



BOARD OF DIRECTORS
FEBRUARY 26, 2016

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.

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 \$2,310 to \$2,357, beginning July 1, 2016.

The *TransNet* Extension Ordinance (Ordinance) further requires SANDAG to adjust the RTCIP fee amount each year. The Ordinance also 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 2.5 percent, from \$2,254 to \$2,310 beginning July 1, 2015. 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 at its February 26, 2016, meeting. This would raise the minimum RTCIP exaction from \$2,310 to \$2,357 beginning July 1, 2016.

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

The 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 November 2014 to November 2015, the national ENR CCI rose a modest 1.8 percent. Although San Diego is not tracked in the national index, Los Angeles (LA) is one of the 20 cities that are tracked. LA, because of its proximity, may reflect construction cost trends more similar to those in San Diego. Comparing the LA and national CCI, shows that during the period that covers July 2014 to July 2015 (latest available data for LA), the LA CCI increased by 2.3 percent while the national CCI rose by 2.1 percent. Extrapolating the weakening rate of growth seen at the national level for the latter half of 2015 to the LA CCI brings the index in line with a 2 percent growth rate for the year.

Both the CCI for the nation and for LA 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.

Based on staff's evaluation, the moderate increases exhibited by both the national ENR and LA CCI reflect the slow turnaround in the broader construction industry. The general consensus is for construction cost increases to continue to moderate during 2016. In light of this evaluation of construction cost trends during 2015, staff recommends that the ENR CCI for LA through July 2015, adjusted by the national CCI factor through the remainder of 2015, be used to set the increase for the RTCIP fee. As indicated above, the extrapolated ENR CCI for LA increased by 2 percent between December 2014 and December 2015. A 2 percent increase would raise the RTCIP fee to \$2,357 starting July 1, 2016.

Next Steps

In accordance with Ordinance provisions, each jurisdiction's RTCIP Funding Program must be submitted for review by the *TransNet* 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 13, 2016, ITOC meeting.

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