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Construction Industry Assessment 2015-2016

AGC of Minnesota

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The mission of the Association is to promote the legislative and economic strength, image and well-being of the Minnesota construction industry, while maintaining the core values of skill, responsibility and integrity. The Association a recognized chapter of the Associated General Contractors of America (AGC of America) and the American Road and Transportation Builders Association (ARTBA). This association is an Equal Opportunity Employer and shall not unlawfully discriminate on the basis of race, color, creed, religion, national origin, sex, marital status, status with regard to public assistance, sexual orientation, disability or age. The Association shall strive to maintain a professional, respectful and drug free workplace for all, and will not tolerate sexual harassment, physical assault, verbal threats, or illicit drug or chemical use. AGC of Minnesota is firmly committed to full and open competition in the construction industry. AGC of Minnesota will conduct its activities in strict compliance with applicable antitrust laws. No director, officer, committee member, AGC of Minnesota member or representative of an AGC of Minnesota member shall engage in any discussion or practice which constitutes or implies any improper agreement or action concerning: prices, discounts, or terms or conditions of sale; profits, profit margins or cost data; market shares, sales territories or markets; allocation of customers or territories; selection, rejection or termination of customers or suppliers; manipulation of the bidding process; boycotts; or any other matter prohibited by the AGC of Minnesota Antitrust Policy.



Executive Summary

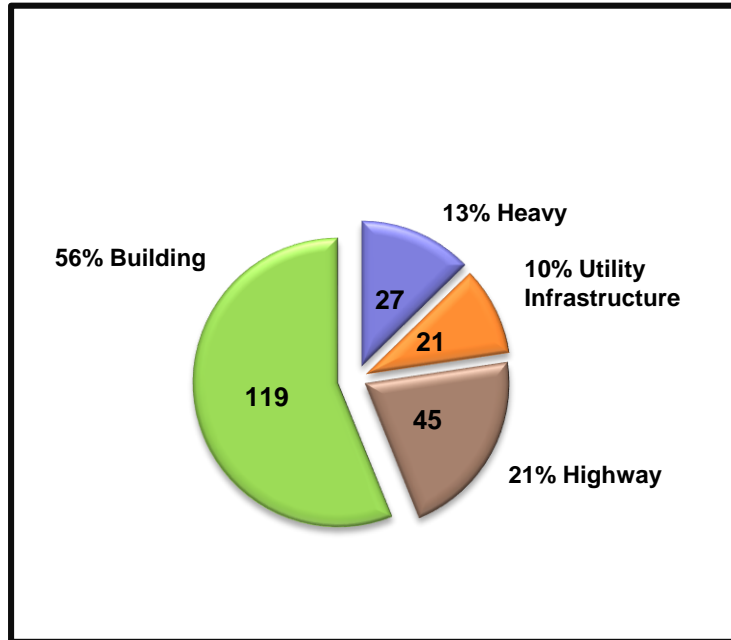
We are pleased to release the AGC of Minnesota Construction Industry Assessment 2015–2016. The survey was conducted electronically via Survey Monkey, is voluntary, and requests one response per company. It opened on August 17, 2015 and closed on October 1, 2015.

There were 212 responses this year, down from 216 responses last year. The survey is balanced between contractor types and industry sectors.

A few highlights of the survey are:

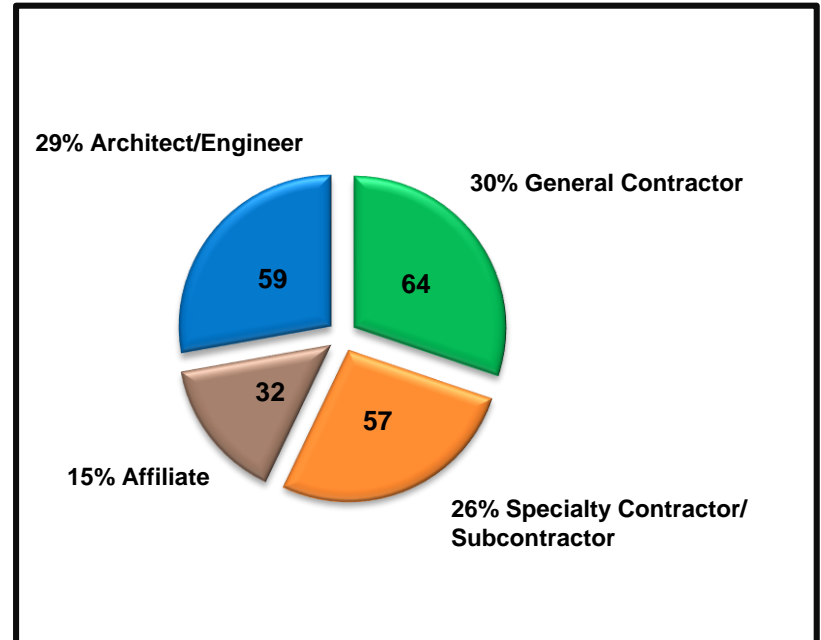
- Looking ahead to 2016, the percentage of general and specialty contractors reporting improving conditions decreased compared to last year. The architect/engineer group reporting improving conditions increased over last year.
- Participants continue to report healthy partnering relationships with clients/owners.
- The availability of a skilled workforce stands out again as having a negative/extremely negative influence on business conditions. Workforce availability is having more of a negative impact on general contractors than on any other group.
- Hiring is slowing, with the exception of architects/engineers. The utility infrastructure group reports an increase in hiring heading into 2016.
- Generally, craft workers are more difficult to recruit than professional workers. On the craft side, Carpenters, Operators, Laborers, and Truck Drivers are the most difficult to recruit.
- The two biggest challenges being faced in 2016 and beyond are (1) assembling and maintaining a skilled workforce and (2) discovering new markets.
- A high percentage of general contractors and specialty contractors are considering use of fitness-for-duty testing, and a significant number are currently using it and plan to continue.
- A number of comments indicate the demands of the industry, including late hours, overtime, and weekend work are taking a toll on workforce recruitment and retainage.
- Most participants see the Minnesota construction economy continuing at a steady pace through 2016.

1. Please indicate your primary industry sector.



56% of respondents are from the Building sector and 21% are from the Highway sector

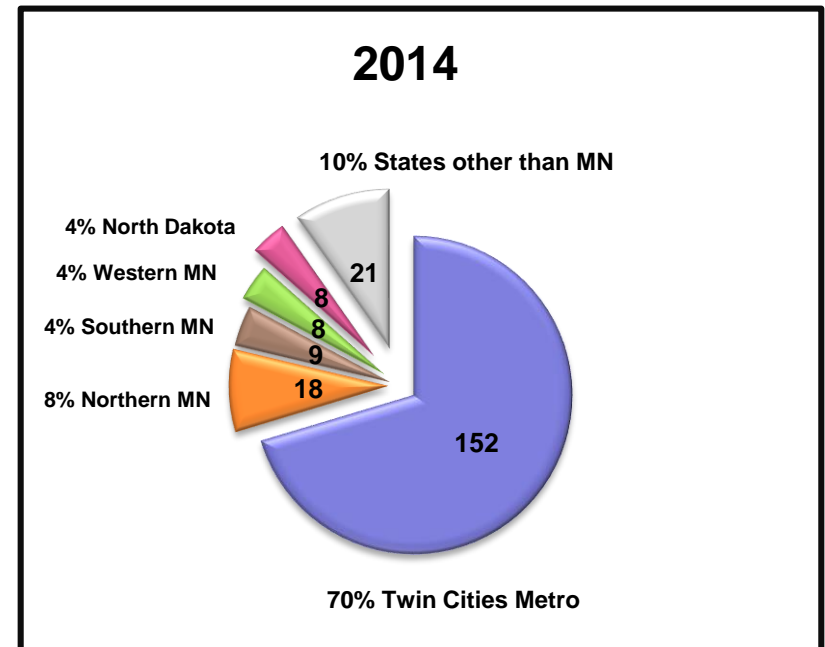
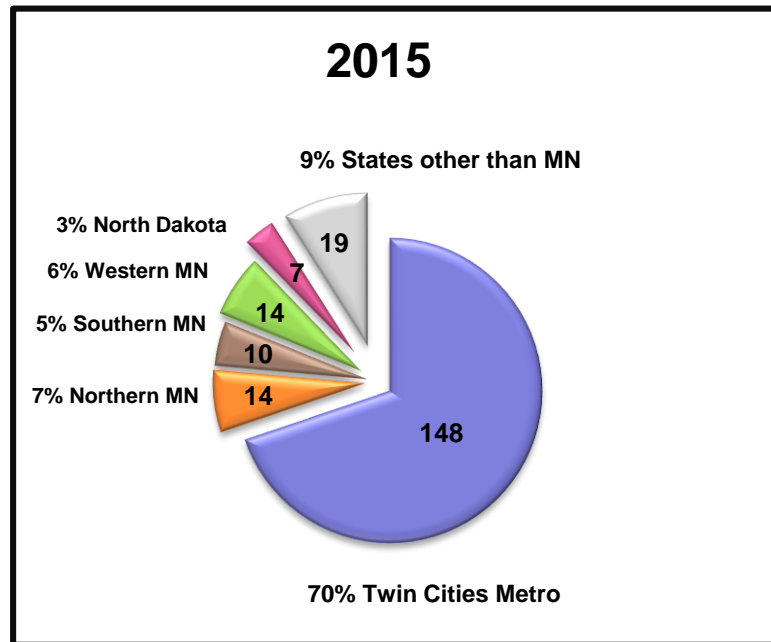
2. Which of the following best describes your firm?



56% of respondents are contractors



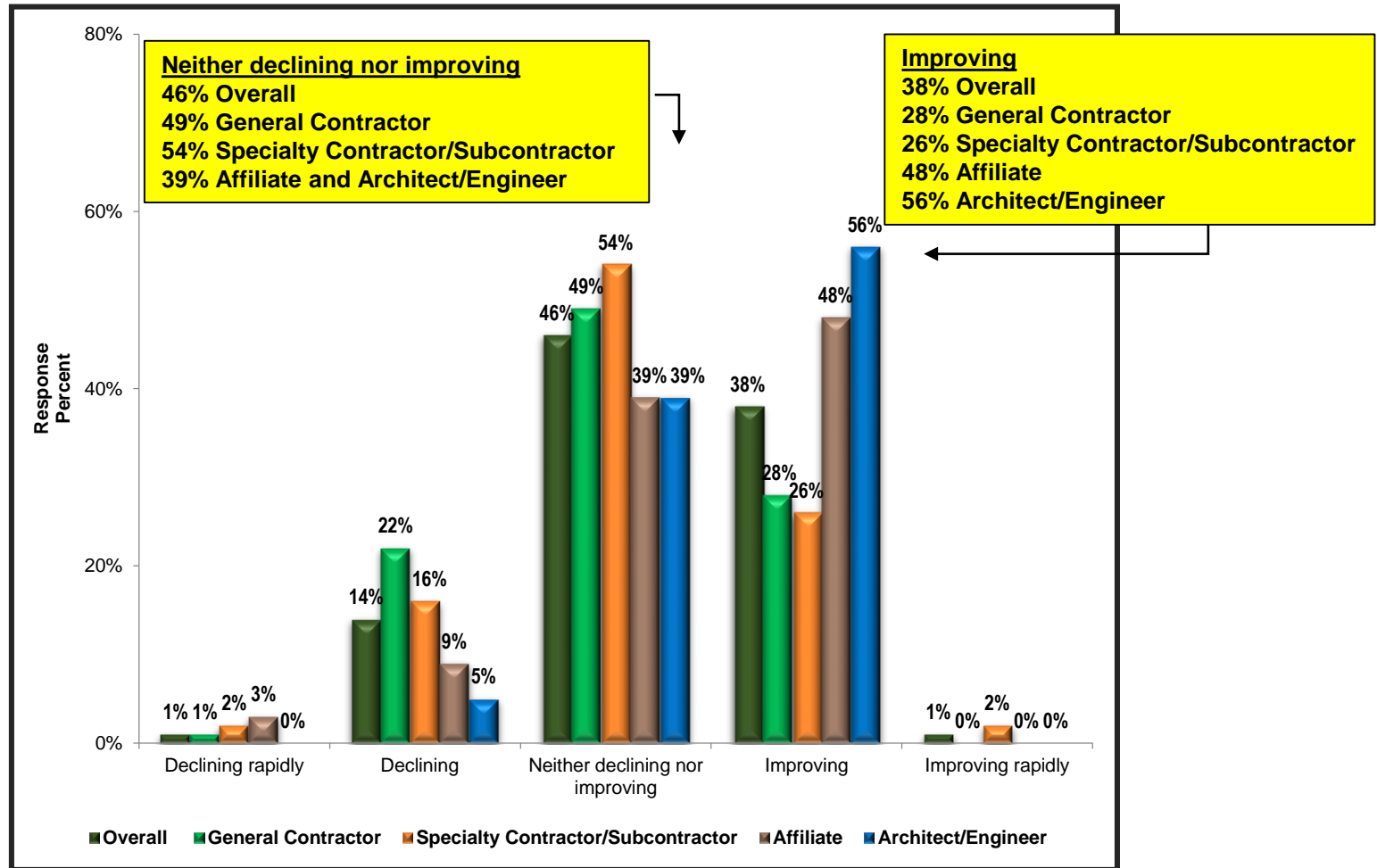
3. Please indicate the primary geographic area where you perform work.



In 2015, 70% of respondents report their primary work area is the Twin Cities Metro area, same as 2014

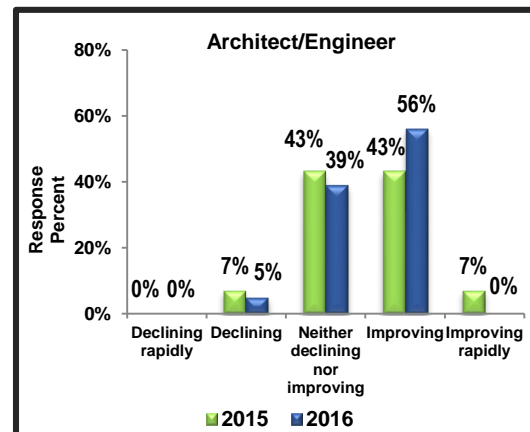
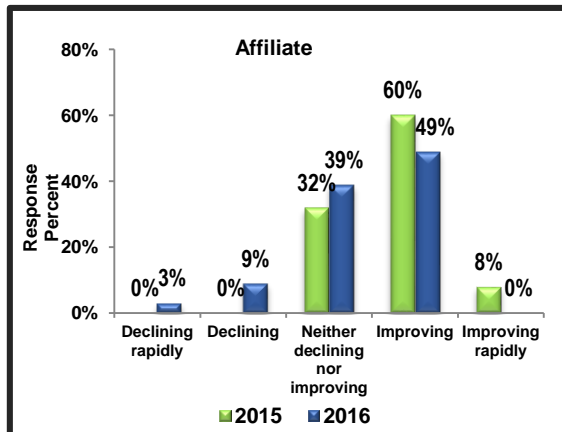
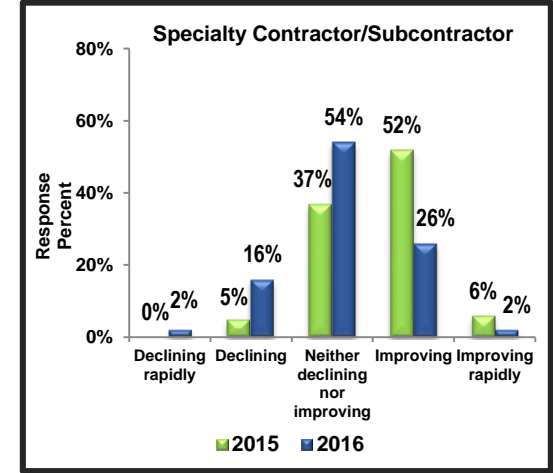
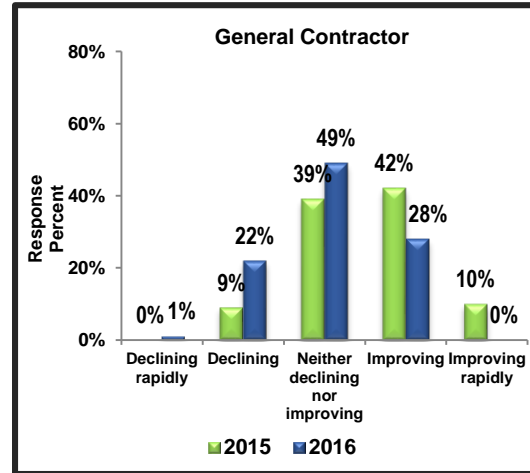
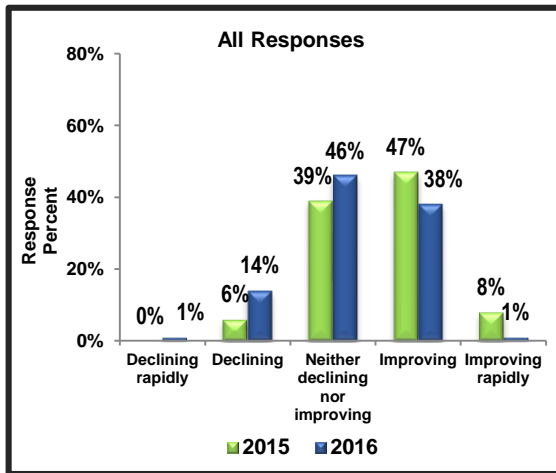


4. Looking ahead to 2016 in Minnesota, market conditions affecting your firm can be projected to be:





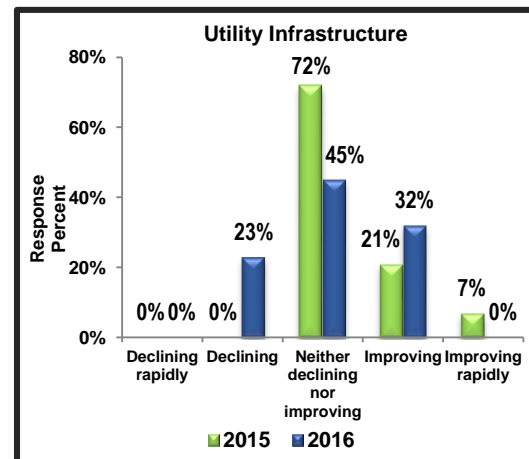
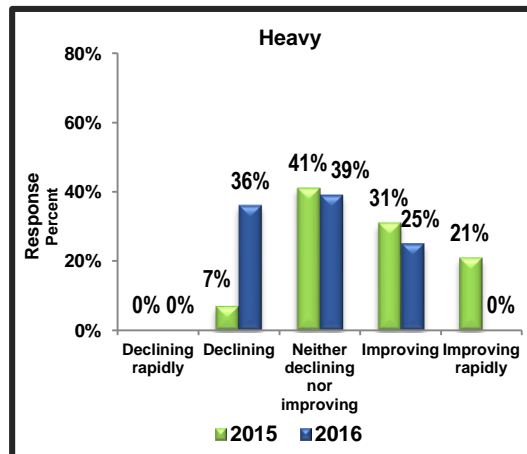
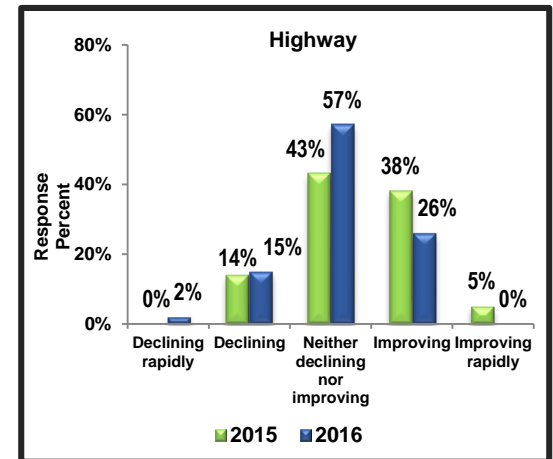
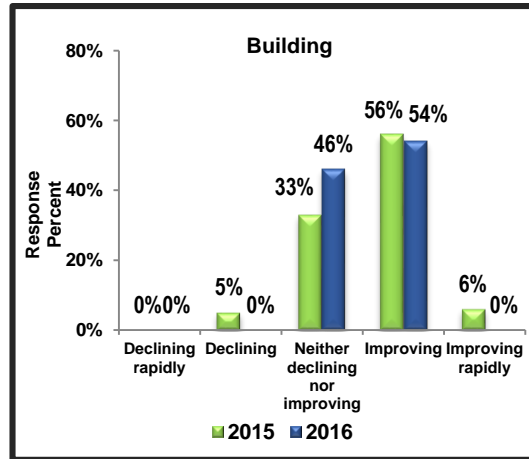
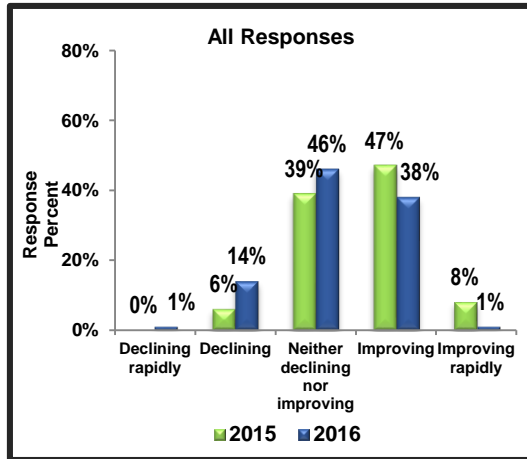
4. Looking ahead to 2016 in Minnesota, market conditions affecting your firm can be projected to be: (All Responses, General Contractor, Specialty Contractor/Subcontractor, Affiliate, Architect/Engineer)



46% of all respondents report conditions affecting their firm in 2016 as neither declining nor improving, compared to 39% in 2015. The only sector reporting conditions affecting their firm as improving in 2016 are Architect/Engineers at 56%, compared to 43% in 2015.



4. Looking ahead to 2016 in Minnesota, market conditions affecting your firm can be projected to be: (All Responses, Building, Highway, Heavy, Utility Infrastructure)

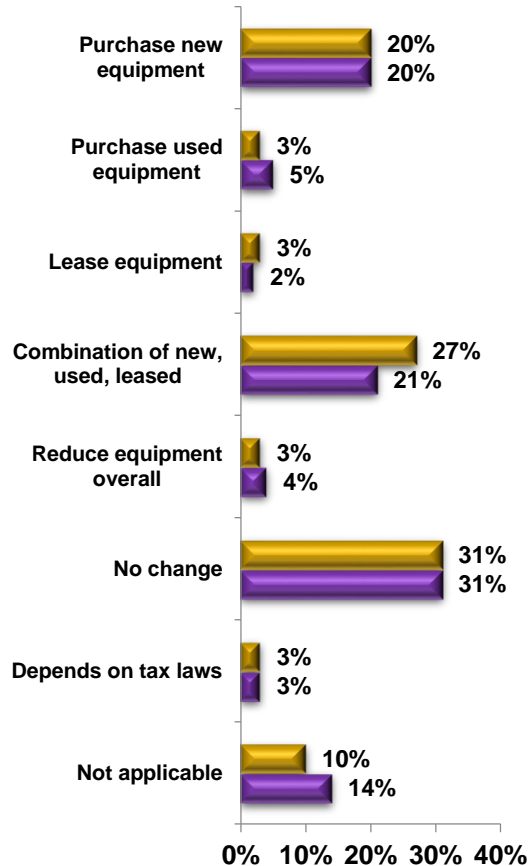


The Building sector reports market conditions improving at 54% for 2016, which is slightly lower than 2015 at 56%. Utility Infrastructure is the only sector to report market conditions as improving in 2016 at 32%, compared to 21% in 2015.



5. Your plans for equipment additions and reductions for 2016 are best described as: (All Responses, General Contractor, Specialty Contractor/Subcontractor, Building, Highway, Heavy, Utility Infrastructure)

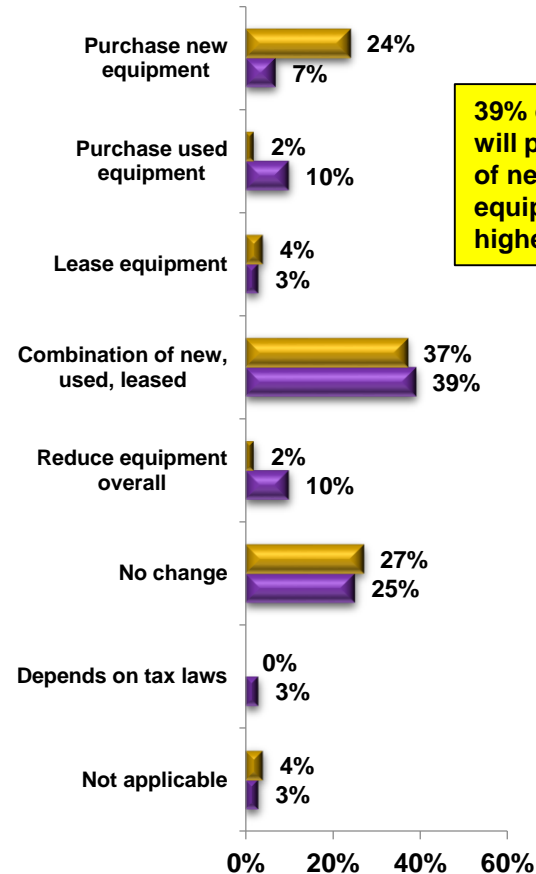
All Responses



■ 2015
■ 2016

31% of respondents report no change in equipment additions and reductions for 2016

General Contractor

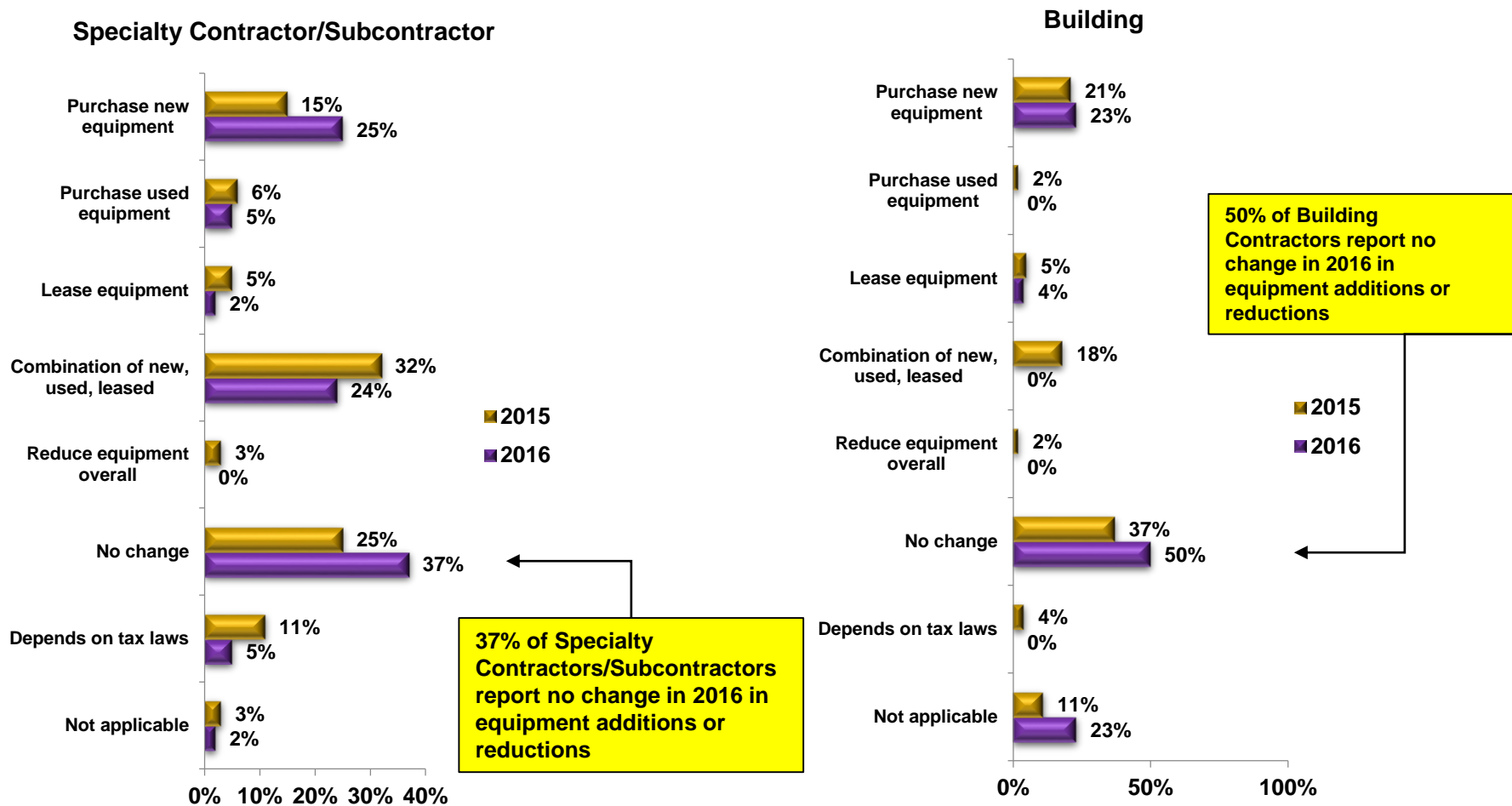


■ 2015
■ 2016

39% of General Contractors will purchase a combination of new, used and leased equipment, which is slightly higher than 2015 at 37%

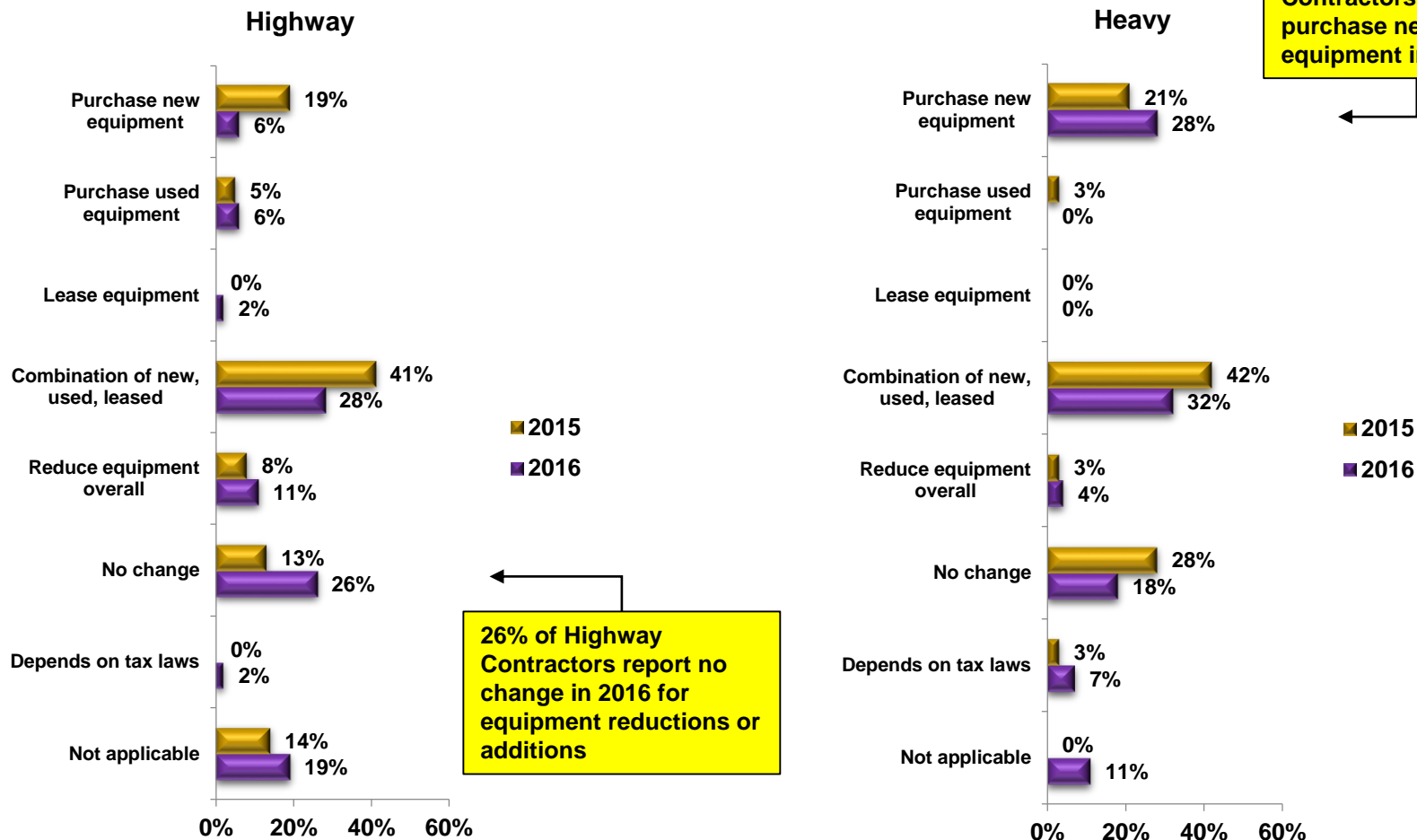


5. Your plans for equipment additions and reductions for 2016 are best described as: (All Responses, General Contractor, Specialty Contractor/Subcontractor, Building, Highway, Heavy, Utility Infrastructure)





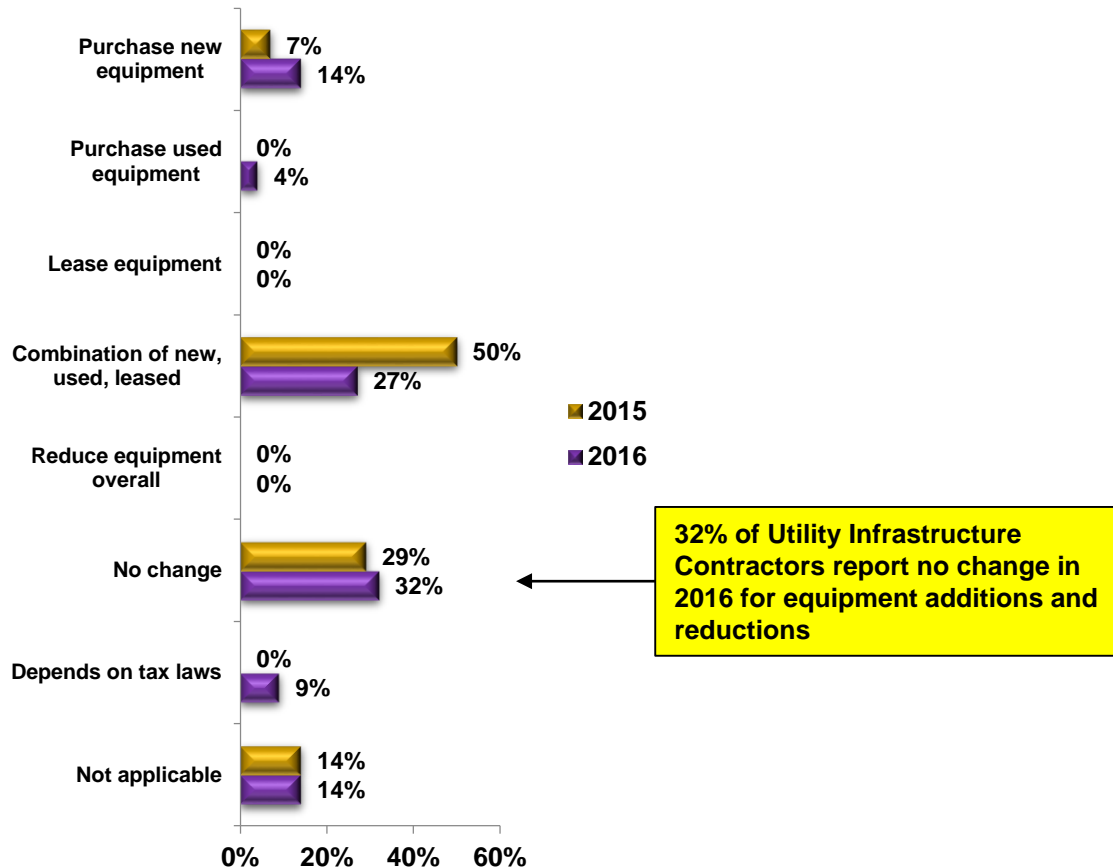
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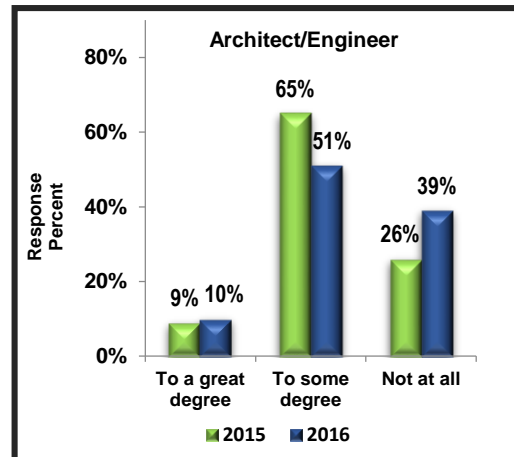
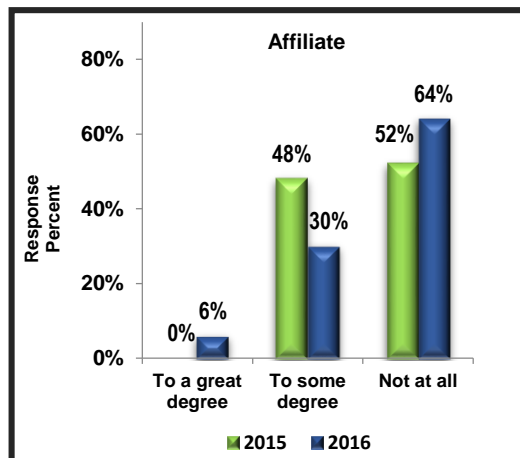
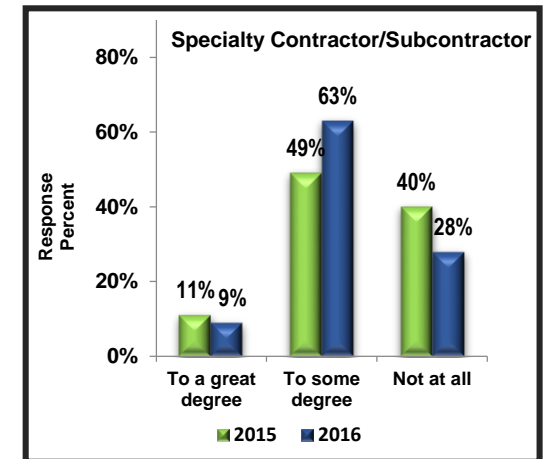
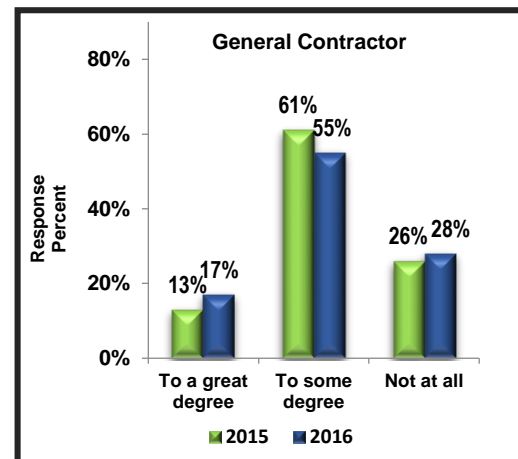
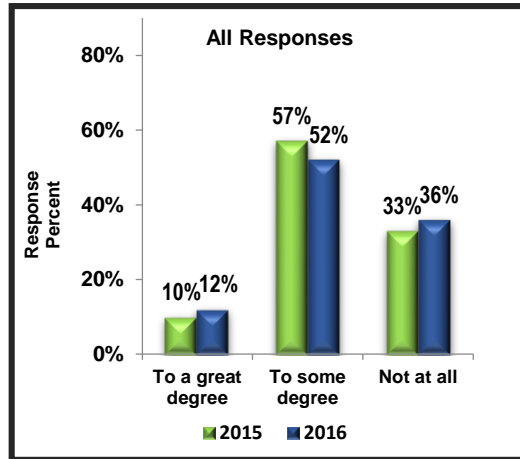
5. Your plans for equipment additions and reductions for 2016 are best described as: (All Responses, General Contractor, Specialty Contractor/Subcontractor, Building, Highway, Heavy, Utility Infrastructure)

Utility Infrastructure





6. To what degree are alternative project procurement and delivery methods causing your firm to reexamine your business model?



Not examining their business model:
36% All Responses
28% General Contractor
28% Specialty Contractor/Subcontractor
64% Affiliate
39% Architect/Engineer



7. Below are factors that have been identified as important conditions in our industry, resulting in either positive or negative influence on business conditions. How do you expect the following factors to impact your business through 2016?

All Responses

	Response Count	Extremely positive	Positive	Neither positive nor negative	Negative	Extremely negative	
Credit availability	212	5%	39%	49%	7%	0%	
Project funding	211	5%	37%	29%	26%	3%	
Regulations affecting design/construction	211	1%	10%	43%	39%	7%	
Cost of construction labor	212	1%	3%	40%	50%	6%	
Availability of skilled workforce	211	2%	3%	11%	61%	23%	84%
Cost of materials	211	1%	4%	62%	32%	1%	
DBE compliance	211	3%	3%	34%	33%	27%	60%
Mandated hiring goals	212	2%	2%	33%	35%	28%	63%
Healthy partnering relationship with clients/owners	211	11%	55%	31%	2%	1%	66%
Lean construction	211	2%	19%	69%	9%	1%	



7. Below are factors that have been identified as important conditions in our industry, resulting in either positive or negative influence on business conditions. How do you expect the following factors to impact your business through 2016?

General Contractor							
	Response Count	Extremely positive	Positive	Neither positive nor negative	Negative	Extremely negative	
Credit availability	64	4%	31%	62%	3%	0%	
Project funding	64	0%	30%	29%	35%	6%	
Regulations affecting design/construction	63	1%	3%	40%	46%	10%	
Cost of construction labor	64	0%	1%	36%	57%	6%	63%
Availability of skilled workforce	64	3%	0%	6%	67%	24%	91%
Cost of materials	64	1%	2%	72%	25%	0%	
DBE compliance	64	1%	1%	22%	44%	32%	76%
Mandated hiring goals	63	1%	0%	13%	49%	37%	86%
Healthy partnering relationship with clients/owners	63	4%	59%	33%	4%	0%	63%
Lean construction	63	1%	19%	70%	9%	1%	



7. Below are factors that have been identified as important conditions in our industry, resulting in either positive or negative influence on business conditions. How do you expect the following factors to impact your business through 2016?

Specialty Contractor/Subcontractor

	Response Count	Extremely positive	Positive	Neither positive nor negative	Negative	Extremely negative	
Credit availability	57	5%	42%	42%	11%	0%	
Project funding	57	4%	35%	37%	23%	1%	
Regulations affecting design/construction	57	0%	7%	37%	53%	3%	
Cost of construction labor	57	0%	2%	44%	45%	9%	
Availability of skilled workforce	56	0%	2%	9%	55%	34%	89%
Cost of materials	56	0%	5%	73%	20%	2%	
DBE compliance	56	2%	0%	23%	34%	41%	75%
Mandated hiring goals	57	0%	0%	23%	40%	37%	77%
Healthy partnering relationship with clients/owners	57	7%	54%	35%	2%	2%	61%
Lean construction	57	5%	14%	70%	11%	0%	



7. Below are factors that have been identified as important conditions in our industry, resulting in either positive or negative influence on business conditions. How do you expect the following factors to impact your business through 2016?

Affiliate							
	Response Count	Extremely positive	Positive	Neither positive nor negative	Negative	Extremely negative	
Credit availability	33	6%	45%	46%	3%	0%	
Project funding	33	12%	33%	43%	12%	0%	
Regulations affecting design/construction	33	0%	12%	49%	30%	9%	
Cost of construction labor	33	0%	3%	55%	42%	0%	
Availability of skilled workforce	33	0%	3%	27%	55%	15%	70%
Cost of materials	33	0%	3%	64%	33%	0%	
DBE compliance	32	0%	3%	44%	37%	16%	
Mandated hiring goals	33	0%	0%	39%	49%	12%	61%
Healthy partnering relationship with clients/owners	33	6%	50%	41%	3%	0%	
Lean construction	32	0%	22%	69%	9%	0%	



7. Below are factors that have been identified as important conditions in our industry, resulting in either positive or negative influence on business conditions. How do you expect the following factors to impact your business through 2016?

Architect/Engineer

	Response Count	Extremely positive	Positive	Neither positive nor negative	Negative	Extremely negative	
Credit availability	59	5%	41%	42%	12%	0%	
Project funding	59	10%	47%	14%	26%	3%	57%
Regulations affecting design/construction	59	3%	20%	50%	24%	3%	
Cost of construction labor	59	2%	7%	33%	53%	5%	
Availability of skilled workforce	59	3%	8%	12%	63%	14%	77%
Cost of materials	59	2%	5%	39%	49%	5%	
DBE compliance	59	7%	8%	54%	17%	14%	
Mandated hiring goals	59	5%	7%	63%	8%	17%	
Healthy partnering relationship with clients/owners	59	25%	53%	22%	0%	0%	78%
Lean construction	59	0%	24%	68%	8%	0%	

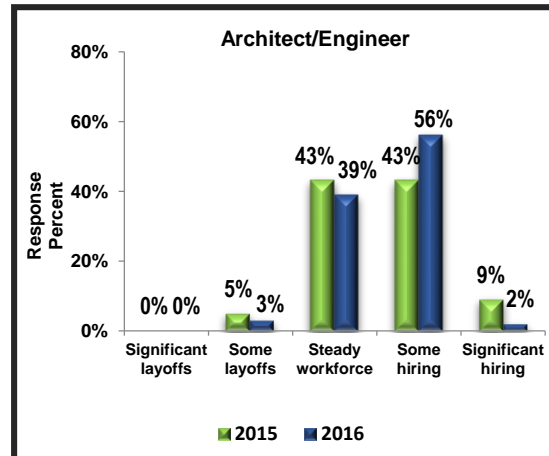
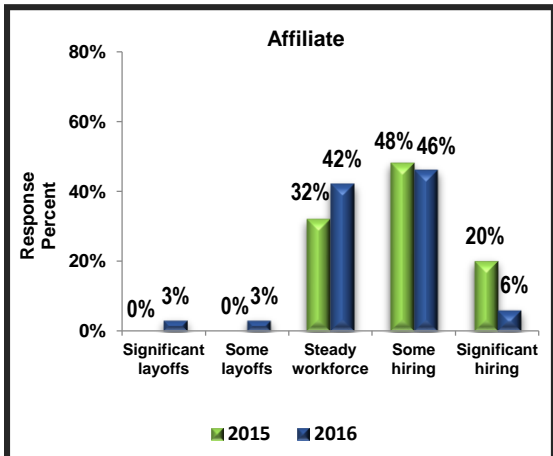
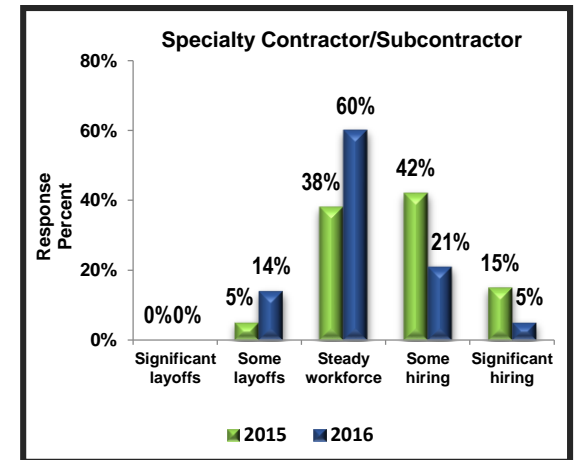
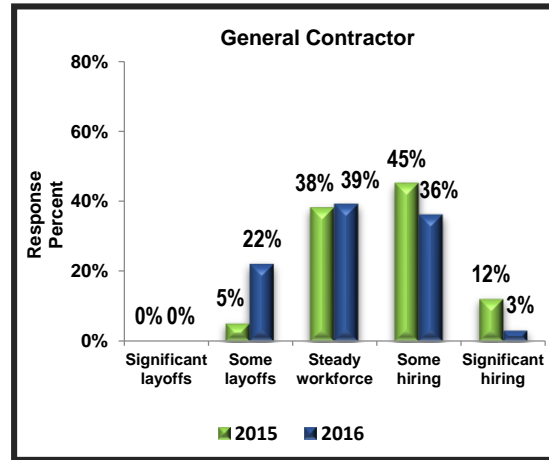
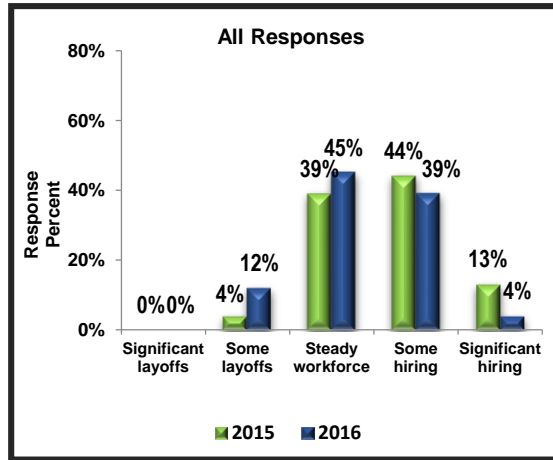


Question 7 comments

1. It is extremely difficult to find quality help. Putting shorter time frames on work forces more OT and the end result is causing me to have guys quit and look for another career in another field. They aren't going to another construction company, they are leaving the industry.
2. Republican obstruction of government function is the greatest negative factor in the market today.
3. Feels like a general downturn is happening.
4. The amount of paperwork and forms required to be filled out and submitted related to workforce is obtuse. Similarly, the efforts required of subcontractors to get paid by way of an onslaught of waivers, supplier waivers, and subcontractor affidavits, has become over-the-top. As small businesses, mostly specialty contractors, do not have the volume/revenue to absorb the additional staff necessary to stay current on all the paperwork required to get paid by the general contractors or construction managers. The constructed work performed for the billing period being due, as well as earned retainers held by the owner/GC, are already significant reassurances for release of the payments subcontractors have earned and are burdened with financing.
5. Design-Build is a major threat as the risk shift is getting beyond reason and contractors will not be able to keep up.
6. Mandated hiring and subcontracting goals are a major distraction and costs burden. Would be great if government would get out of the way and let us hire and subcontract based on performance and skill.



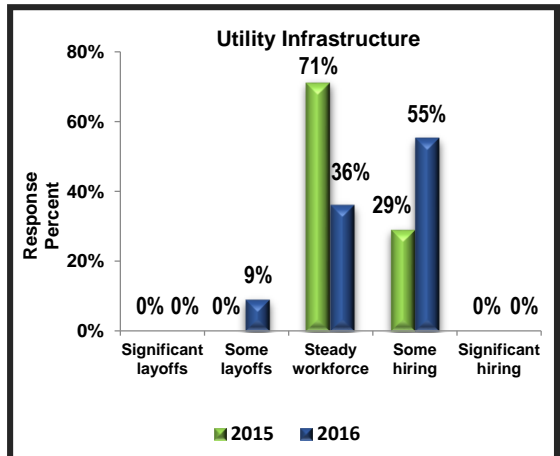
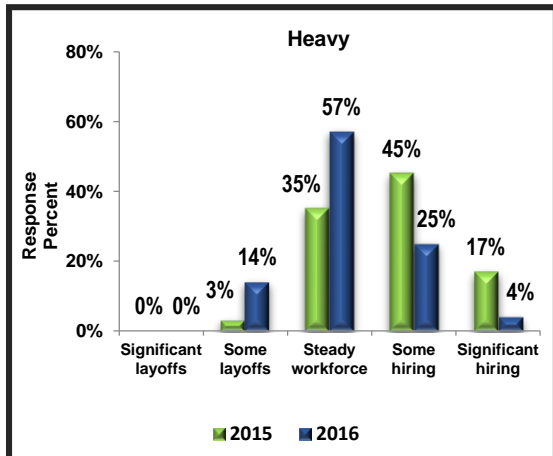
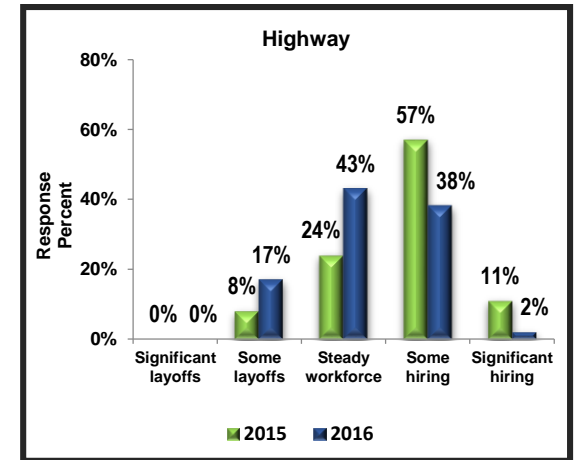
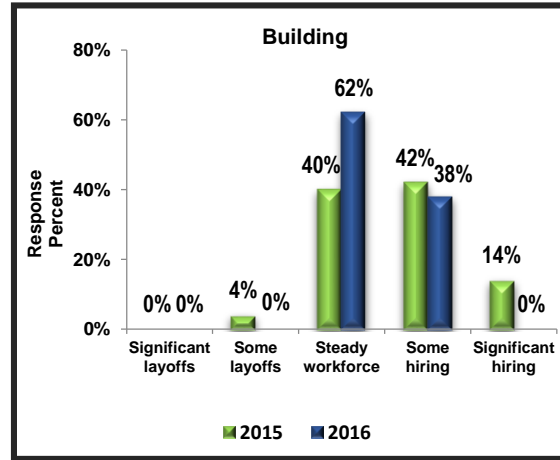
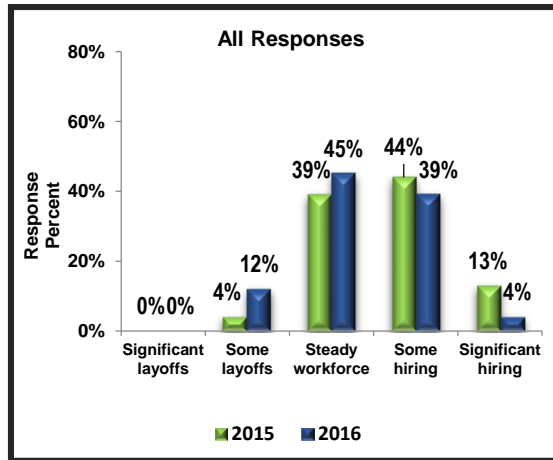
8. Your general workforce plans for 2016 are best described as: (All Responses, General Contractor, Specialty Contractor/Subcontractor, Affiliate, Architect/Engineer)



Workforce plans for 2016:
 All Respondents - 45% Steady workforce
 General Contractor - 39% Steady workforce
 Subcontractor - 60% Steady workforce
 Affiliate - 46% Some hiring
 Architect/Engineer - 56% Some hiring



8. Your general workforce plans for 2016 are best described as: : (All Responses, Building, Highway, Heavy, Utility Infrastructure)



Workforce plans for 2016:
 All respondents - 45% Steady workforce
 Building – 62% Steady workforce
 Highway – 43% Steady workforce
 Heavy – 57% Steady workforce
 Utility Infrastructure – 55% Some hiring



9. With 1 being least difficult and 5 being most difficult, how would you rate your professional workforce hiring challenges? (professional workforce means estimators, PMs, office staff, etc.)

	1 Least Difficult	2	3	4	5 Most Difficult	N/A	Total
All Responses	1%	9%	26%	39%	18%	7%	212
General Contractor	0%	13%	29%	42%	15%	1%	64
Specialty Contractor/ Subcontractor	2%	9%	30%	34%	18%	7%	57
Affiliate	0%	3%	40%	33%	15%	9%	32
Architect/Engineer	2%	8%	12%	42%	24%	12%	59

Difficult
 All respondents – 65%
 General Contractor – 71%
 Specialty Contractor – 64%
 Affiliate – 73%

Difficult/Most Difficult
 Architect/Engineer – 66%



10. With 1 being least difficult and 5 being most difficult, how would you rate your craft workforce hiring challenges? (craft workforce means your field labor force)

	1 Least Difficult	2	3	4	5 Most Difficult	N/A	Total
All Responses	0%	3%	16%	27%	29%	25%	212
General Contractor	0%	3%	16%	46%	35%	0%	64
Specialty Contractor/ Subcontractor	0%	2%	21%	33%	42%	2%	57

Difficult/Most Difficult
 All Responses – 56%
 General Contractor – 81%
 Specialty Contractor – 75%



11. With 1 being least difficult and 5 being most difficult, please indicate your degree of difficulty in hiring professional positions. (All Responses, General Contractor, Specialty Contractor/Subcontractor, Affiliate, Architect/Engineer)

All Responses

	1 Least Difficult	2	3	4	5 Most Difficult	N/A	Total
Estimating professionals	1%	8%	21%	24%	14%	32%	212
Project managers/supervisors	1%	9%	20%	34%	16%	20%	212
Engineers	2%	7%	18%	19%	13%	41%	211
Business development	5%	11%	26%	19%	4%	35%	210
Safety professionals	4%	10%	29%	16%	2%	39%	211
Design professionals	2%	7%	19%	16%	12%	44%	212

Difficult
Safety professionals – 29%

More Difficult
Estimating professionals – 24%
Project managers/
supervisors – 34%

General Contractor

	1 Least Difficult	2	3	4	5 Most Difficult	N/A	Total
Estimating professionals	0%	7%	23%	44%	19%	7%	64
Project managers/supervisors	0%	9%	23%	46%	19%	3%	64
Engineers	5%	10%	24%	18%	3%	40%	63
Business development	5%	9%	28%	28%	3%	27%	64
Safety professionals	4%	15%	34%	21%	6%	20%	64
Design professionals	3%	7%	22%	9%	3%	56%	64

Difficult
Safety professionals – 34%

More Difficult
Estimating professionals – 44%
Project managers/
supervisors – 46%

Difficult/More Difficult
Business development – 56%



11. With 1 being least difficult and 5 being most difficult, please indicate your degree of difficulty in hiring professional positions. (All Responses, General Contractor, Specialty Contractor/Subcontractor, Affiliate, Architect/Engineer)

Specialty Contractor/Subcontractor

	1 Least Difficult	2	3	4	5 Most Difficult	N/A	Total
Estimating professionals	2%	14%	30%	24%	21%	9%	57
Project managers/supervisors	4%	14%	19%	35%	19%	9%	57
Engineers	4%	7%	21%	11%	11%	46%	57
Business development	9%	14%	25%	7%	9%	36%	56
Safety professionals	9%	10%	32%	24%	2%	23%	57
Design professionals	4%	7%	11%	16%	9%	53%	57

Difficult
Safety professionals – 32%

More Difficult
Project managers/
Supervisors – 35%

Difficult/More Difficult
Estimating professionals – 54%

Affiliate

	1 Least Difficult	2	3	4	5 Most Difficult	N/A	Total
Estimating professionals	0%	3%	13%	6%	10%	68%	32
Project managers/supervisors	0%	3%	19%	13%	7%	58%	32
Engineers	0%	3%	13%	19%	3%	62%	32
Business development	0%	3%	27%	27%	0%	43%	31
Safety professionals	0%	4%	31%	10%	0%	55%	30
Design professionals	0%	7%	13%	7%	3%	70%	32

Difficult
Safety professionals – 31%



11. With 1 being least difficult and 5 being most difficult, please indicate your degree of difficulty in hiring professional positions. (All Responses, General Contractor, Specialty Contractor/Subcontractor, Affiliate, Architect/Engineer)

Architect/Engineer

	1 Least Difficult	2	3	4	5 Most Difficult	N/A	Total
Estimating professionals	2%	5%	16%	10%	2%	65%	59
Project managers/supervisors	2%	8%	17%	31%	14%	28%	59
Engineers	0%	5%	12%	26%	31%	26%	59
Business development	3%	14%	24%	15%	5%	39%	59
Safety professionals	2%	5%	21%	3%	0%	69%	59
Design professionals	2%	5%	27%	29%	29%	8%	58

More Difficult
Project managers/
supervisors – 31%

More Difficult/Most Difficult
Design professionals – 58%



Question 11 comments

1. Mid-level engineers are the greatest challenge.
2. The demand for 75 hour weeks is our biggest red flag....schedules are so tight we are driving good people out of the industry. They want a life outside of construction.



12. With 1 being least difficult and 5 being most difficult, please indicate the degree of difficulty in hiring for these qualified craft worker positions. (All Responses, General Contractor, Specialty Contractor/Subcontractor)

All Responses

	1 Least Difficult	2	3	4	5 Most Difficult	N/A	Total
Bricklayers	0%	1%	4%	8%	5%	82%	211
Carpenters	0%	2%	10%	14%	7%	67%	212
Cement Masons	0%	1%	5%	12%	7%	75%	211
Drywall Installers	0%	0%	4%	7%	1%	88%	212
Electricians	0%	1%	4%	5%	4%	86%	212
Equipment Operators	0%	2%	15%	19%	12%	52%	212
Ironworkers	0%	0%	6%	7%	4%	83%	212
Laborers	1%	6%	23%	19%	9%	42%	212
Millwrights	0%	1%	4%	5%	0%	90%	211
Painters	1%	0%	6%	3%	0%	90%	211
Pipefitters/Welders	1%	0%	3%	6%	4%	86%	211
Plumbers	1%	0%	3%	5%	2%	89%	212
Roofers	1%	0%	5%	3%	1%	90%	212
Sheet Metal Workers	1%	1%	3%	4%	2%	89%	212
Tile Setters	1%	1%	3%	3%	3%	89%	212
Truck Drivers	1%	3%	12%	10%	11%	63%	212

Difficult/More Difficult
Carpenters – 24%
Equipment Operators – 34%
Laborers – 42%
Truck Drivers – 22%



12. With 1 being least difficult and 5 being most difficult, please indicate the degree of difficulty in hiring for these qualified craft worker positions. (All Responses, General Contractor, Specialty Contractor/Subcontractor)

General Contractor

	1 Least Difficult	2	3	4	5 Most Difficult	N/A	Total
Bricklayers	0%	3%	9%	18%	6%	64%	64
Carpenters	2%	3%	21%	31%	15%	28%	63
Cement Masons	0%	1%	14%	29%	17%	39%	64
Drywall Installers	0%	0%	7%	17%	3%	73%	64
Electricians	1%	0%	9%	11%	0%	79%	63
Equipment Operators	2%	3%	27%	27%	24%	17%	64
Ironworkers	0%	0%	12%	17%	4%	67%	64
Laborers	3%	15%	38%	31%	12%	1%	64
Millwrights	1%	2%	9%	11%	1%	76%	64
Painters	1%	0%	14%	6%	0%	79%	64
Pipefitters/Welders	1%	0%	5%	15%	8%	71%	64
Plumbers	2%	0%	6%	12%	3%	77%	64
Roofers	1%	0%	11%	9%	0%	79%	64
Sheet Metal Workers	1%	1%	6%	11%	2%	79%	64
Tile Setters	1%	2%	6%	8%	6%	77%	64
Truck Drivers	3%	6%	18%	12%	20%	41%	64

Difficult/More Difficult

Carpenters – 52%
Laborers – 69%

More Difficult

Cement Masons - 29%

Difficult – Most Difficult

Equipment Operators – 78%

Most Difficult

Truck Drivers – 20%



12. With 1 being least difficult and 5 being most difficult, please indicate the degree of difficulty in hiring for these qualified craft worker positions. (All Responses, General Contractor, Specialty Contractor/Subcontractor)

Specialty Contractor/Subcontractor

	1 Least Difficult	2	3	4	5 Most Difficult	N/A	Total
Bricklayers	0%	0%	2%	8%	10%	80%	56
Carpenters	0%	0%	10%	11%	8%	71%	57
Cement Masons	0%	0%	2%	10%	4%	84%	56
Drywall Installers	0%	0%	6%	2%	0%	92%	57
Electricians	0%	2%	2%	6%	9%	81%	57
Equipment Operators	0%	2%	17%	34%	13%	34%	57
Ironworkers	0%	2%	4%	6%	8%	80%	56
Laborers	2%	6%	32%	30%	13%	17%	57
Millwrights	0%	2%	2%	2%	0%	94%	56
Painters	0%	0%	6%	2%	0%	92%	56
Pipefitters/Welders	0%	0%	2%	4%	4%	90%	56
Plumbers	0%	0%	0%	4%	4%	92%	56
Roofers	0%	0%	4%	2%	0%	94%	57
Sheet Metal Workers	0%	0%	2%	4%	4%	90%	56
Tile Setters	0%	0%	2%	4%	2%	92%	56
Truck Drivers	2%	4%	13%	17%	6%	58%	57

Difficult/More Difficult
Carpenters – 21%
Equipment Operators – 51%
Laborers – 62%
Truck Drivers – 30%



Question 12 comments

General Contractor

1. 70-75 hour weeks have to stop. MnDOT is expecting every daylight hour from Monday morning thru Saturday night to be worked. People are rebelling.

Specialty Contractor/Subcontractor

1. Mechanical insulators are hard to find in the summer when we need them.
2. Difficult to get plasterers.

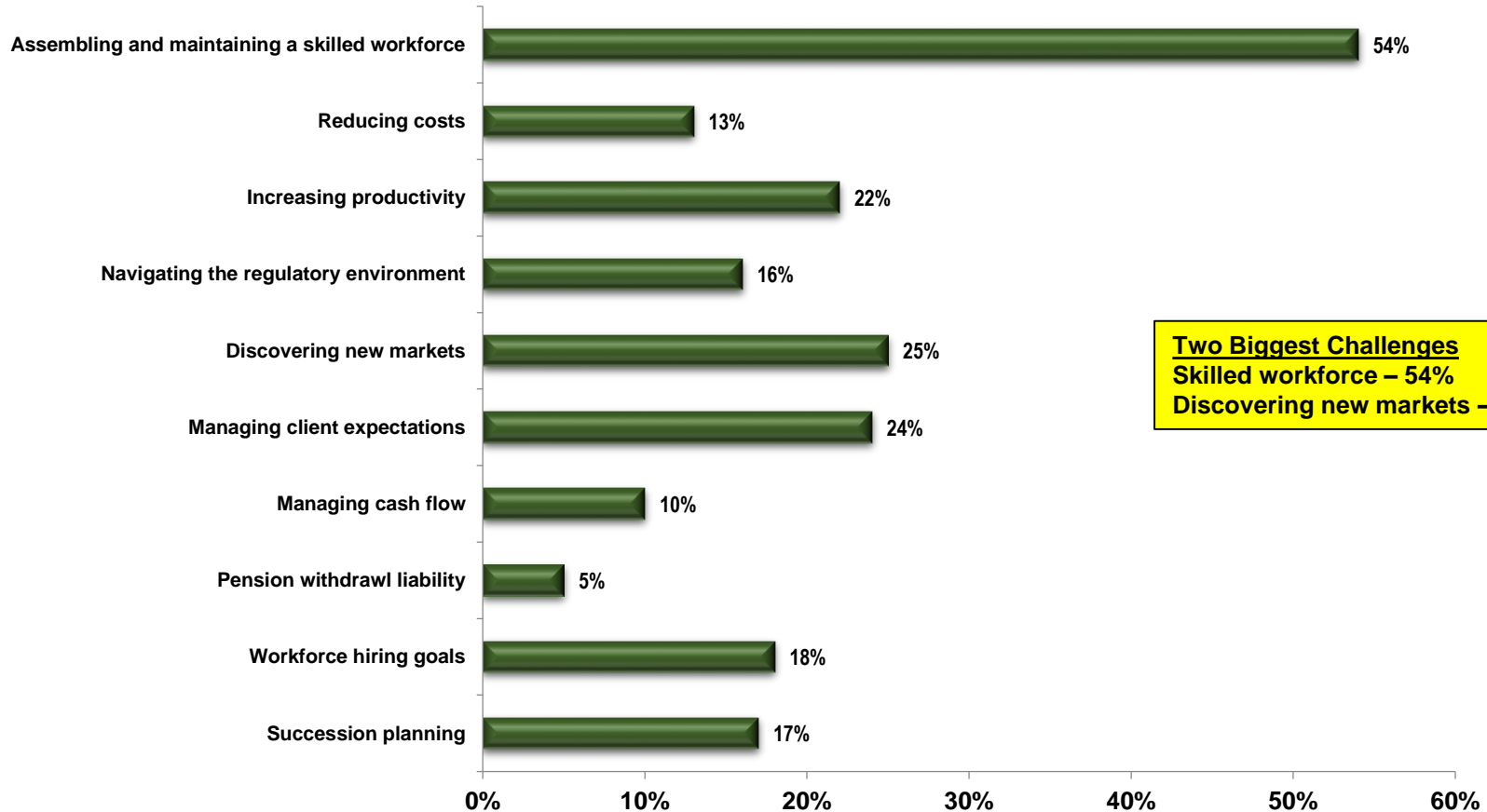
Affiliate

1. Quality HVAC and manufacturing technicians are the most difficult for us to find.



13. The two biggest challenges your company faces in 2016 and beyond are? (All Responses, General Contractor, Specialty Contractor/Subcontractor, Affiliate, Architect/Engineer)

All Responses

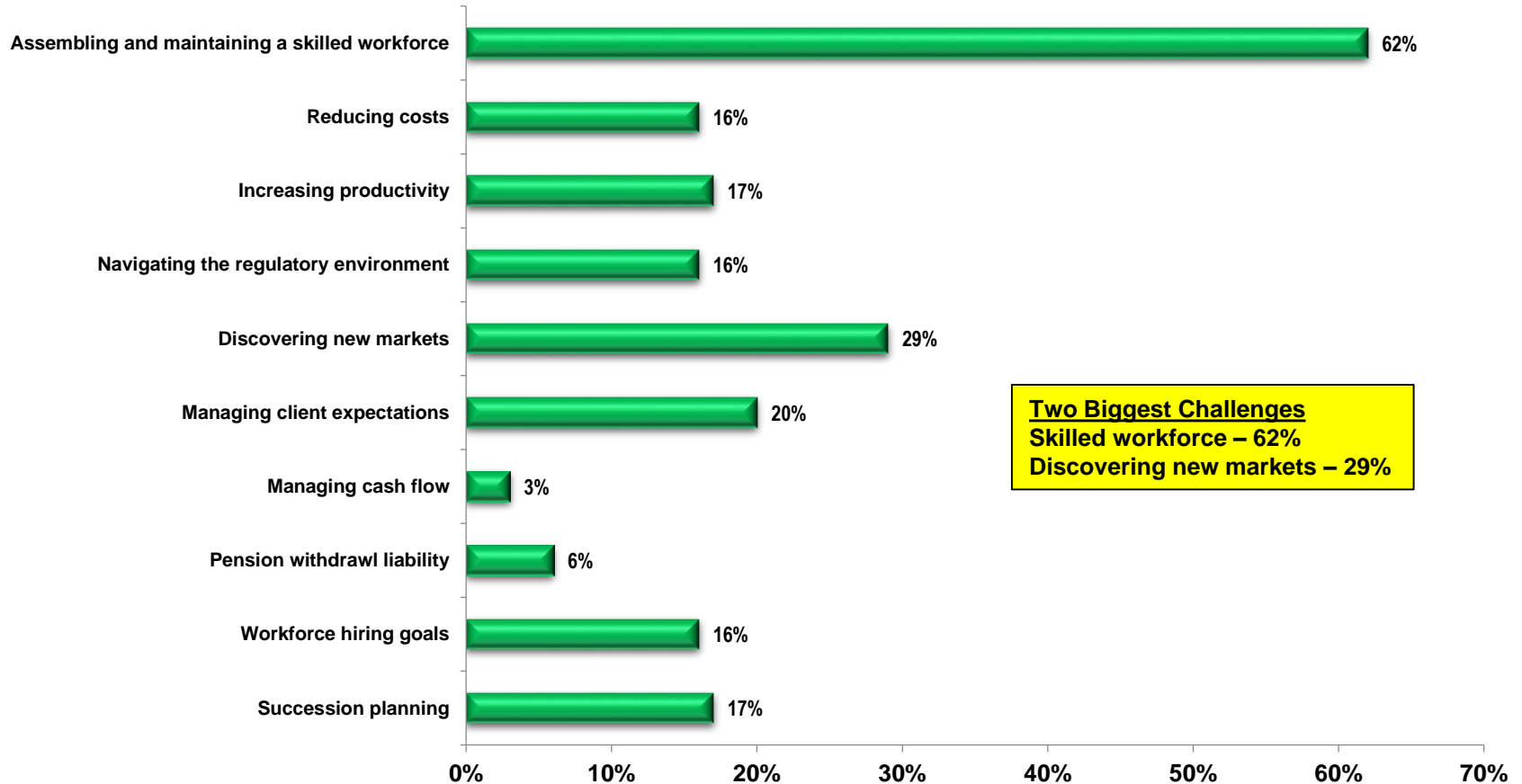


Two Biggest Challenges
Skilled workforce – 54%
Discovering new markets – 25%



13. The two biggest challenges your company faces in 2016 and beyond are? ? (All Responses, General Contractor, Specialty Contractor/Subcontractor, Affiliate, Architect/Engineer)

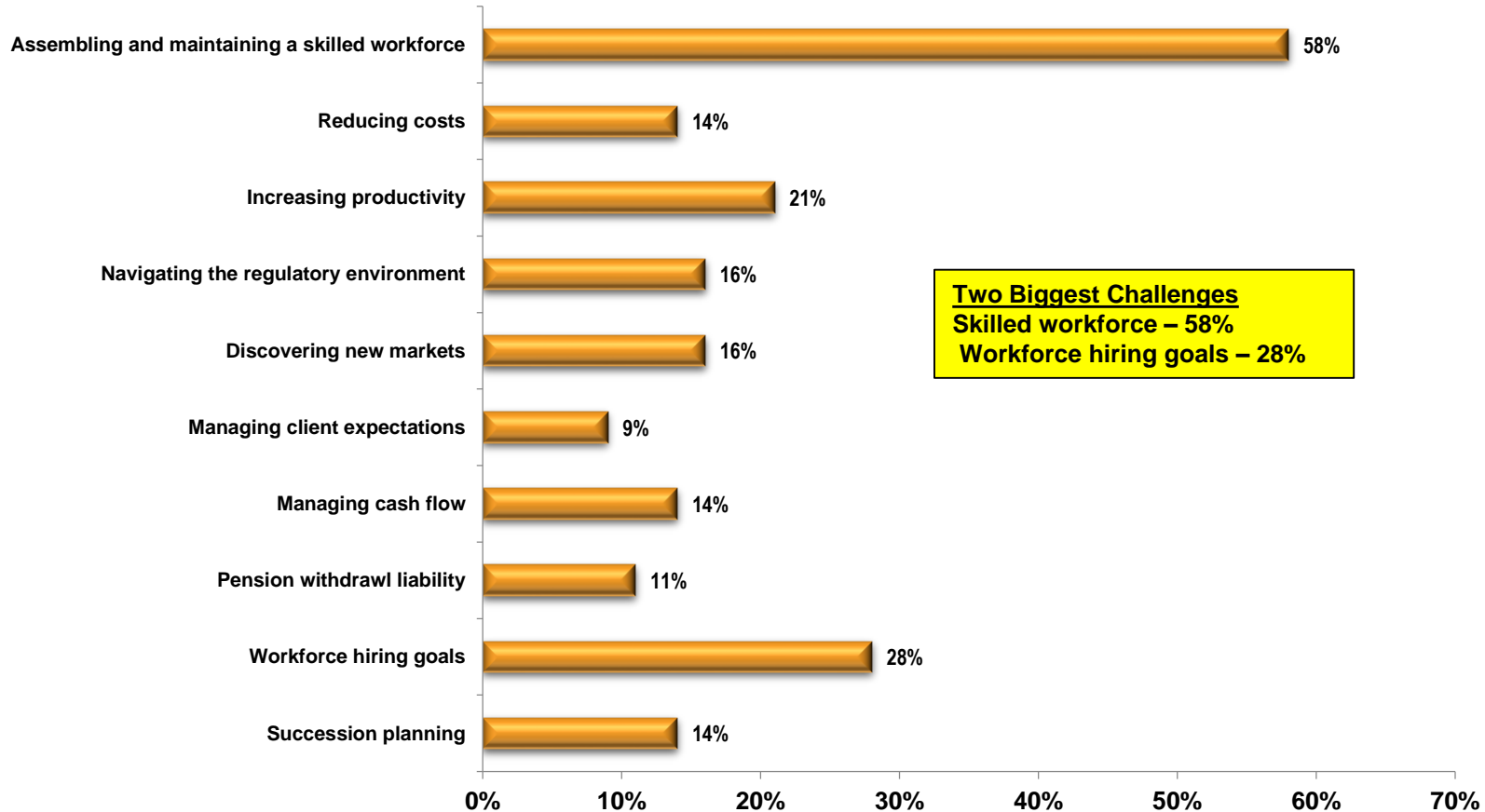
General Contractor





13. The two biggest challenges your company faces in 2016 and beyond are? ? (All Responses, General Contractor, Specialty Contractor/Subcontractor, Affiliate, Architect/Engineer)

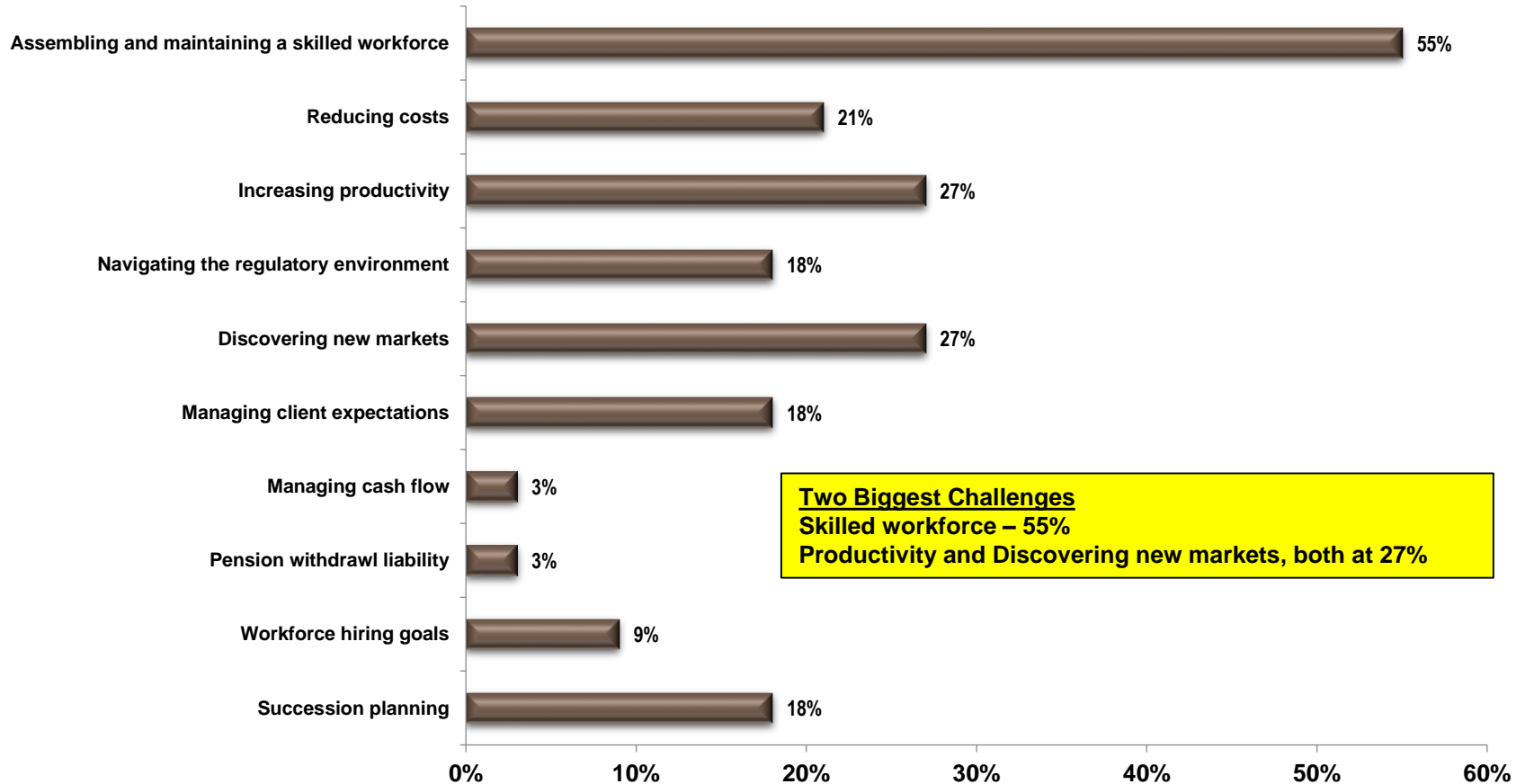
Specialty Contractor/Subcontractor





13. The two biggest challenges your company faces in 2016 and beyond are? ? (All Responses, General Contractor, Specialty Contractor/Subcontractor, Affiliate, Architect/Engineer)

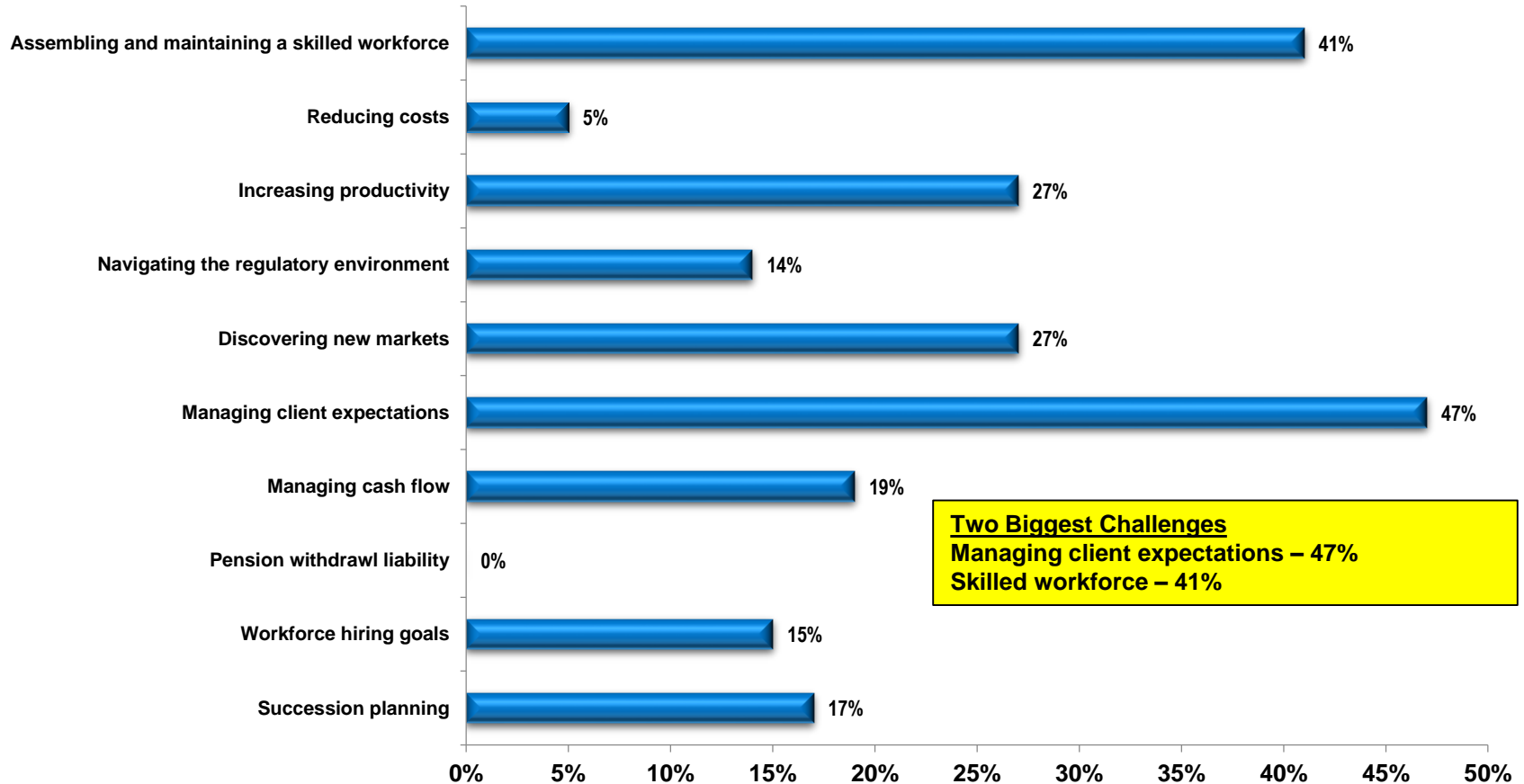
Affiliate





13. The two biggest challenges your company faces in 2016 and beyond are? ? (All Responses, General Contractor, Specialty Contractor/Subcontractor, Affiliate, Architect/Engineer)

Architect/Engineer



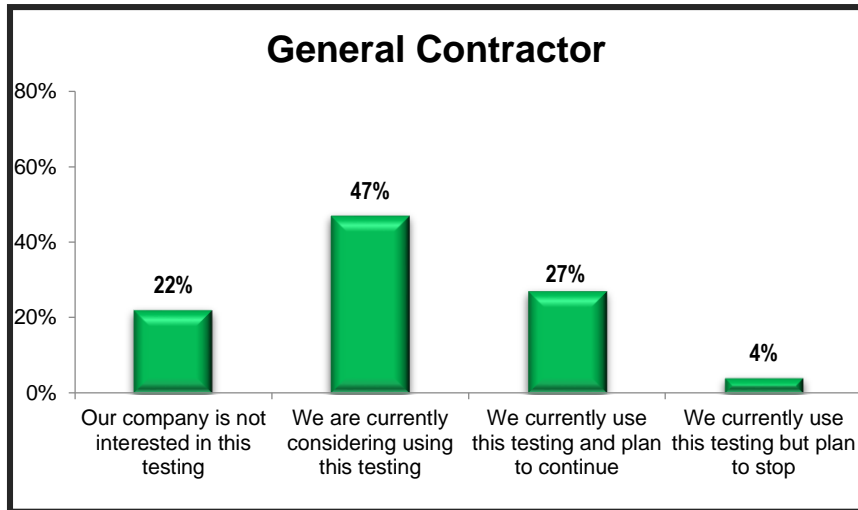


Question 13 comments

1. Nonunion taking market share.
2. Lack of public funding for transportation is #1.
3. Managing client expectations would help me keep my workers. Right now, all the phases on projects and short time frames cause us to work extra hours to keep a schedule. My guys are not going to give up their families for work. Weekends need to be for the family.
4. Finding qualified Equipment Operators is difficult.
5. Project funding.

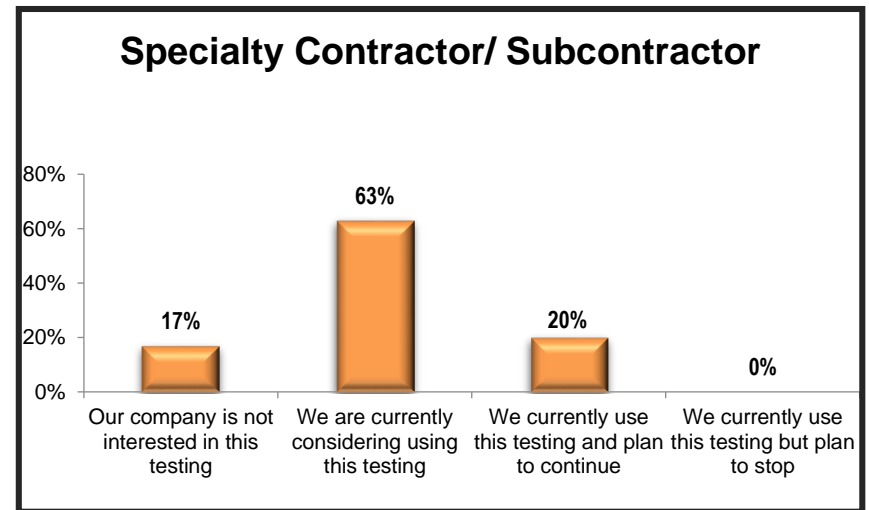


14. For contractors only: Please answer the following with regard to using pre-employment fitness-for-duty testing (strength, range of motion, balance, job simulation, etc.) of craft workforce applicants. This question refers to fit-for-duty testing only and NOT drug or alcohol testing.



General Contractor

47% - Currently considering using duty testing
27% - Plan to continue using duty testing



Specialty Contractor/Subcontractor

63% Currently considering using duty testing
20% Plan to continue using duty testing



Question 14 comments

General Contractor

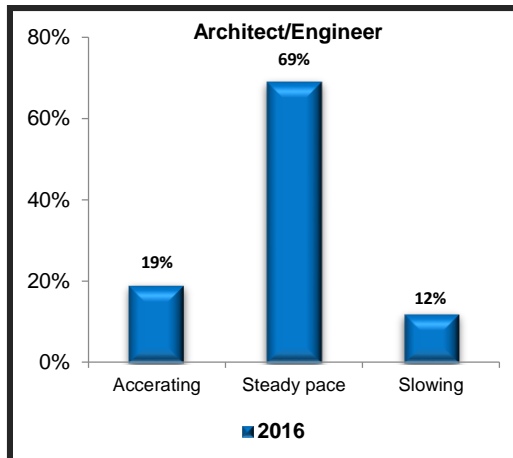
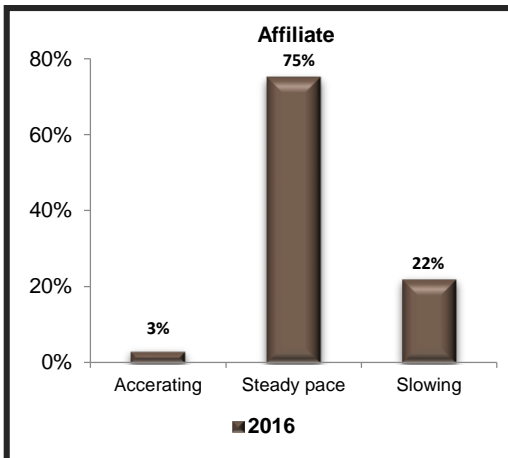
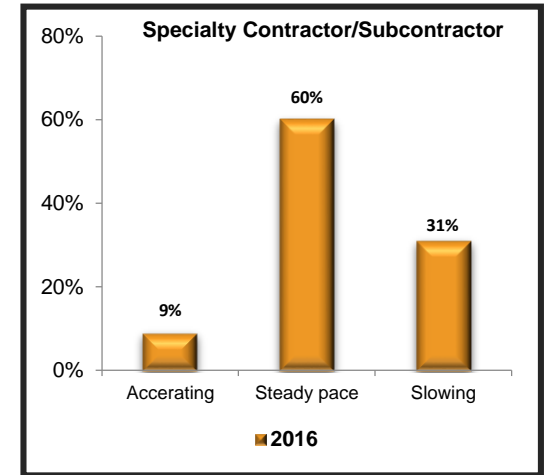
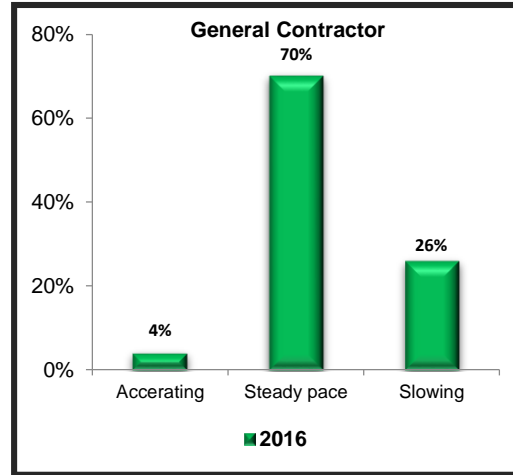
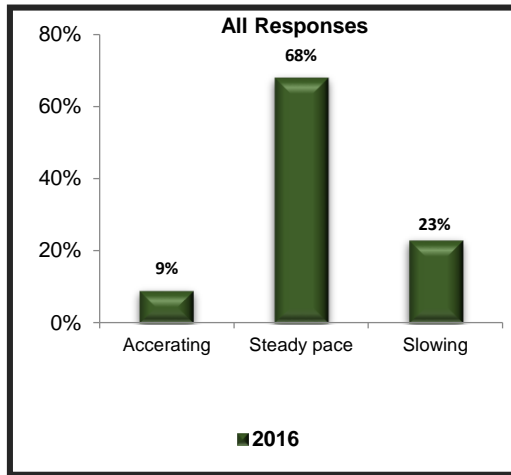
1. We used this testing previously, but stopped this year.
2. We have stopped.
3. I can hardly find employees now.

Specialty Contractor/Subcontractor

1. This can only be effective if mandated industry wide.
2. Union issues caused us to stop.



15. Looking ahead, how do you see the overall 2016 Minnesota construction economy?



Overall consensus in the industry is that the Minnesota construction economy will continue at a steady pace through 2016



Question 15 comments

1. Architects are busy right now moving projects through the pipeline. Bodes well for spring 2016 construction starts. Design backlog is thinning.
2. Once the Vikings stadium is finished, there is bound to be a slowdown in construction.
3. Very much dependent on interest rates, inflation, and consumer confidence indexes.
4. Slight slowing.
5. Slowing, but not significantly.



Question 16 Additional comments by type of firm.

General Contractor

1. There is a lot of construction activity in the Twin Cities Metro area through 2016. We are hopeful that availability of skilled craft workers will pick up in 2017. Even with the increase in outreach to and recruitment of women and minorities into the trades in recent years, it will still be several more years before many of them will be journey level workers. Increased availability of women and minority workers is lagging behind demand. Increased compliance monitoring for employment goals places an increased administrative burden on contractors, and on small subcontractors in particular. I am concerned that small subcontractors in greater Minnesota will become less willing to work on public projects because of the documentation and reporting burden.
2. The issue with the workforce is the quality of the craftsman.
3. It is time for the owners to understand that people are leaving the industry because they are not willing to sacrifice family time by working the late hours and Saturdays. They want a life.
4. Minnesota's failure to approve any meaningful transportation funding has us moving beyond its borders to find work. Intense competition requires bids at an unsupportable level. Despite substantial and continued DBE financial failures, the State continues to push this failed model to new highs. The P3 process continues to be regarded as a replacement for necessary traditional funding for projects. It is not. It is simply paying for the same work over a longer period of time with substantial transaction costs added. There are significant barriers for admission for contractors interested in participating in the P3 process that are unrealized by many contractors and are strictly enforced by experienced concessionaires and Wall Street.
5. Historically, public education and local government work accounts for 50% of our annual volume. This market segment has been flat for 8 years. Our private work (worship/schools/non-profit) has also been flat due to funding availability. MBE and workforce goals are very difficult to meet.
6. We have too many non-union employers in our work area. As a union contractor, we are at a great disadvantage.



Question 16 Additional comments by type of firm.

General Contractor

7. I would like to further explain our workforce hiring goals and maintaining a skilled workforce issues. We have been dealing with the Department of Human Rights lately for projects with the Met Council. Some thoughts on these interactions include:
 - There has been a very hostile environment in dealing with the Department of Human Rights over the phone. They are threatening (to revoke our certificate of compliance) and unwilling to help with any solutions in achieving the workforce goals. They also do not put anything in writing other than very vague requests for additional information.
 - We have been advised upon multiple occasions to terminate subcontractors that do not participate in the workforce inclusion goals. These include DBE contractors that we need on the projects to maintain different goals.
 - The Department of Human Rights has told us that if we do not meeting the workforce goal, we are not making a good faith effort on the projects. This feels much more like a quota than a goal to us. Once we are able to show the good faith efforts that we are making on the projects to the Department of Human Rights, we would like this to be enough and no longer be harassed by the Department.
8. DBE quotas will force us to reduce our employees in our trucking group. Hiring goals are forcing us to hire 'any minority class person' that walks in the door....regardless of qualifications, skill level, training, or ability.

Specialty Contractor/Subcontractor

1. Primary geographic area where work is performed? Minnesota / North Dakota / Wisconsin / and a little Iowa.
2. The regulatory environment in the Minnesota market has become more burdensome. From the recent Responsible Contractor Act (with its presumption that contractors are of bad faith), to the continuing increase in minority and women hiring goals, to the expansion of goals in engaging contractors who qualify as MBE, DBE, WBE, etc. on publicly funded projects. The Responsible Contractor Act is, at best, silly. Minnesota already has regulations in force for contractors who fail to pay taxes, engage in discriminatory hiring practices, allow their construction operations to be unsafe, etc. Regulating agencies have enforcement authority to address these issues. Adding this additional layer of administrative burden harms our industry and increases the cost of construction in Minnesota. The current minority and women hiring goals are unrealistic, increase the cost of construction and, in some cases, may create an unsafe work environment. While the hiring goals prescribed may be based upon some demographic studies, many applicants simply do not have the necessary skills to perform the work available in our industry. While most contractors are very positive partners in training a skilled workforce, it is impossible to provide training from the ground up sufficient to meet the mandated hiring goals. The current goals for contracting with MBE, DBE, and WBE subcontractors and suppliers are unrealistic as well. Many of those businesses who meet the qualifications still face the same business realities as all contractors that often impede their ability to participate in meaningful ways on construction projects. They often lack adequate capital, bank credit, bonding capacity, and the ability to provide sufficient insurance coverage to name a few.



Question 16 Additional comments by type of firm.

Specialty Contractor/Subcontractor

3. Other than financial, administrative, and revenue, as a union specialty contractor, most of our “big picture” general concerns are related to the fact it has become more and more difficult to project being a union contractor as a viable and prudent career choice. This is because being a union contractor is a business plan that is no longer a reasonable risk. From the management side of the table, over several decades, labor (unions) has over-delivered wins in language and benefits to their membership. In addition, the unions have become fat with unnecessary administrative positions in a way that mirrors our overgrown government agencies. The teetering defined benefit pension plans as well as the unrealistic health care benefits desired by the union membership in no way reflect the test of our society's expectations. These factors have all made it so it is more and more unlikely that owners of businesses are able to sell their business at retirement. As a result, from a business plan perspective, unions have outlived their usefulness and have instead become a detriment to the future of a union contractor. An ambitious young person would far more likely choose to start a non-union business or a different line of work rather than start or purchase a union construction company. Union leadership needs to decide to reinvent the union marketplace with bold changes that will calm these concerns.

Another “big picture” concern is contractor apathy in regard to stewardship of the construction industry as a whole. Perhaps it is related to the issues noted above, in item #1, as well as societal shifts in how we communicate, but it seems a large percentage of contractors are not active in industry associations and the work they do to shore up the industry in which we all choose to earn our livings and ensure our family's lifestyle. We are weaker with so many lone wolfs tearing up the industry without regard to our responsibility to stewardship of the industry. Those who don't participate would be enriched personally and financially from the networking, education, and added stability to the industry if they would choose to be more active. A new crop of talented individuals needs to be constantly recruited to ensure fresh ideas and fresh energy to our industry.

4. There seems to be too much activity for this market to sustain the levels of 2015. By the 3rd quarter of 2016, many of the larger projects in this market will be complete. The large amount of apartment buildings being built will at some point stop. Developers are already commenting on some localized areas being overbuilt. If lenders get nervous and or the elections impact confidence levels, it will not just slow down but will repeat 2009-2012 all over again. Infrastructure projects, including the expansion of light rail, cannot be depended upon to carry this industry through another deep downturn. With all the increased activity the amount of nonunion activity, has increased significantly. This will impact union contractors when the levels slow.
5. We can hardly keep up with the regulations, reporting, and compliance rules, audits, changes, etc. Every customer and project now seems to want us to re-key our payroll into their special system so they can calculate statistics on hiring.....The tracking systems vary even from job to job with the same customer. This is a large accounting burden for small companies and adds costs to each project.



Question 16 Additional comments by type of firm. (No Architect comments)

Affiliate

1. These comments are from a banker with a broad view of the construction market: the overall profitability of contractors is not where it should be at this stage in the economic cycle. Contractors should focus more on improving gross profit margins instead of revenues in 2016, as well as prepare for some unknown event such as: (1) rising interest rates, (2) an unexpected acquisition opportunity, (3) a recession, (4) an unexpected shock to their business, or (5) sudden ownership or management succession. These happen to contractors all the time, but the point is not as many businesses are as PREPARED at this point in the economic cycle for a future negative event. The general outlook in construction is good for the next 1-2 years so this can be a great opportunity for companies to GET READY.

Engineer

1. Ever-increasing government regulations are killing the small business. Just found out there is a pending executive order, from the Feds, that any employee making less than \$50k must be paid 1.5x for overtime. They are enacting this for 2016, but it still is not officially released. When considering this action, along with all the permitting requirements on projects, it is a terrible trend.
2. 2015 has been a very busy year for our firm. We expect 2016 to continue to be very busy, with a likely minor slowdown in 2017. Hiring qualified engineers and designers continues to be our biggest challenge. Our colleges and universities are not graduating enough engineers to keep up with the bubble of baby boomers reaching retirement and leaving the industry. Additionally, very few women and minorities are choosing this field. The continued trend toward the design-build delivery method for mechanical and electrical design is becoming a serious threat to the long-term viability of the consulting engineering profession. Additionally, current laws allow contractors, in some cases, to complete designs and submit for permit without the involvement of registered professional engineers. As engineers, we are bound to protect the health, safety, and welfare of the public. How is this done without a professional's involvement? The increased requirements for inclusion of targeted vendors (disadvantaged, minority, women, emerging, etc.) for State work is beginning to result in firms like ours being excluded from competing. While well intentioned, the requirements are almost becoming a form of reverse discrimination.
3. The role of the engineer has been eroded over the past decade with the change in project delivery. The power in the industry has been shifted to Design-Build organizations from the Design-Bid-Build.



Conclusion

Last year, our report indicated that market conditions were improving, especially in the building sector.

This year, there is evidence that the industry has moved to a steady-state, characterized by a moderate slowdown in hiring. What hiring that is taking place is difficult. Skilled workers and professional staff are not easy to recruit, and reporting and regulatory burdens add another layer of administration and cost.

With major projects in the area now in full gear, it remains surprising that as of September 2015 Minnesota is 25,500 construction jobs short of its peak in February 2006. (Source: AGC of America, from Bureau of Labor Statistics (BLS) 10/21/2015) Last year, that number was at 21,800 workers, suggesting the industry is now shedding jobs again. Will the industry rally again or are we at the early stages of a slowdown?

While hiring has slowed, the regulatory burden on contractors remains significant. We believe the additional cost of meeting government regulations may deter some contractors from pursuing public works. Sustained labor shortages and increased regulation are bound to have a long- term impact on contractor business models. Increasing productivity, longer work hours, and exploring new markets are all contractor responses to these challenges. Unfortunately, these increasing demands on the workforce are taking a toll on recruitment and retainage.

We believe some contractors will see these factors as threats, while others will explore the turbulent regulatory and workforce environment for new opportunities.

Thanks to all who responded to this year's survey, especially our partners at ACEC and AIA. We hope it is helpful to all of you in understanding the current state of the Minnesota construction industry and prospects for 2016.

Dave Semerad

The mission of the Association is to promote the legislative and economic strength, image and well-being of the Minnesota construction industry, while maintaining the core values of skill, responsibility and integrity. The Association a recognized chapter of the Associated General Contractors of America (AGC of America) and the American Road and Transportation Builders Association (ARTBA). This association is an Equal Opportunity Employer and shall not unlawfully discriminate on the basis of race, color, creed, religion, national origin, sex, marital status, status with regard to public assistance, sexual orientation, disability or age. The Association shall strive to maintain a professional, respectful and drug free workplace for all, and will not tolerate sexual harassment, physical assault, verbal threats, or illicit drug or chemical use. AGC of Minnesota is firmly committed to full and open competition in the construction industry. AGC of Minnesota will conduct its activities in strict compliance with applicable antitrust laws. No director, officer, committee member, AGC of Minnesota member or representative of an AGC of Minnesota member shall engage in any discussion or practice which constitutes or implies any improper agreement or action concerning: prices, discounts, or terms or conditions of sale; profits, profit margins or cost data; market shares, sales territories or markets; allocation of customers or territories; selection, rejection or termination of customers or suppliers; manipulation of the bidding process; boycotts; or any other matter prohibited by the AGC of Minnesota Antitrust Policy.