

# INSURICA

# CONSTRUCTION TIMES

Providing Quality Insight to the Construction Industry

Winter 2021



## IS AN ESCALATION CLAUSE THE ANSWER?

By Paul Moore, INSURICA | Norman, OK

In October, the National Association of Surety Bond Producers released an [article](#) highlighting the soaring cost of construction materials that made national headlines earlier this year, and made headaches for contractors and owners who were stuck with project over-run costs. Although there has been some improvement, the latest [data](#) from the Bureau of Labor Statistics still indicates approximate 19% increase in cost over the last 12 months.

This problem continues. As you review and/or amend contracts, you might consider using an escalation clause as a part of the contract on your future contracts.

The NASBP defines an escalation clause as a contractual provision that allows for an adjustment to the contract price to account for certain fluctuations in the cost of materials. To determine who bears responsibility for certain material prices, the parties simply need to apply the conditions of the escalation clause to the material price increase at issue. Normally, the owner and the contractor are likely to share the increase.

Without this clause, NASBP says the viability of a contractor's claim for a price adjustment will largely depend on the contract language, the cause of the price increase, and the owner's attitude. Price increases can be caused by a variety of factors, including delays by the owner or delays in getting materials for the project, force majeure, or a pandemic.

According to the NASBP, price escalation provisions are not one-size-fits-all and must be carefully drafted so that the escalation clause covers the majority of the contractor's pricing risk.

Ultimately, the price escalation provision will be negotiated between the parties. Most owners want price certainty and will likely push back against the inclusion of a price escalation provision. However, if the owners understand that, without such protection for the contractor, the pricing may be significantly inflated to hedge against the contractor's risk of materially increased costs in the future.

You should consult legal assistance from an experienced construction attorney to make sure that any escalation clause that is selected fits the needs of the specific project you are bidding on and is in compliance with various state and federal laws. Contact [INSURICA](#) today to help you with your risk management needs.

“Volatility is synonymous with risk, and rising material prices are dominating the conversations in the construction industry right now.”

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# CONSTRUCTION MATERIAL PRICE INCREASES: HOW TO MANAGE THE RISK

By Eric Pach, INSURICA | Phoenix, AZ

Volatility is synonymous with risk, and rising material prices are dominating the conversations in the construction industry right now.

Material costs have grown by 27.8% since May 2020, according to the AGC Construction Inflation Alert, but bid prices have only accounted for 5.2% of the increase. Lumber, for example, saw a 120% rise in a year and then settled at 52%. Steel mill products have risen by more than 111% in a short period of time, and it appears to be still climbing.

So, who bears the risk? Most GC's, trades and material suppliers operate on narrow margins where increases like these could be detrimental to the industry. In this current reality, how do we manage through these times and remain profitable?

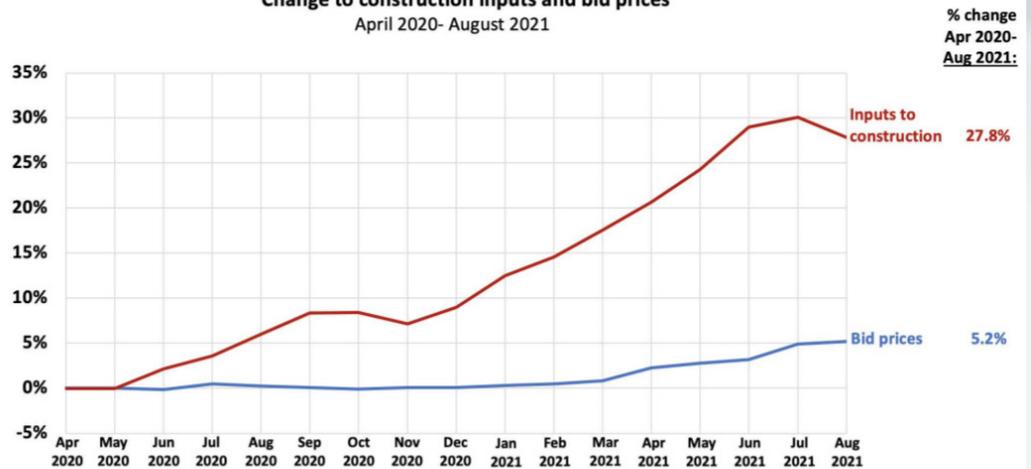
At the Arizona Builders Alliance Conference, Mike Holden, an attorney with Holden Willits gave some great advice to the construction industry on how to manage this risk:

- Read the fine print in the price quotes from your suppliers to know how long the price quotes are guaranteed
- Talk to the upchain party to discuss the risk whether they be an owner to a GC or a contractor to a material supplier
- Include an allowance in your bids to provide additional funds for potential increases
- Buy materials early to allow you to capture the price before it increases, but don't forget to review your installation floater for proper insurance coverage

Holden also recommends contractors use the Consensus Docs form 100.1 Amendment No. 01. For those not familiar with Consensus Docs, it is an alternative to the AIA contract that was created with a consortium of construction parties and endorsed by the ABC and AGC. The Amendment No. 01 is an agreement with the owner so that "each party is entitled to an equitable adjustment for an increase or decrease in this baseline price subject to timely notice."

**FIGURE 1**

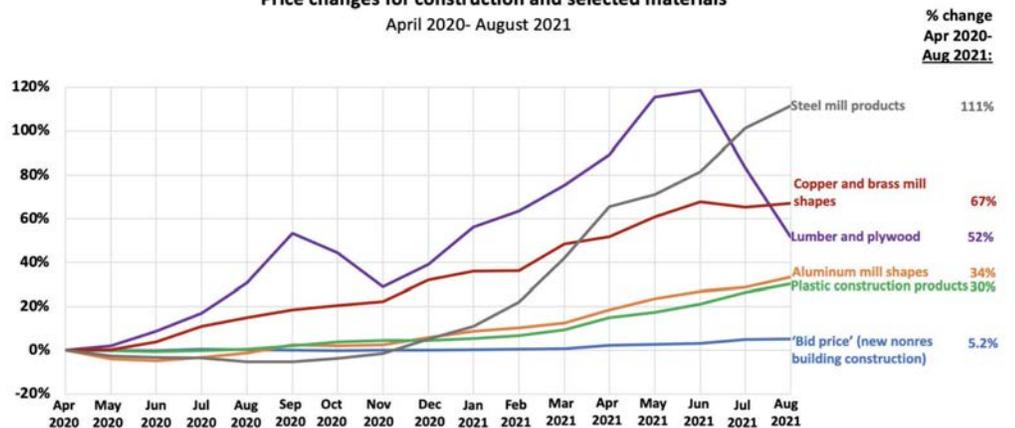
**Change to construction inputs and bid prices**  
April 2020- August 2021



Source: Bureau of Labor Statistics, producer price indexes (PPIs) for new nonresidential building construction (bid prices) and inputs to construction, not seasonally adjusted

**FIGURE 2**

**Price changes for construction and selected materials**  
April 2020- August 2021



Source: Bureau of Labor Statistics, producer price indexes (PPIs) for new nonresidential building construction (bid prices), gypsum products, wood, metal products, and plastic products, not seasonally adjusted

Ron Wilson from Mortenson added that "it is time to loosen our grip on lean" because the Just-In-Time deliveries and processes don't leave the project with any margin of error in delays, shipments or availability of skilled labor.

Storms draw something out of us that calm seas don't. We're in a storm of price fluctuations right now in our industry. The good news is that the construction economic indicators show significant growth, but to earn the profits along the way, contractors need to manage the material cost risk today. For additional guidance, contact a team member near you at [INSURICA.com/our-team](https://www.insurica.com/our-team) today.



## THE IMPORTANCE OF SAFE LIFTING

Lifting is a common activity on the job site, and it is easy to forget that proper techniques must be used to avoid injury. In fact, the most common work-related injury cited by the Occupational Safety and Health Administration is lower back injuries, which are frequently associated with poor lifting practices.

### SAFE LIFTING BASICS

Lifting safely is essential for keeping your back healthy and you safe. There are several safe lifting techniques that can help relieve strain on the lower back:

- Look over the load. Decide if you can handle it alone or if you need assistance.
- When in doubt, ask for help. Moving an object that is too heavy or bulky can cause severe injury.
- Clear away any potential obstacles before beginning to carry the object.
- Support and propel the object while carrying it; your grip should be firm. Carrying objects will change your balance. To keep this change of balance to a minimum, keep the load close to your body and to your normal center of gravity, between the legs and shoulders.
- Use good foot positioning. Your feet should be shoulder width apart, with one foot beside and the other foot behind the object that you are going to lift. This allows you to use the full power of your leg muscles. Leg muscles are stronger and more powerful than back muscles, so let your legs do the work.
- Bend your knees. Bending over at the waist to reach for the object you want to lift puts strain on your back, shoulder and neck muscles.

- Keep your arms and elbows as close to your body as you can while lifting. If you have to stretch your arms out completely away from your body, ask for assistance with the lift.
- Use your feet to change direction. Don't twist your body. Twisting adds to the stress of the lift and affects your balance.
- To lower the object, bend your knees as you did to pick it up. To place the load on a cart or other elevated surface, set it on the edge and slide it into position. Make sure your hands and feet are clear when lowering the load.

Training and practice are required for safe lifting of heavy objects. When equipment is available, it should be used to lift and transport big items. This is where loaders, forklifts, and hoists come in.

### TEAM LIFTING

When you're lifting anything heavy, it's critical to work as a team. If you're going to transport the load to another area, make sure you're both on the same page before lifting the object. Examine the route and the clearance. One employee must be able to supervise and direct the other. Lifting and lowering must be done simultaneously. Allowing the load to reduce quickly without informing your partner is not a good idea.

### YOUR SAFETY IS IMPORTANT

Proper lifting techniques safeguard against injuries and make it much simpler to continue working. Before lifting an object, think about what you're about to do; over time, these safe lifting practices will become second nature.

If you have any questions or concerns about safe lifting procedures, contact your supervisor.

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[National Impaired Driving Prevention Month](#)

[National Influenza Vaccination Week](#)

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