



SPECIAL REPORT

***CITY CONSTRUCTION CONTRACT WITH THE GARLAND
COMPANY, INC.***

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CITY OF PITTSBURGH
OFFICE OF THE CITY CONTROLLER
Controller Rachael Heisler

May 2024

To the Honorable Mayor Edward Gainey and
Honorable Members of Pittsburgh City Council:

The Office of the City Controller is pleased to present this review of Contract 53245, conducted pursuant to the power of the Controller under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The focus of this financial review was Contract 53245 and two associated pricing amendments. Contract 53245 was originally a co-op between OMNIA Partners and another state county. This co-op was adopted by the City of Pittsburgh in order to acquire procurement and construction services from the Garland Company, Inc. (Contractor), which is, subsequently, the company that won OMNIA Partners' bid for Contract 53245. The agreement allows the Contractor to handle procurement for roofing services for the City. It also indicates that any materials used by winning subcontractors be purchased through the Contractor; therefore, the original contract includes an itemized list of prices as well. In 2022 and 2023, two pricing amendments were submitted to the City.

Our first objective was to determine how reasonable the pricing adjustments were, and, therefore, as our criteria, we obtained Producer Price Index (PPI) reports for three relevant industry categories: Asphalt Paving and Roofing Materials Manufacturing, Roofing Contractors and Nonresidential Building Work, and Hardware Manufacturing. We also did line-by-line price tracking between Contract 53245 and the two pricing amendments submitted by the Contractor. Our results are as follows:

- The Contractor's prices increased by a rate of approximately 39% between 2020 – 2023.
- The PPI for Asphalt Paving and Roofing Materials Manufacturing increased by a rate of approximately 27% between 2020 – 2023.
- The PPI for Roofing Contractors and Nonresidential Building Work increased by a rate of approximately 42% between 2020 – 2023.
- The PPI for Hardware Manufacturing increased by a rate of approximately 32% between 2020 – 2023.

The Contractor's pricing list is specific to roofing materials used in the roofing services rendered by either the Contractor or subcontractors, and, therefore, Asphalt Paving and Roofing Materials Manufacturing is the most relevant industry for comparison. The Contractor's pricing trend exceeded this industry by 12% and exceeded the combined average of all three industries summarized above by 6%.

Based on our review, we can provide some recommendations to City administrators. First, the current adopted co-op indicates that the City is able to review notifications of pricing changes in order to assess how fair and reasonable they are, and we believe this to still be an important stipulation that should remain in place. However, the Contractor is not required to submit supporting documentation of pricing changes, only notifications of pricing changes. The agreement also does not state any requirements for the Contractor to provide documentation of bids or pricing details of services. If the City is to be able to make fair and reasonable judgment of pricing notifications, this is information that City should have access to, when needed. If City administrators decide to renew this co-op, we recommend that the above items be considered when the stipulations of the new agreement are negotiated, and, furthermore, we recommend that the City also proactively review any further notifications of pricing changes. Please see further details of the information summarized here in our report below.

Sincerely,

A handwritten signature in black ink that reads "Rachael Heisler". The signature is written in a cursive, flowing style.

Rachael Heisler
City Controller

INTRODUCTION

This fiscal review of the contract with The Garland Company, Inc. (Contractor) as adopted by the City of Pittsburgh was conducted pursuant to the Controller's powers under Article IV, Section 404(b) of the Pittsburgh Home Rule Charter.

SCOPE AND METHODOLOGY

The primary contract number under review is 53245, and it was executed on **February 14, 2020**. This contract expires as of **October 14, 2024**. Please note that two pricing amendments have been submitted since its execution. We will provide additional details in this report.

The primary objectives of this review were to analyze the pricing adjustments submitted by the Contractor and determine if those adjustments were reasonably aligned with industry pricing indexes. We also set out to assess what financial impact this contract may have on the City. The following procedures were completed:

- We reviewed Contract 53245.
- We reviewed the two pricing amendments submitted by the Contractor.
- We compared contract-by-contract pricing adjustments to determine the magnitude of price increases.
- We compared the Contractor's pricing increases to industry pricing indexes.

BACKGROUND

Resolution 791 of 2019 authorized the City of Pittsburgh to participate in applicable cooperative agreements (co-ops) for "goods, materials, equipment, supplies, services, or construction" and notes that the authorization of that legislation expires December 31, 2020. The resolution cites two statutes: §1902 of Title 62 and §2309 of Title 53. Pennsylvania Title 62 established the statewide code and definitions concerning co-op purchasing, use of supplies and services, procurement requirements, and so forth. Title 53 allows counties to make direct purchases from vendors and suppliers of goods without having to follow competitive bidding processes outlined in existing statutory regulations.

Contract 53245, in its original form, was a state agreement between another state county's Purchasing Department (County), and OMNIA Partners, which is a partnering company of the Contractor. The County's objective was to establish a national co-op to allow the winning bidder (i.e., OMNIA Partners) to handle related procurement and/or services. With the support of Resolution 791, the City of Pittsburgh piggybacked on this state agreement to obtain the commodities and services outlined therein, which, essentially, yields the procurement process over to the Contractor.

The terms of Contract 53245 include pricing schedules for services and materials and indicate that pricing is to remain fixed for the first 12 months of the Master Agreement term and that reasonable pricing changes "based on market conditions and price/cost analysis may be made after the initial 12 months." It also indicates that the Contractor shall supply satisfactory documentation of Producer Price Indexes (PPI), Consumer Price Indexes (CPI), or the manufacturer's published notification of the pricing changes made, and that the County is to evaluate these changes to determine if they are fair and reasonable. Furthermore, it indicates that "alternative costing" can be submitted if certain goods and services are not covered by the contract's price list and/or if custom manufacturing is needed. Alternative costing requires several stipulations, including advanced approval prior to supplier quotations.

Both the PPI and CPI measure pricing changes over time for specific markets of goods, but the PPI and CPI do have some fundamental differences. Primarily, the PPI looks at the entire market of producers and the goods and services purchased by producers for their operations and investments and also consumer purchases made directly from the producer or via retailers. The CPI focuses on consumer purchases. The PPI also does not include sales and excise taxes. Documentation of PPI and/or CPI changes would typically support pricing increases made by the Contractor over time.

BASIS OF REVIEW

We did not review any financial statements or perform a review of compliance for the purposes of this report; therefore, no assurance thereof is provided in this report.

As noted, our objective was to review Contract 53245 and its two pricing amendments, the first submitted in 2022 and the second submitted in 2023, and compare the trend of pricing increases from these documents to industry market trends. We used PPI indexes reported by the [Federal Reserve Economic Data](#) (FRED) website, as maintained by the research division of the Federal Reserve Bank of St. Louis, for our criteria.¹ Our comparison is based on the percentage change of pricing between 2020 – 2022, 2022- 2023, and then all years (i.e., 2020 – 2023).

The three industry categories from the FRED database utilized in our criteria for this report are as follows:

- Asphalt Paving and Roofing Materials Manufacturing
- Roofing Contractors, Nonresidential Building Work
- Hardware Manufacturing

RESULTS OF REVIEW

THE GARLAND COMPANY, INC.

As part of our procedures, we did a line-by-line comparison of the prices for all individual items as listed on Contract 53245 and the two pricing amendments submitted to the City in 2022 and 2023. Between the three documents, 710 individual line items were compared. The information provided below expresses the percentage change in pricing. In each graph of the Contractor's pricing, the y-axis (i.e., vertical) represents the total number of line items, and the x-axis (i.e., horizontal) represents the percentage amount in price change.

PRICING CHANGES: 2020 – 2022

Figure 1, shown below, expresses the overall trend of pricing changes between the original contract and the 2022 pricing amendment. As shown, the majority of individual items experienced a percentage increase between 14% and 27%.

Only one line item experienced a decrease in cost (i.e., drop of -56%) and 33 item costs did not change, while the other 676 items were increased above the original contract as follows:

- Twenty-four items were increased in prices ranging 5% to 14% above the original contract.

¹ Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/>

- Two hundred sixty-eight items were increased in prices ranging 15% to 20% above the original contract.
- Two hundred seventy-five items were increased in prices ranging 21% to 30% above the original contract.
- Seventy-two items were increased in prices ranging 31% to 40% above the original contract.
- Thirty items were increased in prices ranging 47% to 49% above the original contract.
- Seven items were increased in prices ranging 58% to 77% above the original contract.

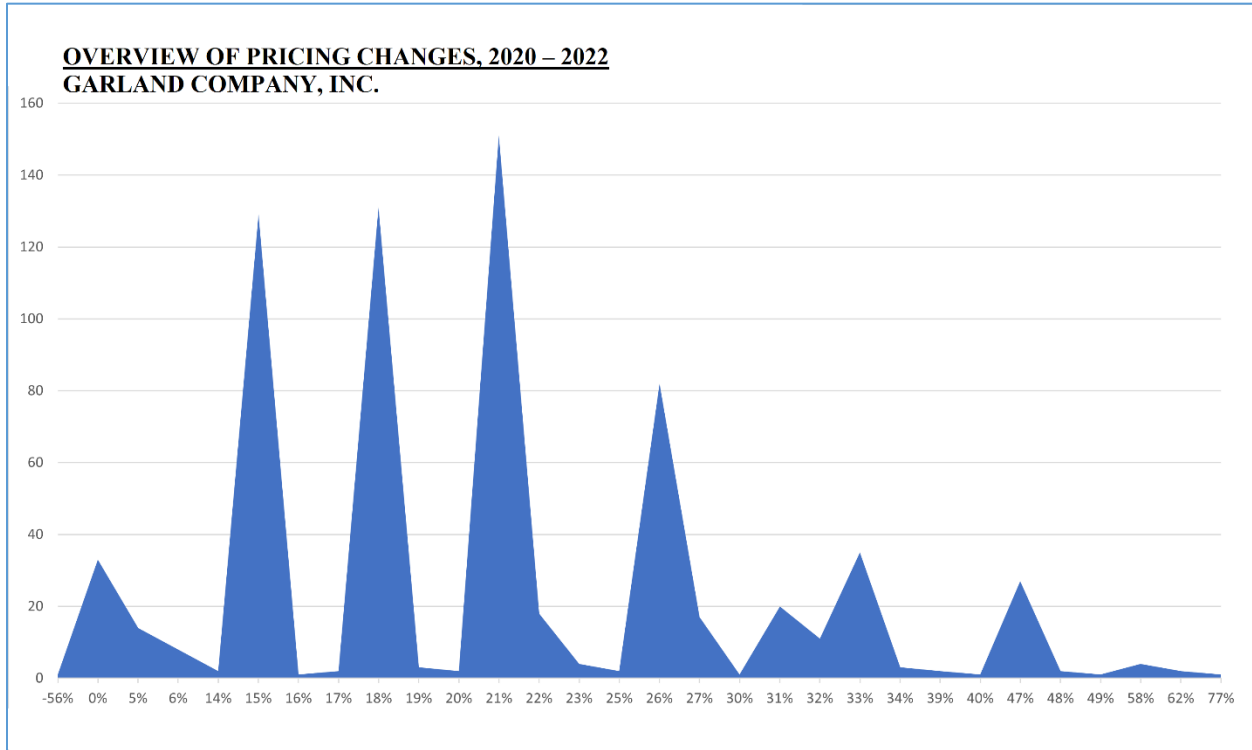


Figure 1: Comparison of Garland Company, Inc. prices as quoted between Contract 53245 and the 2022 pricing amendment.

PRICING CHANGES: 2022 – 2023

Figure 2, shown below, expresses the overall trend of pricing changes between the 2022 and 2023 pricing amendments using the same data labels described for **Figure 1**.

Three items experienced decreases in cost ranging between -3% and -11%, and 34 item costs did not change. The other 673 items were increased in price as follows:

- Five hundred eleven items were increased in prices ranging 2% to 15% above the 2022 pricing amendment.
- One hundred twelve items were increased in prices ranging 16% to 20% above the 2022 pricing amendment.
- Forty-nine items were increased in prices ranging 25% to 26% above the 2022 pricing amendment.

- One item was increased in price 50% above the 2022 pricing amendment.

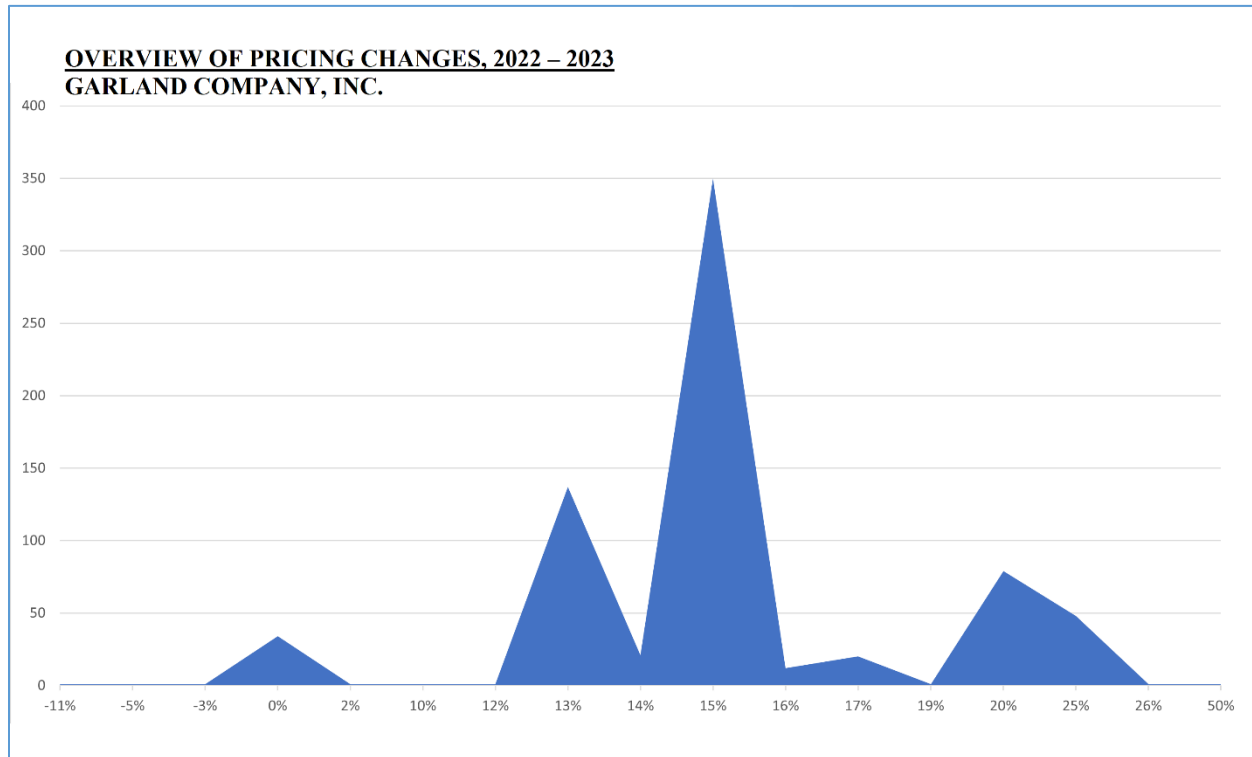


Figure 2: Comparison of Garland Company, Inc. prices as quoted between 2022 and the 2023 pricing amendments.

OVERALL PRICING CHANGES: 2020 – 2023

Figure 3, shown below, expresses the overall trend of pricing changes between the original contract and the most recent pricing amendment of 2022.

When comparing the change over all years, one item saw a decrease in price of -49%, one item decreased by -2%, 30 items did not change, and 678 items saw pricing increases as will be detailed below:

- Four items were increased in prices ranging 3% to 5% above the original contract.
- Five items were increased in prices ranging 17% to 20% above the original contract.
- Fifteen items were increased in prices ranging 21% to 28% above the original contract.
- Three hundred ninety-eight items were increased in prices ranging 31% to 40% above the original contract.
- Eighty-eight items were increased in prices ranging 45% to 50% above the original contract.
- One hundred twenty-nine items were increased in prices ranging 51% to 60% above the original contract.
- Eight items were increased in prices ranging 61% to 69% above the original contract.
- Twenty items were increased in prices ranging 76% to 79% above the original contract.
- Eleven items were increased in prices ranging 84% to 94% above the original contract.

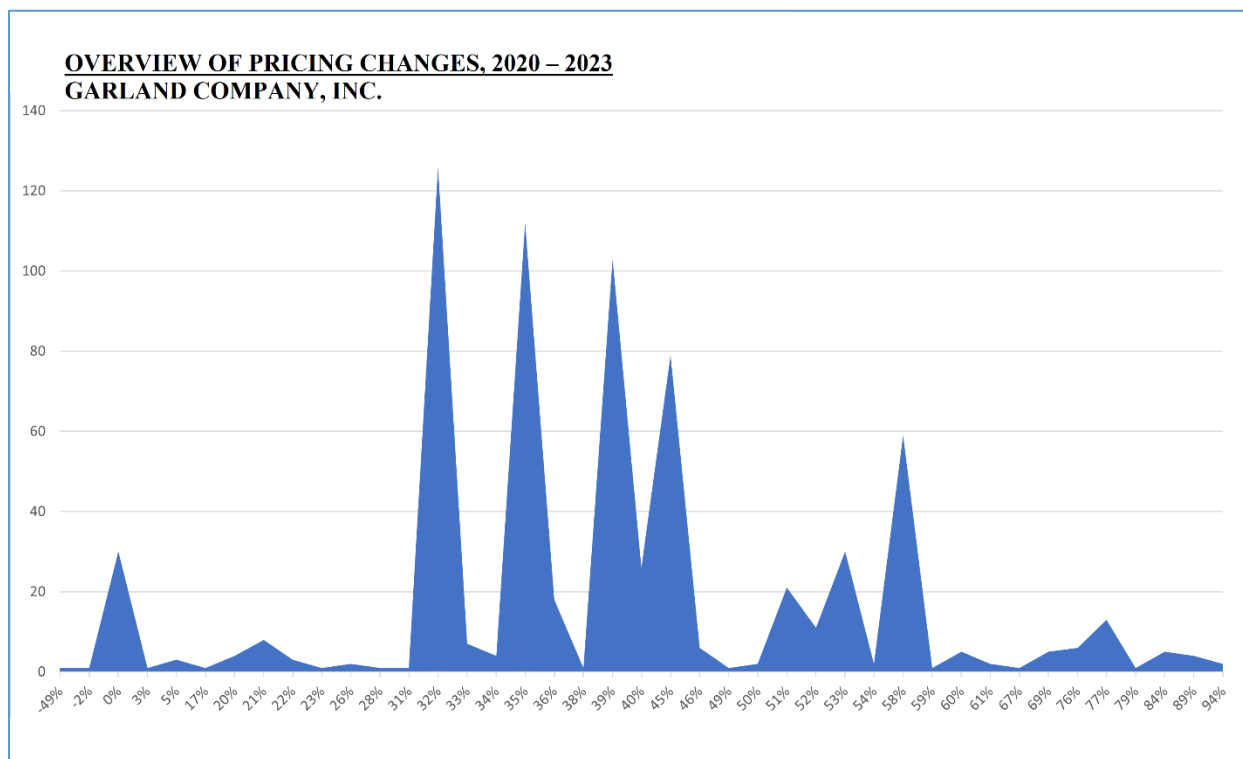


Figure 3: Comparison of Garland Company, Inc. prices as quoted between 2020 and the 2023.

Between 2020 and 2023, the majority (approximately 85%) of all line items increased between 32% to 58% in price and some items had increased by up to 94% in price. The average increase for all items was approximately 39%.

PPI INDICES

In this section, we will provide data from our criteria, which is the market trend for the three industries previously mentioned: Asphalt Paving and Roofing Materials Manufacturing, Roofing Contractors and Nonresidential Building Work, and Hardware Manufacturing.

ASHPHALT PAVING AND ROOFING MATERIALS MANUFACTURING

On a unit scale starting at 100, the index of the base year for this report of 2020 had risen to 278.600. By 2022, it reached 315.847, and, by 2023, it reached 354.097. Therefore, the following percentages were calculated:

- PPI increased 13% between 2020 – 2022.
- PPI increased 12% between 2022 – 2023.
- PPI increased 27% overall between 2020 – 2023.

Figure 4 below provides a visual of this data trend, as reported by FRED.



Figure 4: FRED graphic, per the following report: <https://fred.stlouisfed.org/series/PCU3241232412#>.

ROOFING CONTRACTORS AND NONRESIDENTIAL BUILDING WORK

On a unit scale starting at 100, the index of the base year for this report of 2020 had risen to 139.500. By 2022, it reached 162.773, and, by 2023, it reached 198.627. Therefore, the following percentages were calculated:

- PPI increased 17% between 2020 – 2022.
- PPI increased 22% between 2022 – 2023.
- PPI increased 42% between 2020 – 2023.

Figure 5 below provides a visual of this data trend, as reported by FRED.



Figure 5: FRED graphic, per the following report: <https://fred.stlouisfed.org/series/PCU23816X23816X#>.

HARDWARE MANUFACTURING

On a unit scale starting at 100, the index of the base year for this report of 2020 had risen to 207.800. By 2022, it reached 260.718, and, by 2023, it reached 274.798. Therefore, the following percentages were calculated:

- PPI increased 25% between 2020 – 2022.
- PPI increased 5% between 2022 – 2023.
- PPI increased 32% between 2020 – 2023.

Figure 6 below provides a visual of this data trend, as reported by FRED.



Figure 6: FRED graphic, per the following report: <https://fred.stlouisfed.org/series/PCU332510332510#>.

PPI SUMMARY

The most relevant industry for this report is Asphalt Paving and Roofing Materials Manufacturing, which experienced a 27% overall increase between 2020 – 2023. If we were to weigh the average percentage increase for all industries reported here equally, the pricing trend would be approximately 33%.

COMPARISON OF THE CONTRACTOR TO PPI TRENDS

Based on our review, the Contractor's pricing changes between 2020 – 2023 increase at a higher rate than the PPI of three relevant industries used in our comparison. With a 39% rate of increase, the Contractor's pricing outstrips the PPI for Asphalt Paving and Roofing Materials Manufacturing by 12% and all industries, if weighted equally, by 6%.

RECOMMENDATION

In considering the data provided in this report, our opinion can be summarized as follows:

1. The current co-op indicates that the County is able to review notifications of pricing changes in order to assess if they were applied in a fair and reasonable manner. We believe this to still be an important component of the agreement. If the City chooses to renew the co-op, this stipulation should remain intact.
2. The current contract with the Contractor requires only one of the following items: documentation of PPI, documentation of CPI, or the manufacturer's published

notification of the pricing changes made. Of the materials provided to us, we did not see evidence of support for PPI or CPI; however, notifications of pricing changes were provided, which appears to be compliant with the contract's stipulations. If the City chooses to renew the co-op, City administrators may wish to consider a contractual requirement for the Contractor to provide evidence of PPI and/or CPI data to support any pricing increases made going forward. Notifications of pricing changes alone may not be most beneficial for the City's assessment.

3. The current contract does not indicate any requirement for the Contractor to provide supporting documentation of procurements made or details of services rendered. In the spirit of transparency, we believe it prudent for the co-op to allow the City to request such documentation. For instance, the Contractor should be able to provide documentation of bids, which would allow the City, when needed, to review the procurement to ensure the most advantageous selection was made.
4. Last, in regard to item #1 above, we recommend that the City review the Contractor's documentation to assess the fairness and reasonableness of any pricing changes communicated. If the City has any questions about the pricing of individual roofing services, the City should request documentation of those services to assess those as well.