

Attachment B
Marshall & Swift (M&S)
Customized Index Response

M&S researches local building material and labor wages throughout California and the rest of the USA and Canada for our Total Component Database (TCD). Our research also includes productivity and business costs for insurance, workers compensation, overhead and profit, etc. Our staff is constantly updating TCD which drives our various products and services that support our insurance, real estate and government customers.

In reviewing the current process and proposed changes, our first concern is in the accuracy of the original estimate. M&S has researched construction costs for over 75 years and believes that the most accurate estimates come from a review of the building plans and then estimating materials, labor, equipment, productivity and business practices required to build the specific building. M&S offers building cost estimates based on student count, but cautions that a variety of architectural selections and building features can have significant affect on the cost per pupil.

We believe that the best method of adjusting the cost of a building over time is to:

1. Use a cost estimator program to estimate the original value,
2. Archive the building characteristics and then,
3. Use a cost estimator program with current data to estimate the building at a later date.

The alternative to estimating a building's cost at two different points is to use an index of building costs. And the most accurate California school index would be based on the materials and labor needed for schools in California. As we discussed, a custom index would begin with a model or models (primary, middle and high school for example) that incorporates a common set of building materials and labor components. We could build models from plans and specifications of "typical" schools or from consulting with your staff on what should be included in a typical school. We could then adjust the building costs based solely on the changes in costs of materials and wage rates in California—in fact we could build the index to reflect the changes in material and labor costs for different locations around California. Once we have the building models, we can adjust costs estimated in the past to incorporate current pricing—but we do not have index forecasts at this time. As was discussed on August 12, our indexes may not capture price spikes, but we do capture trends that are reflected in our indexes.

Building a custom index would entail some work by our research staff and consultation with you on the models whether that is providing us with plans and specifications or describing the typical building for us to build the model. There would be a setup cost that reflects the hours our Data Asset team needs to build and test the new school models. There would also be an ongoing fee for maintaining the custom index to cover the work to do quality testing and validation each time the index is updated for you. The fees would be based on complexity and the frequency that we run the model. The costs would be higher than the cost OPSC pays today for our off the shelf indexes.

As for your remaining questions:

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

We could include only Class B buildings in your index or make a separate entry for only Class B buildings if you need that segregation.

2. Does M&S use ONLY prevailing wage? Can you please provide back up information on how you get that information?

Our indexes—standard and custom—are based only on prevailing wages in California

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

Complexity—how many models, do we review plans and specs to build models, etc.— would determine the cost and time required to build a custom index. We would need more information to provide specific costs and times to complete.

4. How long it would take to customize it?

Answered in #3.

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

M&S would recommend you provide one or more sets of plans and specifications on a typical building that we use to build each model. We could build different models based on usage (elementary school, high school, etc.) or other factors that would result in a different building design. Our research staff will build the models based on the building materials in the plans and specs with proper weighting for the building components. Our index will then more accurately reflect the change in overall construction cost based on changes in the actual components of a building. Our indexes will reflect market condition trends, but not necessarily cost spikes driven by short term capacity limitations. We could model economic data—especially construction start data—to find correlations with the price spikes you experienced several years ago but that would also require some detailed analysis of the bid results and may not be cost effective.

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

All prices in an index are researched at least quarterly and our indexes could be made available quarterly as well.

7. Can an Index be forecasted?

As mentioned previously, our indexes are not forecasts, but real time measurements of actual construction costs.