



**BOARD OF DIRECTORS
FEBRUARY 23, 2018**

ACTION REQUESTED: APPROVE

***TransNet* REGIONAL TRANSPORTATION CONGESTION
IMPROVEMENT PROGRAM FEE ADJUSTMENT**

File Number 1500100

Introduction

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 unit¹ 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.

Recommendation

The Board of Directors is asked to approve a 3.3 percent adjustment to the Regional Transportation Congestion Improvement Program, raising the minimum fee from \$2,404.14 to \$2,483.48, beginning July 1, 2018.

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 percent 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 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 \$2,357 to \$2,404.14 beginning July 1, 2017. Staff evaluated construction cost trends and relevant indices, and based on the analysis discussed below, a 3.3 percent fee adjustment is recommended to the Board of Directors for approval this year. This would raise the minimum RTCIP exaction from \$2,404.14 to \$2,483.48, beginning July 1, 2018.

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 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. 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.

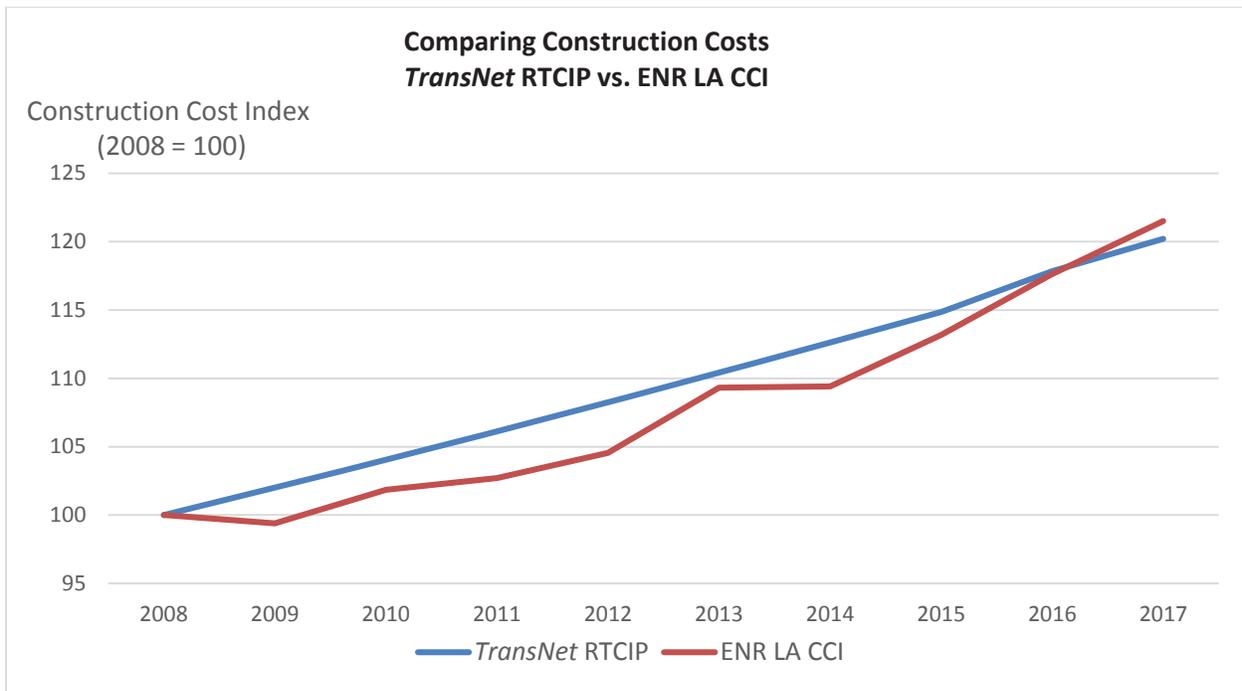
¹ Units constructed for extremely low-, very low-, low-, and moderate-income households may be exempted.

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 2016 to December 2017 (latest available data), the ENR Los Angeles CCI increased by 3.3 percent. The other CCIs grew faster, with the ENR National CCI growing 3.9 percent and the Caltrans CCI increasing 15.2 percent.

While there is general consensus that construction costs will continue to increase in 2018, there always is uncertainty in forecasting costs in the construction industry due to factors such as strengthening domestic and international growth versus uncertainties in global politics. 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 first instituted when considering the required annual adjustment.

Utilizing an average annual RTCIP adjustment of 2 percent from 2008 to 2017, cumulative growth of the RTCIP has been 20.2 percent, with the ENR Los Angeles CCI seeing a 21.5 percent growth over the same period. The ENR National CCI (29.2%) and Caltrans CCI (56.1%) both exceeded this rate 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 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 a faster rate than the RTCIP.



To ensure that the RTCIP fee is maintaining its purchasing power to complete necessary road improvements, staff recommends a 3.3 percent increase that would mirror the percent 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 program would have less ability to mitigate transportation impacts of new development, which would be inconsistent with the Ordinance.

Staff will continue monitoring the evolving performance of the economy, and the construction cost indices. If there is a strong economic performance in the coming year, and the CCIs continue to increase in 2018, it could once again lead to an increase larger than the minimum 2 percent RTCIP increase for 2019, whereas weak growth in construction costs could result in an increase closer to the minimum 2 percent.

Both the Cities/County Transportation Advisory Committee and the Independent Taxpayer Oversight Committee (ITOC) reviewed the proposed fee adjustment at their meetings in February. 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 is keeping pace with inflation.

Next Steps

Pending approval by the Board of Directors, local jurisdictions would need to adjust their RTCIP fees accordingly to take effect starting July 1, 2018.

In addition, 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 11, 2018, ITOC meeting.

KIM KAWADA
Chief Deputy Executive Director

Key Staff Contacts: Ray Major, (619) 595-5668, ray.major@sandag.org
 Ariana zur Nieden, (619) 699-6961, ariana.zurnieden@sandag.org