
TO: Citizens' Facilities Advisory Committee

THRU: Mark Foresteri and John Roberson, Facilities Design & Construction

FROM: Rob Kelly, Summit/DeJONG Team

DATE: December 14, 2006

SUBJECT: **Construction Cost Analysis Study;
Cost Adjustment Index for Place and Time**

Cost data is being gathered from nine different school districts within a time period that covers 2000 to 2006. In order to have apples to apples comparison of this data, adjustments need to be made to the cost data for both the location of the construction and the time period during which the schools were bid and built. After some research, the Summit/DeJONG team recommends that the R .S. Means (RSM) city-specific Historic Cost Indexes be the primary and sole basis for the performance of time and location cost adjustments within the Construction Cost Analysis study.

While RSM does produce both current location factors for each year as well as a separate national historic price index, these indexes are not proposed to be used. Instead it is proposed that the team use the RSM city-specific Historic Cost Indexes, which in one number captures the effect of both time and place on costs.

It was suggested that Marshall & Swift (M&S) might be an alternate cost resource. After some research it was apparent that while RSM is primarily published for construction cost purposes, M&S is primarily published for insurance purposes. M&S has stated that their resource "is an appraisal tool, not an analysis tool."

Concern has been raised that RSM's initial 2006 location factor for Raleigh is less than the current M&S location factor (77.2% of national average vs 92.5% of national average, respectively). However, the apparent difference between RSM and M&S location factors have been significantly reduced in the past 9 months: RSM currently recognizes Raleigh as 85.4% of national average costs, while M&S continues to recognize Raleigh at 92.5%. Effectively the RSM data seems to be showing the inflationary growth in construction costs in the Raleigh area.

It is important to note again that the team does not intend to use the location factors in the school cost analysis - the city-specific Historical Cost Indexes will be used instead. Location factors are appropriate for adjusting current costs, but this school cost analysis is predominantly historical cost. City-specific Historical Cost Indexes are the appropriate basis for analysis and comparison - not yearly location factors.

We do recognize that there is a relationship between a city's location factor and the Historical Cost Index ultimately issued for that same year and place. The fact that RSM's location factor was lagging behind but now is catching up to M&S is therefore relevant to our planned usage of RSM city-specific Historical Cost Indexes.