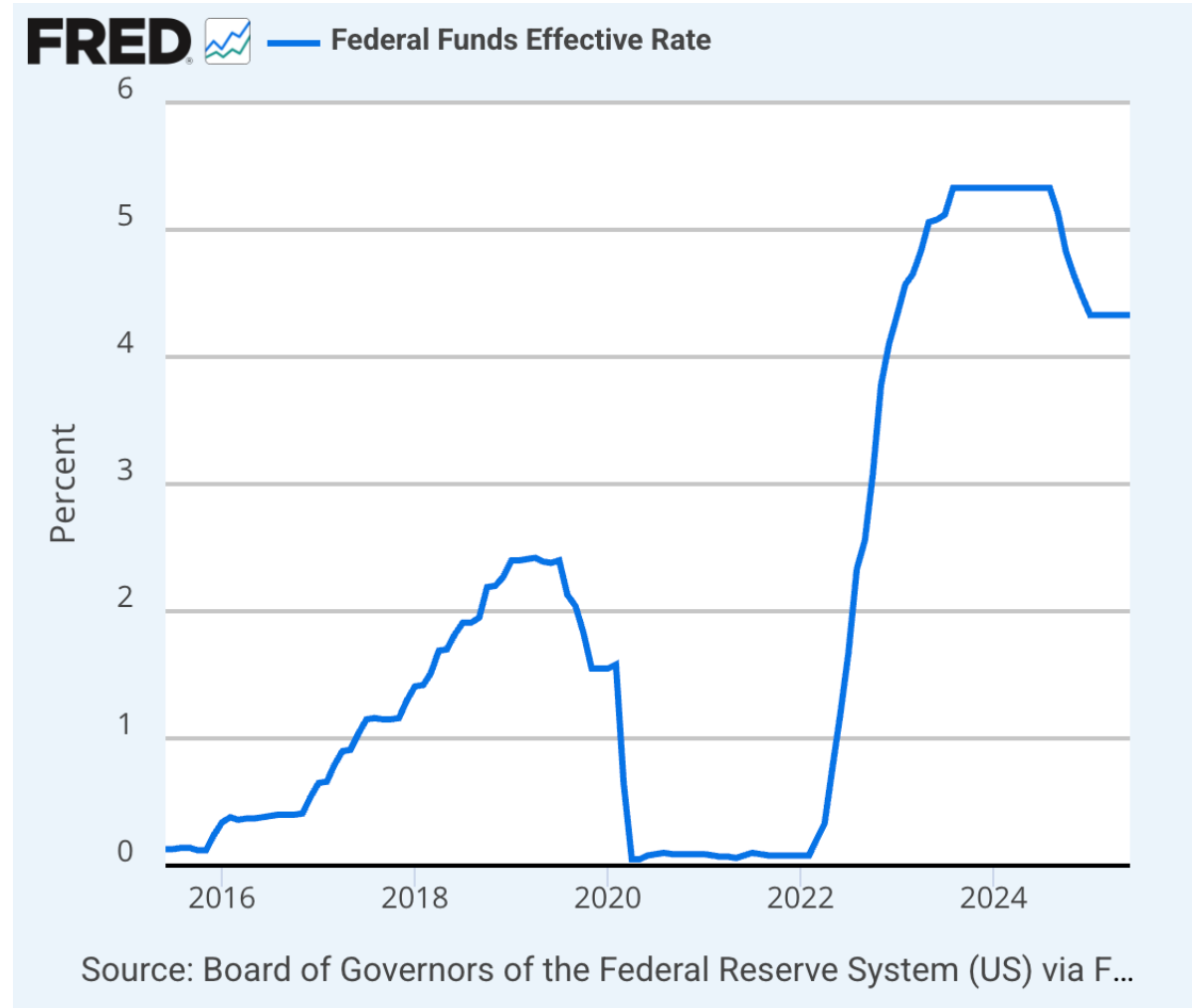
- Rapid rise in data center construction introduces significant new drain on construction industry capacity
- AI firms willing to pay top dollar for prompt delivery of projects – providing contractors with better margins.



Cost factor: interest rates remain high

The steep increase in interest rates over the last three years has only partially abated, causing:

- higher borrowing costs for project owners through bonds and/or other debt that must be calculated into the project cost;
- higher carrying costs for contractors that must be priced into their bids.



Cost factor: Reduced competition

Prices skyrocket on WA transportation projects, and fewer contractors want the jobs

Sep. 21, 2023 at 6:00 am | Updated Sep. 21, 2023 at 6:00 am



1 of 2 | The new \$2.0 billion bridge over Portage Bay in Seattle is going to cost about \$1.3 billion to build, and the WSDOT received just two bids for the contract. (Kevin Clark / The Seattle Times)

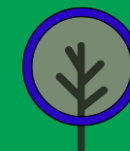
By [David Kroman](#)

Seattle Times staff reporter

"As recently as 2021, the state averaged more than six bids per project. So far in 2023, that number has dropped to around 2½."

The Seattle Times

Sep. 21, 2023



Cost factor: Reduced competition

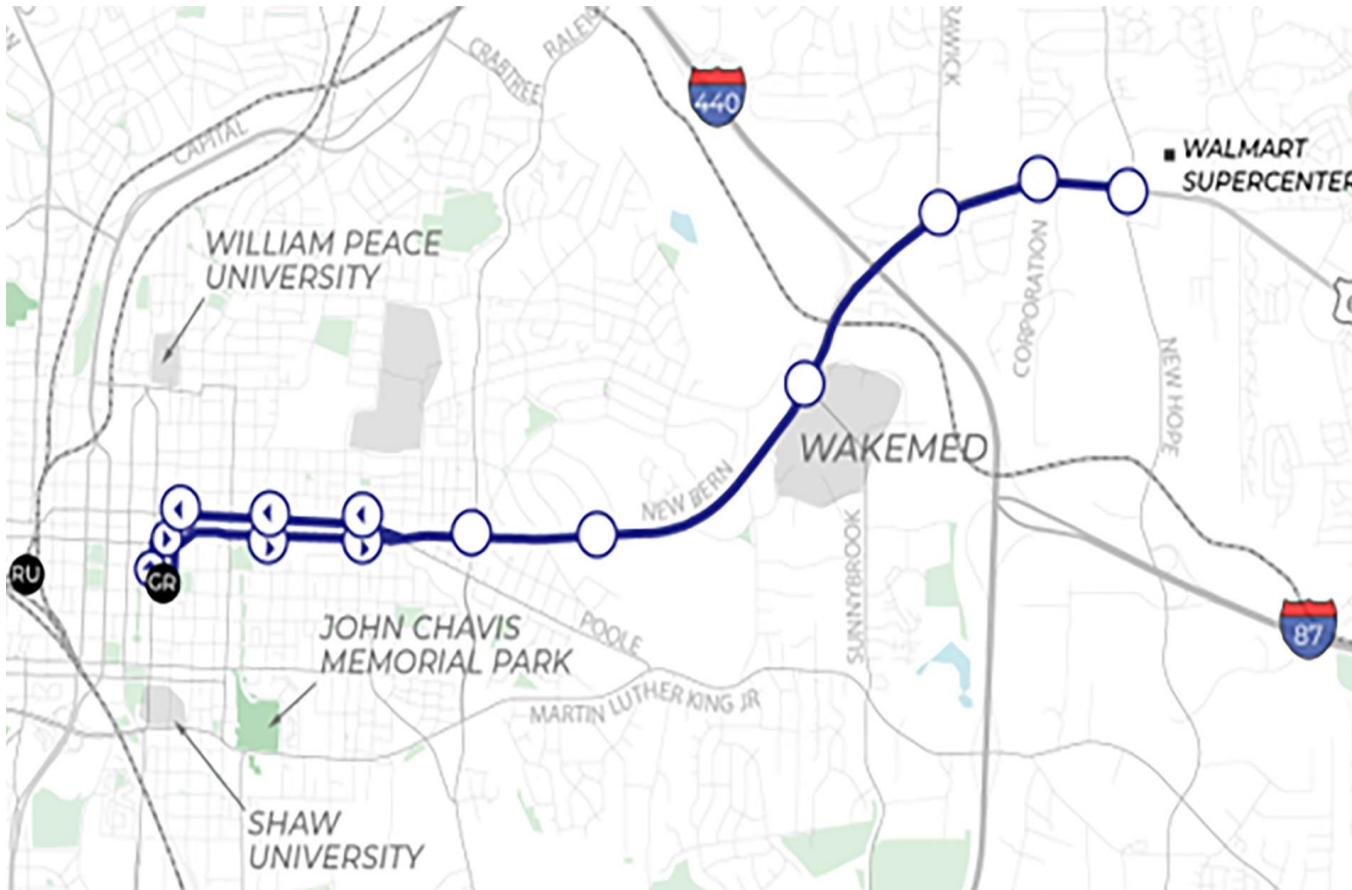
St. Louis Convention Center expansion:

- New 72,000 square foot exhibit hall, expanded and enhanced loading docks, new outdoor gathering space, and a refurbished entrance.
- Phase 1: Received one bid at 60% higher than initial estimate
- Phase 2: Received **zero** bids.



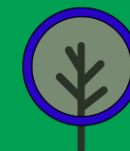
Photo from Explore St. Louis

Cost factor: Reduced competition – Raleigh NC BRT



New Bern Avenue BRT

- First of four planned BRT lines for Raleigh involving fairly simple street and station work.
- Initially budgeted at \$71.5 million, including FTA grant of \$35 million.
- Initially estimated completion by the end of 2025



Cost factor: Reduced competition – Raleigh NC BRT



- May 2024 bid solicitation yields zero bids.
- Only bid submitted in second attempted solicitation is rejected as unaffordable -- \$40+ million more than city's independent cost estimate.
- Third attempt involves smaller contract packages
- Project now expected to cost \$97 million and be delivered in 2030.

Cost factor: Avoiding uncertainty

Contractors today are seeking a clearer path to profitability through:

- *less complexity*
- *less uncertainty*
- *less* risk or shared risk with project owner



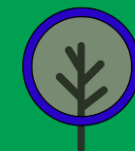
Cost factor: Avoiding uncertainty

Complicated projects with longer delivery durations introduce higher risk to both contractors and owners.

That added time and risk triggers:

- higher borrowing costs
- higher insurance premiums
- higher contingency reserves

Contractors will avoid complicated projects if they can fill their schedules with less risky projects with a clearer path to profitability.

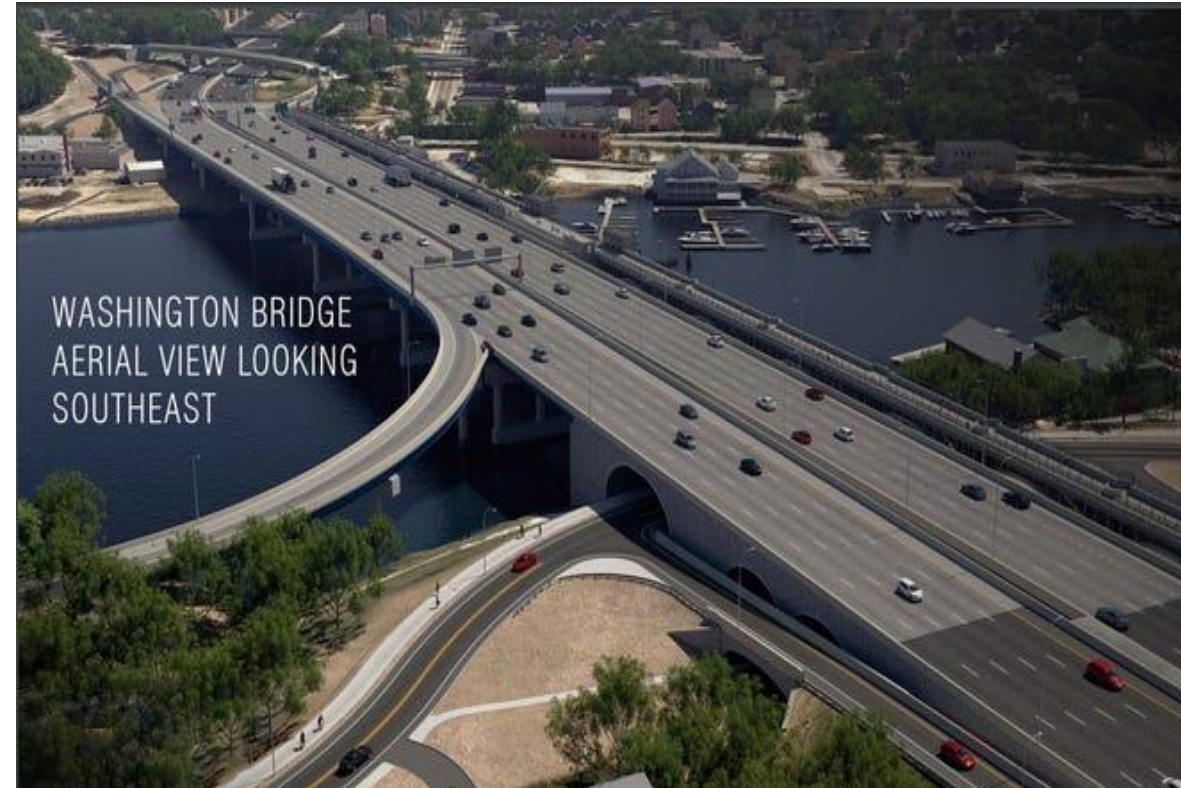


Cost factor: Avoiding uncertainty – Washington St. Bridge, Providence, RI

Frightening inspection results
required immediate closure of bridge
in December 2023.

RIDOT estimated cost for
replacement at \$250 -- \$300 million;
invited 67 firms to participate

Received zero bids !!



Cost factor: Avoiding uncertainty –

Why zero bids?

- aggressive timelines
- incentives for early delivery, but
- penalties for late delivery

WASHINGTON BRIDGE CLOSURE

RI asking companies what it will take to rebuild the failed Washington Bridge

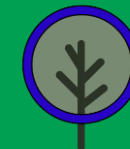
by: Alexandra Leslie

Posted: Jul 19, 2024 / 04:01 PM EDT

Updated: Jul 19, 2024 / 05:39 PM EDT

“We pushed the envelope apparently beyond what the construction industry is willing to bear — we accept that,”

-- RIDOT Director Peter Alviti



Cost factor: Avoiding uncertainty – Washington St. Bridge, Providence, RI

Contract packages rescope

Contract terms revised

Bridge now being delivered at
a cost of \$571 million

–almost twice initial estimate
and two years later than
planned



The upshot: Punishing pricing environment:



U.S. Department
of Transportation
**Federal Highway
Administration**

Select Year and Quarter:

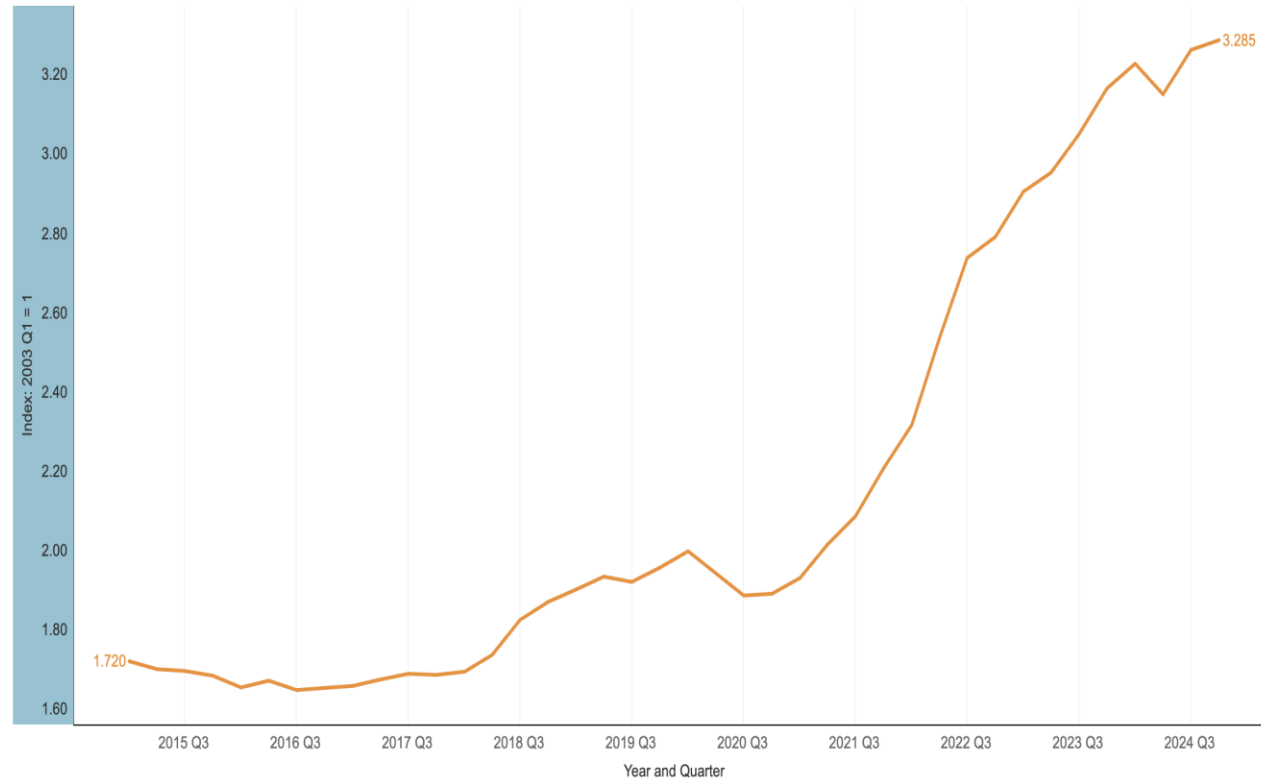
2014 Q4 2024 Q4

DATA SOURCES:

☐ NHCCI

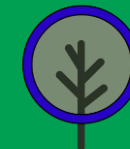
☒ Seasonally Adjusted NHCCI

National Highway Construction Cost Index (NHCCI)



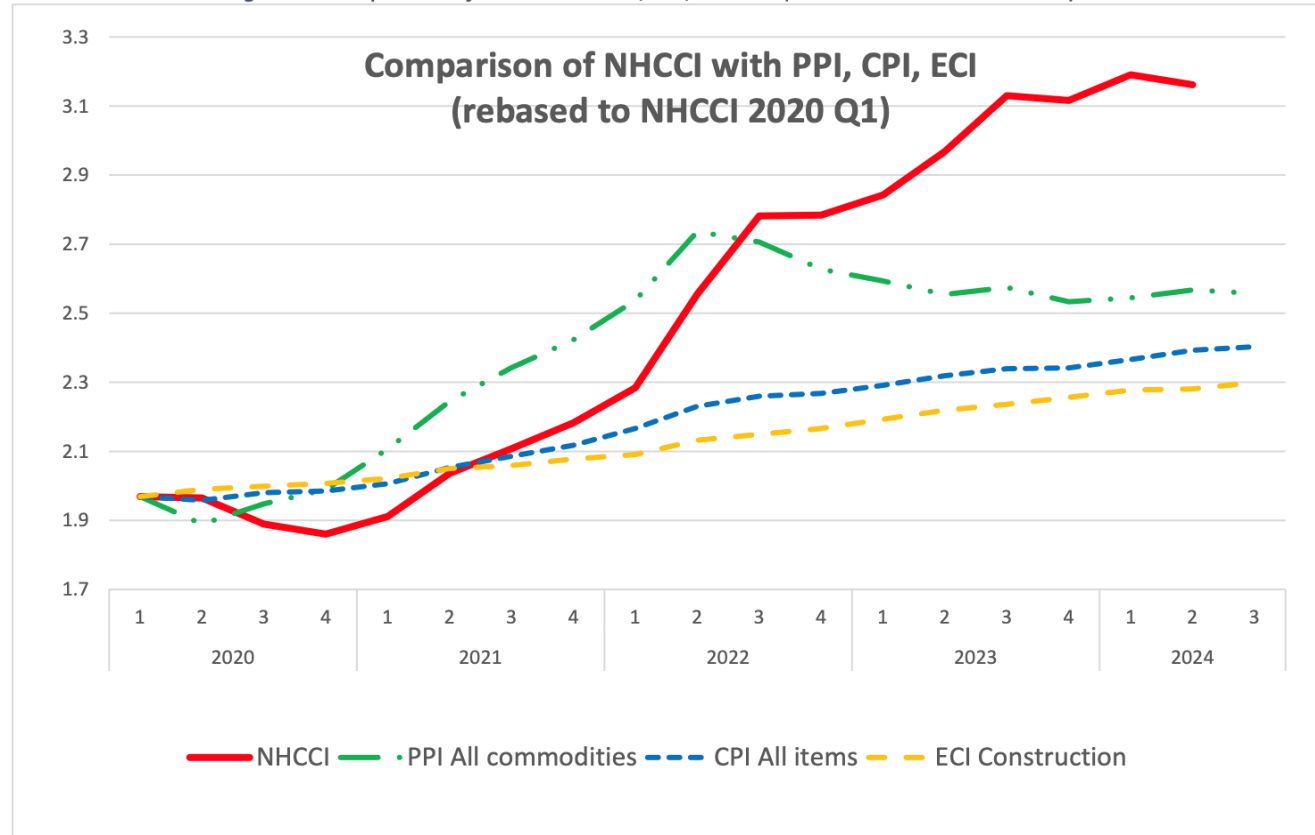
The combined impact of:

- Supply chain disruptions
- Rising and unpredictable materials costs
- Labor shortages
- High interest rates
- Reduced competition
- Contractors avoiding uncertainty



The upshot: construction cost growth continues to outpace other inflation indicators

Figure 1. Comparison of NHCCI with PPI, CPI, and ECI (rebased to NHCCI 2020 Q1).

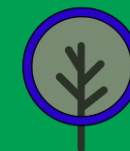


Sources: NHCCI: FHWA, Office of Transportation Policy Studies, National Highway Construction Cost Index (NHCCI) 2024 Q2 Estimates. CPI and PPI Indexes: BLS, Consumer Price Index, and Producer Price Indexes, available at <https://www.bls.gov>.

Highway construction cost index continues to surge ahead of PPI and CPI

In just the last year-

- highway construction costs continued to rise by 6.5%
- Consumer price index rose only 3.2%,
- Producer price index rose only 0.5%



Cost growth may be more acute for transit projects

Transit projects introduce unique risks and uncertainties:

- Building in dense urban environments
- Extensive utility relocation
- Restrictions on work hours and noise levels
- Potential delays in needed property acquisitions
- Interference from local municipal governments



Cost trends for California projects

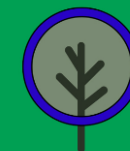


CalTrans Quarterly Project Watch List Reports

March 2025 compared to March of 2021:

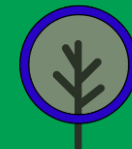
- **108%** growth in number of projects at risk of budget overruns:
- **634%** increase in estimated dollars at risk for those projects
- **141%** increase in number of projects categorized as “Very High” risk

Small silver lining: While the percentage of projects at “high” or “very high” risk continues to grow, the rate at which they are growing is slowing, quarter over quarter.



Cost challenges may be more acute in California:

- High cost of living necessitates high wage rates, especially in major urbanized areas seeking expanded transit services.
- Workforce is highly unionized compared to most other states.
- High property valuations yield very high right-of-way acquisition costs.
- Major contractors price in risk premiums due to California's:
 - Litigation climate
 - Union labor requirements
 - Intense regulatory scrutiny



Navigating the current pricing environment – best practices

- Bring contractors in to learn project requirements as early as possible – take away the unknowns that boost bid prices.
- Where possible, transfer or share risks with contractor – especially risks that can't be predicted (material costs, carrying costs, tariffs)
- Be open to considering technical changes recommended by the contractor to minimize risk, lower cost.



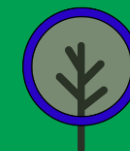
Navigating the current pricing environment – best practices

- Consider contractor stipends to keep more competitors interested in the project.
- Where possible, mitigate site risks ahead of time on your own dime.
- Bundle contracts and sequence work strategically after careful consultation with the contractor community.



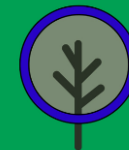
Navigating the current pricing environment – best practices

- Ensure all stakeholders -- especially impacted municipalities -- are invested in the prompt delivery of a clearly defined project without late breaking, costly changes.
- Select delivery methods that match agency capabilities – don't “learn as you go” while costs escalate.
- Seek to align project delivery timelines with labor availability.



Conclusions

- *Impacts of cost factors are being felt across all infrastructure sectors, not just transit and transportation projects.*
- *Marketplace dynamics have changed dramatically due to:*
 - **Strained industry capacity**
 - **Lack of competition**
 - **High interest rates**
 - **Contractors pursuing less complex, more profitable projects**
- *New cost estimates for Caltrain projects are in line with national trends, however*
- *Best practices are available to help contain costs in this new challenging business landscape.*



Thank you.



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www.contortagroup.com



The Contorta Group