Overview

The TransNet Extension Ordinance requires the 18 cities in the San Diego region and the County of San Diego to collect a Regional Transportation Congestion Improvement Program (RTCIP) fee from the private sector for each new housing unit constructed in their jurisdiction.

The purpose of this fee (sandag.org/rtcip) is to help ensure that future development contributes its proportional share of the funding needed to pay for the impact of new growth on the Regional Arterial System and related regional transportation facility improvements, as defined in the most recent Regional Transportation Plan adopted by SANDAG.

Key Considerations

SANDAG is required to adjust the minimum RTCIP fee amount on July 1 of each year based on an analysis of construction cost indices, but never less than 2%. The purpose of this annual adjustment is to ensure that the RTCIP retain its purchasing power to improve the regional arterial system.

Based on an analysis of construction cost trends and relevant indices, staff recommends a 2% fee adjustment to the RTCIP, raising the minimum RTCIP fee from $2,483.48 to $2,533.15 beginning July 1, 2019 (Attachment 1).

Next Steps

In accordance with TransNet Extension Ordinance provisions, each jurisdiction’s RTCIP Funding Program must be submitted for review by the ITOC by April 1 of each year to remain eligible for TransNet local street and road funding. The annual submittal of RTCIP funding programs by local jurisdictions is scheduled for review at the April 10, 2019, ITOC meeting.

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Attachment:  1. TransNet RTCIP Discussion Memo

1 Section 9 of the TransNet Extension Ordinance requires that local jurisdictions establish a program or mechanism for funding the Regional Arterial System. For purposes of the RTCIP, the Regional Arterial System is defined in the most recent Regional Transportation Plan adopted by SANDAG.
Discussion Memo

Background
The TransNet Extension Ordinance (Ordinance) requires the 18 cities and the County of San Diego to collect a fee from the private sector for each new housing unit\(^1\) constructed in that jurisdiction 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 Ordinance further requires SANDAG to adjust the RTCIP fee amount each year, and states that in no event shall the adjustment be less than 2% per year or more than the percentage increase set forth in the Engineering Construction Cost Index (CCI) published by the Engineering News Record (ENR), or a similar CCI. The purpose of this annual adjustment is to ensure that the RTCIP retains its purchasing power to improve the Regional Arterial System and to help ensure future development contributes its proportional share of the funding needed to pay for the impact of new growth on 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 must maintain their RTCIP funding programs and comply with specific administrative requirements in order to remain eligible for TransNet local street and road funding.

The RTCIP has been implemented in the San Diego region since July 1, 2008. Annual RTCIP fee adjustments, funding program reports, and related audits can be found at sandag.org/rtcip. Relevant excerpts can be referenced at TransNet Extension Ordinance and SANDAG Board Policy No. 031.

Analysis of Construction Cost Indices
SANDAG staff evaluated changes recorded in the ENR Los Angeles CCI, which is based on monthly price changes in four areas: lumber, cement, structural steel, and labor. Los Angeles reflects construction cost trends similar to those in San Diego. During the period that covers December 2017 to December 2018 (latest available data), the ENR Los Angeles CCI increased by 0.64%. The other CCIs grew faster, with the ENR National CCI growing 3.3% and the Caltrans CCI increasing 1.1%.

While there is general consensus that construction costs will continue to increase in 2019, there is always uncertainty in forecasting costs in the construction industry due to factors such as changes in domestic and international growth and uncertainties in global politics. In addition, all indices show some volatility, and for that reason, it is important to analyze the longer-term picture from 2008, when the RTCIP was first instituted when considering the required annual adjustment.

The cumulative growth of the RTCIP has been 24.2%, with the ENR Los Angeles CCI seeing a 22.3% growth over the same period. The ENR National CCI (33.1%) and Caltrans CCI (54.3%) both exceeded this rate over the same period. This comparison over time shows that by maintaining the annual adjustment at the minimum 2% increase required, the RTCIP had last year begun to fall behind the overall goal of keeping pace with inflation. While the ENR Los Angeles CCI is the slowest growing of the CCIs considered, the chart below shows it also has increased at basically the same rate as the RTCIP.

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\(^1\) Units constructed for extremely low-, very low-, low-, and moderate-income households may be exempted.
To ensure that the RTCIP fee maintains its purchasing power to complete necessary road improvements, staff recommends the minimum required 2% increase that would mirror the small increase in the ENR CCI for Los Angeles. Increasing the fee by a lesser percentage would not keep pace with construction inflation, meaning the RTCIP would have less ability to mitigate transportation impacts of new development, which would be inconsistent with the Ordinance. In addition, increasing by more than the percentage increase set forth in the ENR CCI is not allowable per the Ordinance.

The Cities/County Transportation Advisory Committee, Independent Taxpayer Oversight Committee (ITOC), and Board of Directors review proposed fee adjustments annually. In 2018, ITOC members asked about the use of the ENR CCI for Los Angeles and requested that staff provide a future report analyzing cumulative growth against all construction cost indices to appropriately illustrate how the RTCIP keeps pace with inflation. A comparison of indices over the RTCIP period (2008-2018) is below.

It should be noted that while the ENR LA CCI is lower than the other two indices, the LA index is the most accurate reflection of construction costs in the San Diego region. It also should be noted that the ENR CCI is specific to construction, as opposed to the building cost index, which includes the types of skilled labor seen in building construction, such as bricklayers and carpenters. As the RTCIP can be used for a variety of projects on the arterial system, a roadway-specific index would not necessarily be appropriate.

Indices such as these are by their very nature not exact measures of costs jurisdictions would encounter when building transportation infrastructure. In addition, while the ENR index is measured by taking a broad look at the cost of construction inputs (labor, structural steel, cement, and lumber), the Caltrans CCI is calculated from bids received, and is influenced by the type and number of projects bid, and the number of bidders, and suffers from a higher volatility. For comparison, the Consumer Price Index for all goods in San Diego rose 20.7% from 2008 to 2018, less than all the indices in the chart below.
Comparing Construction Cost Indices (2008=100)
TransNet RTCIP vs. ENR LA CCI, ENR National CCI, and Caltrans CCI

ENR LA CCI
ENR National CCI
Caltrans CCI