



BOARD OF DIRECTORS
FEBRUARY 27, 2015

ACTION REQUESTED – **APPROVE**

REGIONAL TRANSPORTATION CONGESTION IMPROVEMENT
PROGRAM: PROPOSED FEE ADJUSTMENT

File Number 1500100

Introduction

The *TransNet* Extension Ordinance requires the 18 cities and the County of San Diego to collect an exaction from the private sector for each new housing unit constructed in that jurisdiction (units constructed for extremely low, very-low, low, and moderate income households may be exempted) for contribution to the Regional Transportation Congestion Improvement Program (RTCIP). RTCIP revenue is required to be used to construct improvements on the Regional Arterial System, such as new or widened arterials, traffic signal coordination and other traffic improvements, freeway interchange and related freeway improvements, railroad grade separations, and improvements required for express bus and rail transit. The *TransNet* Extension Ordinance further requires SANDAG to adjust the RTCIP fee amount each year. The purpose of this annual adjustment is to ensure the RTCIP retains its purchasing power to improve the Regional Arterial System.

Recommendation

The Board of Directors is asked to approve a 2.5 percent adjustment to the Regional Transportation Congestion Improvement Program, raising the minimum fee from \$2,254 to \$2,310, beginning July 1, 2015.

The most recent annual adjustment raised the minimum RTCIP exaction by 2 percent, from \$2,209 to \$2,254 beginning July 1, 2014. Staff evaluated construction cost trends and relevant indices, and based on the analysis discussed below, a 2.5 percent fee adjustment is recommended to the Board of Directors for approval at its February 27, 2015, meeting. This would raise the minimum RTCIP exaction from \$2,254 to \$2,310 beginning July 1, 2015.

Discussion

Background

The purpose of the RTCIP is to help ensure future development contributes its proportional share of the funding needed to pay for the Regional Arterial System and related regional transportation facility improvements, as defined in the most recent Regional Transportation Plan adopted by SANDAG. The RTCIP funding programs fall under the responsibility of the 19 local jurisdictions, which have established these programs under the state’s Mitigation Fee Act. The jurisdictions must maintain their RTCIP funding programs and comply with specific administrative requirements in order to remain eligible for *TransNet* local streets and road funding.

Section 9 of the *TransNet* Extension Ordinance requires the RTCIP exaction to be adjusted annually in an amount not to exceed the percentage increase set forth in the Engineering Construction Cost Index (CCI) published by the Engineering News Record (ENR), or a similar CCI. However, the Ordinance also states that in no event shall the adjustment be less than 2 percent per year.

Analysis of Construction Cost Indices

The *TransNet* Extension Ordinance allows for flexibility in choosing an appropriate CCI, one that most closely reflects price trends experienced by the *TransNet* construction program over the past year. SANDAG staff evaluated changes recorded in the ENR CCI and the Caltrans statewide CCI. Each index collects a different set of cost factors to determine construction cost trends.

The ENR CCI represents an average from 20 cities across the nation and is based on monthly price changes in four areas: lumber, cement, structural steel, and labor. From December 2013 to December 2014 the national ENR CCI rose 2.8 percent. Although San Diego is not tracked in the national index, Los Angeles is one of the 20 cities that are tracked. Los Angeles, because of its proximity, may reflect construction cost trends more similar to those in San Diego the Los Angeles CCI increased by 2.5 percent (January 2014 to January 2015; December 2014 not available). Both the CCI for the nation and for Los Angeles show moderate cost increases year-over-year, similar to trends *TransNet* has experienced in its construction bids during the past year. In addition, both indices indicate some softening of cost pressures (rates of increase are slowing). These moderate increases in the CCI reflect broader trends in the economy, which has experienced soft to declining commodity prices such as gas, diesel fuel, copper, and cement, as well as very moderate wage increases.

The Caltrans CCI is based on quarterly price changes gathered from transportation project bids from throughout the state for earthwork, aggregate, concrete, asphalt, and steel. The Caltrans CCI rose 25.3 percent over the past year (third quarter 2013 to third quarter 2014, which is the latest available). Over the past quarter (second quarter 2014 to third quarter 2014) however, the index trend has become more stable, rising 2.7 percent. Although year-over-year the Caltrans CCI has exhibited a highly volatile trend, the more recent data suggest that the broader economic trends mentioned above are beginning to settle down these cost trends.

Based on staff's evaluation, the Caltrans CCI has experienced significant fluctuations based on large swings in the price bids for excavation and pavement, which likely will moderate during the coming year. The moderate increases exhibited by both the national ENR and Los Angeles CCI reflect the slow turnaround in the broader construction industry. According to the ENR analysis of these construction cost trends, there may be some price rise spillover occurring from the rebounding housing market (primarily multi-family) for materials and labor that is relied on by various areas of construction. The general consensus is for construction cost increases to moderate during 2015. In light of this evaluation of construction cost trends during 2014, staff is recommending that the ENR CCI for Los Angeles through January 2015 be used to set the increase for the RTCIP fee. As indicated above, the ENR CCI for Los Angeles increased by 2.5 percent between January 2014 and January 2015. A 2.5 percent increase would raise the RTCIP fee to \$2,310 starting July 1, 2015.

Next Steps

In accordance with *TransNet* Extension Ordinance provisions, each jurisdiction's RTCIP Funding Program must be submitted for review by the Independent Taxpayer Oversight Committee (ITOC) by April 1 of each year in order to remain eligible for *TransNet* local streets and road funding. The annual submittal of RTCIP funding programs by local jurisdictions is scheduled for review at the April 8, 2015, ITOC meeting.

GARY L. GALLEGOS
Executive Director

Key Staff Contacts: Marney Cox, (619) 699-1930, marney.cox@sandag.org
 Ariana zur Nieden, (619) 699-6961, ariana.zurnieden@sandag.org