

Attachment A
LSI CCI (formerly Lee Saylor Index)
Customized Index Response

The LSI CCI produces monthly data on changes in the prices paid by consumers for a representative project and services. The percent change in the LSI CCI is used as a measure estimating inflation as it pertains to California construction costs. It is the statistical measure of changes in market factors representing the California construction market. Each index has its own calculation methodology and is expressed in terms of a change from a base value (the previous end of year). Thus, the percentage change is more important than the actual numeric value.

The LSI CCI (formerly known as the Lee Saylor Index) was first established by an economist in 1969 to follow specific material and labor changes in a manner that would most accurately reflect California's construction market. It is considered one of the 11 most important construction indexes in the United States by Engineering News Record for over 40 years and the only index characterizing strictly California costs. During this period it has been used by the State of California in many capacities, including The Office of Local Assistance, now Office of Public School Construction. The LSI CCI is also the basis for all increases in the Saylor Construction Cost Data books which are already utilized by OPSC for their reviews.

In the early 1990s, during a change in ownership of Lee Saylor, Inc., I took over production of the index. The Company wanted to abandon it, and there was not a priority placed on the timeliness of the index in my mind and I was often late in the delivery of the index. Much to my chagrin and embarrassment, I did not understand the importance of the index and did not place a priority on it. However, today, I have come to fully understand the importance and necessity of this timely follow thru. I would like a second chance to work with you and prove it. I believe with the LSI CCI, and its long history of use in the State of California, we can give OPSC a viable, usable index for school construction.

Now, to answer the questions you asked:

1. *If we had a customized construction cost index could it be considered "Class B"?*

Yes, I have over 40 years of detailed information on both materials and labor which can be sorted and customized to fit your criteria for Class B Construction.

2. *Does LSI use ONLY prevailing wage? Can you please provide back up information on how you get that information?*

In the preparation of the LSI CCI, only Union wages (which is what prevailing wages based on) for specific trades as the labor factors in the index are taken directly from Engineering News Record and utilized in the labor section of the index.

3. *What would be the cost of a customized index?*

As the LSI CCI already has a component which fits the definition for "Class B" construction for the State Allocations Board, there would be no additional charge.

4. *How long would it take to customize it?*

As the LSI CCI already has the "Class B" component it would not require any time to be made available to the SAB along with historic numbers and graphs and forecasts.

5. *What materials would LSI suggest that we include in this customized index to accurately capture school construction in CA?*

The LSI CCI covers all the major components of school construction, and I do not believe adding more would enhance the accuracy of the index.

6. *How frequent can an index be released? Month to month? Annually?*

Currently, the index is prepared on a month to month basis and released quarterly.

7. *Can an Index be forecasted?*

Since I have over 40 years of actual indexes, yes we can put it on a trend graph based off of the 40 + years of historic information to forecast where construction costs will most likely go. I have already done this for several clients.