



**BOARD OF DIRECTORS
FEBRUARY 28, 2014**

ACTION REQUESTED – APPROVE

**REGIONAL TRANSPORTATION CONGESTION
IMPROVEMENT PROGRAM: PROPOSED FEE
ADJUSTMENT**

File Number 1500100

Introduction

The Regional Transportation Congestion Improvement Program (RTCIP), an element of 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 their jurisdiction. The RTCIP has been implemented in the San Diego region since July 1, 2008. The *TransNet* Extension Ordinance requires SANDAG to adjust the RTCIP fee amount on July 1 of 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 percent adjustment to the Regional Transportation Congestion Improvement Program, raising the minimum fee from \$2,209 to \$2,254, beginning July 1, 2014. This is the minimum adjustment required by the *TransNet* Extension Ordinance.

The most recent annual adjustment to the RTCIP was approved by the Board of Directors on February 22, 2013, raising the exaction by 2 percent, from \$2,165 to \$2,209 beginning July 1, 2013. Staff has evaluated construction cost trends and relevant indices, and based on this analysis, a 2 percent fee adjustment is recommended. This would raise the minimum RTCIP exaction from \$2,209 to \$2,254 beginning July 1, 2014.

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 their *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 index; 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. During 2013, the national ENR CCI rose 2.6 percent. One of the 20 cities tracked in the national index is Los Angeles. Los Angeles may reflect construction cost trends more similar to those in San Diego, which increased by 4.6 percent through December 2013 over the previous year. However, for Los Angeles most all of this change occurred during the last quarter of calendar year 2013 due to a 9.8 percent spike in construction cost trends recorded between September and October 2013. In other words, through the first three quarters of 2013, the ENR index for Los Angeles increased only 0.2 percent. In addition, since spiking in October 2013, the index has since declined by more than 5.1 percent.

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 13.3 percent over the past year. The Caltrans CCI exhibited a similar, although more volatile, trend than the ENR CCI for Los Angeles. Through the third quarter of 2013, the Caltrans CCI had increased 6.6 percent, and then spiked 30 percent in the last quarter of 2013. Therefore, both the ENR and Caltrans CCI indicate increasing construction cost volatility beginning to occur in the state and nation.

Based on staff's evaluation, the Caltrans CCI has experienced significant fluctuations based on large swings in the price bids for excavation, aggregate, and cement. The ENR CCI for Los Angeles is being driven up somewhat by a 4 percent increase in lumber costs, while the costs of other materials (steel, cement) have risen about 1 percent in the last year, and labor costs have been rising about 2 percent on a year-over-year basis. According to the ENR analysis of these construction cost trends, there may be some price rise spillover occurring from the rebounding housing market for materials and labor that are relied on by various areas of construction. These overlapping trends could be what caused the Los Angeles CCI to spike during October 2013. The general consensus is that the accelerating construction cost trends picked up in both the Los Angeles and Caltrans CCI will not continue, but instead moderate during the coming year (2014).

In light of this evaluation of construction cost trends during 2013, staff's recommendation reflects using the ENR CCI for Los Angeles through the third quarter of 2013 to adjust the RTCIP fee, as required by the *TransNet* Extension Ordinance. During the first three quarters of 2013, the ENR CCI for Los Angeles increased 0.2 percent; however, the Ordinance requires a minimum annual fee adjustment of 2 percent.

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