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**Transmitted VIA E-Mail to [jbouquet@cityofkeywest-fl.gov](mailto:jbouquet@cityofkeywest-fl.gov)**

December 19, 2014

James Bouquet, P.E.  
 City Engineer  
 City of Key West  
 3132 Flagler Avenue  
 Key West, FL 33040

**Subject: Asphalt Paving Contract Extension  
 Contract Number GN 1202**

James:

In our letter to you dated November 5, 2014, Douglas N. Higgins, Inc. (DNHI) indicated our willingness to extend the above referenced contract for an additional calendar year (from February 25, 2015 through February 25, 2016) coupled with a five percent (5%) increase to our current unit prices. Both the contract extension and magnitude of the cost increase are permissible under the terms of this contract. In follow-up discussions, the City of Key West has indicated its desire to extend this contract as well, however, it has questioned the merit of the maximum five percent (5%) increase to our unit prices. This letter will present a revision to our originally proposed cost increase and the justification for that increase.

Aside from a negotiated increase to our unit prices during the contract renewal period, the contract indicates that "If significant fluctuations (10% or greater) in petroleum prices occur, based on FDOT Fuel and Bituminous Price Index (November 2012), the City and the Contractor reserve the right to propose alternate pricing for the contracted bid prices (increase / decrease). Any change must be approved by the City Manager." Although oil prices have fallen sharply in the last two (2) quarters of 2014 this has had a limited effect on asphalt pricing per the FDOT but a much more substantial effect according to the Producer Price Index published by the U.S. Bureau of Labor Statistics. The following table supports this analysis:

Pricing Index	Index on February 2013 (Contract Execution Date)	Most Current Index	% Increase or (Decrease)
FDOT Fuel and Bituminous Price Index for Unmodified Binders	\$2.4282 / Gallon	\$2.4292 / Gallon (December 2014)	.04%
Producer Price Index for Asphalt Utilizing Processed Goods for Intermediate Demand	233.5	277.6 (November 2014)	18.89%

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While this contract establishes the use of the FDOT index to establish price modifications within a given contract term, it appears that the national average for asphalt paving materials has dramatically increased from the date of contract execution. Since the execution of this contract, the national inflation rate has averaged 1.5% in 2013 and 1.7% through November of 2014. Additionally, construction starts in the State of Florida have dramatically increased which has placed upward pressure on the costs DNHI must offer to attract and retain a skilled workforce as well as qualified subcontractors.

With these considerations, DNHI requests that the City of Key West consider the following:

- Renew the Asphalt Paving Contract with DNHI for the period from February 25, 2015 through February 25, 2016.
- Grant a 3.2% increase to all unit prices to account for the inflationary cost increase DNHI has faced since contract execution.
- Group projects so that the minimum asphalt pavement available for installation prior to any one mobilization is 300 tons.

DNHI values our longstanding relationship with the City of Key West and the high level of partnering that both organizations have achieved on recent construction projects. We hope you find our offer equitable and that the contract extension moves forward. Should you have any questions feel free to contact me at any time at (305) 797-1019.

Sincerely:  
Douglas N. Higgins, Inc.



Paul Waters  
Regional Manager

cc: Janet Muccino