



November 2, 2022

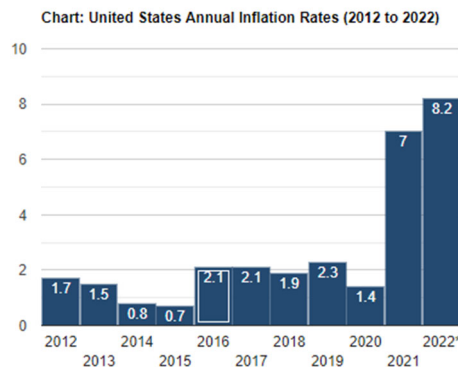
Mr. Joseph B. Harrell  
Assistant Superintendent for Administrative Services  
Santa Rosa County District Schools  
6544 Firehouse Road  
Milton, FL 32570

Re: Construction Cost per Student Stations Analysis  
Impact of Current Construction Cost Escalation

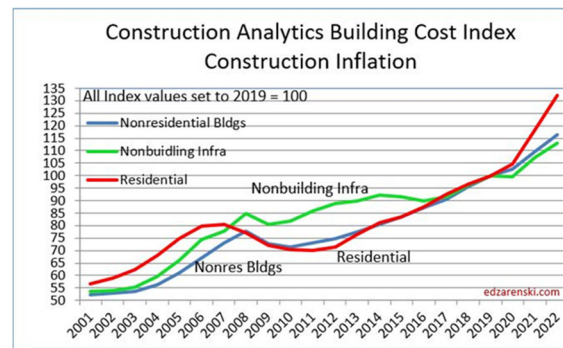
Dear Mr. Harrell,

We've all been following inflation over the past year very closely and each of us have felt its effects in our pockets. The national annual inflation rate as of last month was reported at 8.2%.

#### Reported National Inflation Rate



#### Construction Inflation Rate



This national inflation rate is based on the Consumer Price Index (CPI) established by the Bureau of Labor Statistics. It tracks the cost hundreds of items arranged into eight major groups: food and beverages, housing, apparel, transportation, medical care, recreation, education, and communication.

However, the CPI doesn't reflect what's occurred in the construction industry. Having been in this industry for almost 40 years, I have never seen the uncertainty in pricing we're experiencing. Over the last year we've seen a **35% to 40% escalation in pricing** on virtually every project we've priced. This substantial increase is attributed to:

1. Uncertainty in material pricing and availability
2. Labor shortages & effective productivity
3. Exponentially higher rate of subcontract failures

#### 4. Projects outnumbering resources

These items result in a higher risk of loss due and therefore requires contractors to carry higher margins and perform less work to manage their risk. Over the last 24 months, on 7 projects valued at \$223M, Culpepper has experienced subcontractor failure exceeding \$25.8M, 11.6% of the contract work. Our historic rate is less than ½%. The cost to address these failures has been substantial.

Over the last year, Culpepper Construction Company has received dozens and dozens of price increase notifications and bid withdrawals, some as soon as 24 hours after the initial pricing. The following are some examples of what we're experiencing.

1. On March 8<sup>th</sup>, we received a quote for reinforcing steel from Big Bend Rebar in Quincy, a major supplier to projects in our area. On March 9<sup>th</sup>, we received a letter from them withdrawing their quote and citing a \$140/ton increase in March (alone). \$140/ton amounts to an approximate 15% increase over the cost of steel in the prior month.
2. On March 28<sup>th</sup>, we received a price increase from Big Bend Rebar explaining why they were instituting an immediate 15% increase in the cost of reinforcing steel and stating that further increases are expected in the near future.
3. On April 22, we received a price increase from Masonry Incorporated (a masonry company that has performed much of the work on the FSU campus) asking for an additional 15% on brick and masonry work for a project that is currently under contract and in construction.
4. Over the past 12 months, we've received multiple notices from SRM Concrete increasing the cost of ready-mix by \$10 - \$15 per cu yd each time. Concrete costs are now 1 ½ times as expensive as it was a year ago.
5. On November 1, we received a letter from Ferguson stating that their mechanical suppliers are no longer holding prices. In this letter the supplier says, "The only way to truly dodge increase is taking the equipment." This is a statement that basically tells its contractors that they will not know what something costs until it delivers to the job site. This letter is stating an immediate 12% increase in equipment costs but also implementing a huge amount of risk to all the subcontractors who use these materials. If a subcontractor cannot count on a manufacturer's price quotes, he must make some allowance for the risk of price increases. This has a doubling effect on the cost of the project.
6. On November 1st, we received an email from a mechanical contractor notifying us of an immediate 8% increase, projecting an additional 15% increase in January and to anticipate another 5-8% in March.

In two recent major projects, one a middle school and the other an academic building for a major university, which were bid in the last 30 days, both were 40% over the estimates established

just 12 months ago. We provided preconstruction services for these projects and obtained trade contractor input to establish those estimates. Historically our cost estimates are with +/-3% of the actual bids received when those estimates are within 12 month of the established estimate.

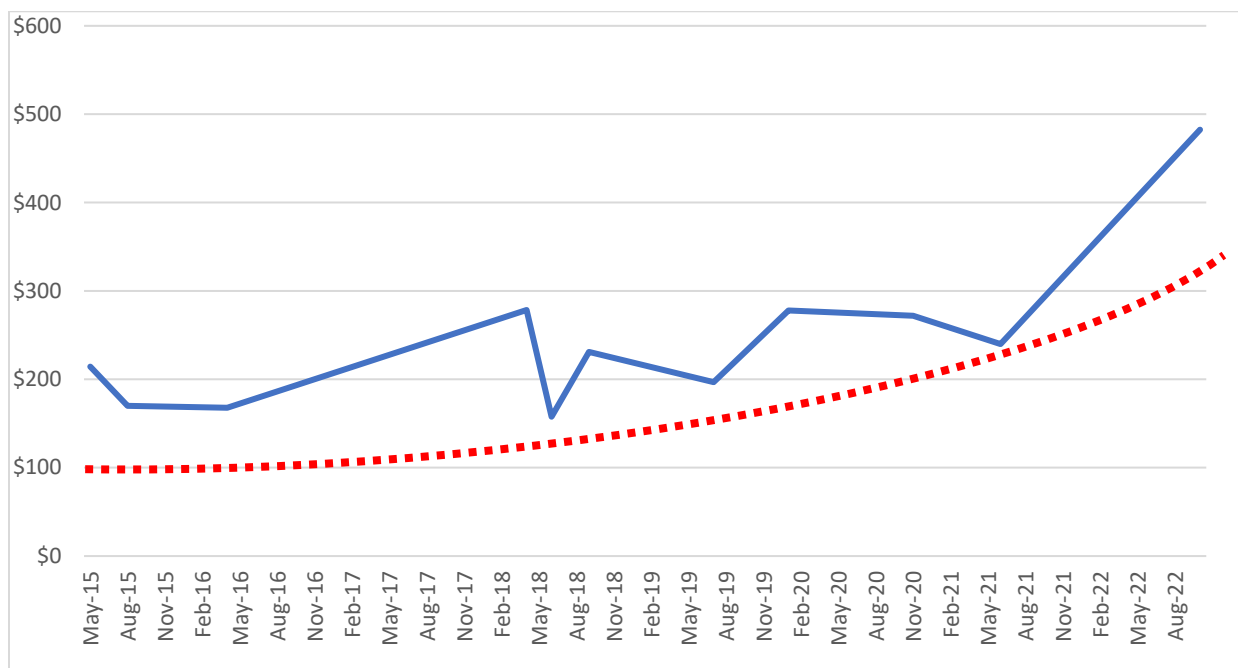
Construction job growth continues to outpace available resources and we've seen this firsthand over the past year. There is substantially reduced trade bid interest in the market due to a very high demand and low resource availability. As an example, the recent hospital bid in Calhoun County Florida, which should have attracted bidders from the entire region received only one general contractor bid (from Culpepper). In preparing our bid, we received only one trade bid for HVAC, plumbing and fire protection. For electrical, we base our bid on a "budget" number from one electrical contractor. On a recent major project at FSU, we received no window bids and only one electrical bid after casting our net for trades across the entire southeastern United States.

Another factor that is directly impacting the cost of school construction is that schools are designed exponentially smarter now than they've ever been. This need for smarter buildings is driven by the new building code requirements, efficiency mandates, and user expectations. Building management systems (BMS), lighting controls systems, security and communication systems become more complex and costly with each project we construct. An easy analogy is to look at new cars, the more they do for us the more they cost, the same is true for new buildings. This exacerbates the issue with the application of historic school costs being applied to new schools because it attempts to utilize the cost to buy more for the previous cost of purchasing less.

In regard to the calculation of student station cost, as uncovered in the 2005 study conducted by the Florida Department of Education, construction cost increased at a substantially greater rate than CPI. (In that study construction costs increased at a rate +/-2 times the CPI). For that reason, the methodology for adjusting statutory student station cost was changed to utilize multiple source data, including historic cost reported to DOE through form FCO 564PS. As with any data evaluation, the result is only as good as the information inputted. In order to meet the Status, we believe that the data being reported to DOE by the districts is done in such a way that the reported data conforms to the requirements. In doing so, they are reporting that current projects meet the student station cost but are not reflecting the true construction cost of the project and thereby skewing the trends of cost in this data.

Finally, we'd like to share the costs of multiple K-12 projects that Culpepper has constructed over the last seven years. Some of the projects on this list are special facility projects and some are not. The list includes projects that were contracted through both the lumpsum bid and construction management delivery methods. As indicated, there's a definite recent upward trend in the cost.

School	Type	Bid Date	Cost/sf	Area	Cost
Holmes	K-8	Aug-15	\$170	220,940	\$37,547,630
Dixie	K-12	May-15	\$214	161,122	\$34,525,000
Hamilton	K-8	Apr-16	\$168	137,543	\$23,074,623
Marianna K-8	K-8	Jun-18	\$158	330,358	\$52,087,045
Liberty High School	High	Sep-18	\$231	81,420	\$18,808,994
South Walton Classroom Addition	High	Apr-18	\$278	17,174	\$4,780,017
Elkhart K-8	K-8	Jul-19	\$197	149,188	\$29,338,299
Saint Johns HHH	High	Jan-20	\$278	218,801	\$60,800,000
Saint Johns III	High	Nov-20	\$272	218,801	\$59,485,000
Wallace Lake	K-8	Jun-21	\$240	159,078	\$38,154,000
Freeport Middle School	Middle	Oct-22	\$483	168,070	\$81,110,000



In summary, we don't anticipate the volatility in the construction market to correct anytime in the immediate future. Until some stability returns, construction costs will be difficult to forecast and therefore meeting a statutory student station cost that is calculated on past trends will continue to be extremely difficult to accomplish.

Sincerely,

**CULPEPPER CONSTRUCTION COMPANY, INC.**

Michael Scaringe  
Vice President of Operations