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 (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 percent per year. The purpose of this annual adjustment is to ensure the RTCIP retains its purchasing power to improve the Regional Arterial System.

The most recent annual adjustment raised the minimum RTCIP exaction by 2 percent, from $2,310 to $2,357 beginning July 1, 2016. Staff evaluated construction cost trends and relevant indices, and based on the analysis discussed below, a 2 percent fee adjustment is recommended to the Board of Directors for approval. This would raise the minimum RTCIP exaction from $2,357 to $2,404.14, beginning July 1, 2017.

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 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.
**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. Because of its proximity, Los Angeles may reflect construction cost trends similar to those in San Diego. During the period that covers December 2015 to December 2016 (latest available data), the ENR Los Angeles CCI increased by 3.9 percent.

The general consensus is that construction costs will continue to increase in 2017, and will perhaps accelerate. That being said, there is uncertainty in costs in the construction industry due to factors such as strengthening domestic growth versus weakening international demand for construction materials. In addition, all indices show some volatility, and for that reason, it is important to take a look at the longer picture from 2008 when the RTCIP was instituted.

Utilizing an average annual RTCIP adjustment of 2 percent from 2008 to 2016, cumulative growth of the RTCIP has been 17.9 percent, with the ENR Los Angeles CCI seeing a similar 17.6 percent growth over the same period. This comparison over time shows that by maintaining the annual adjustment at the minimum 2 percent increase required, the RTCIP has not fallen behind the overall goal of keeping pace with inflation. In light of this, staff recommends a 2 percent increase that would raise the RTCIP fee to $2,404.14, starting July 1, 2017.

Staff will continue monitoring the evolving performance of the economy. If there is a strong economic performance in the coming year, and interest rates increase in 2017, it could lead to a larger RTCIP increase for 2018.

Both the Cities/County Transportation Advisory Committee and the Independent Taxpayer Oversight Committee (ITOC) reviewed the proposed fee adjustment at their meetings on February 2 and February 8, 2017, respectively, and are in support of staff’s recommendation.

**Next Steps**

In accordance with Ordinance provisions, each jurisdiction’s RTCIP Funding Program must be submitted to the ITOC for review 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 12, 2017, ITOC meeting.

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