



Western Riverside Council of Governments Executive Committee

Staff Report

Subject: Consideration of 2019 TUMF Construction Cost Index Adjustment

Contact: Chris Gray, Director of Transportation & Planning, cgray@wrcog.us, (951) 405-6710

Date: November 4, 2019

The purpose of this item is to request that the Executive Committee consider a recommendation regarding the Construction Cost Index (CCI) adjustment to the TUMF schedule.

Requested Actions:

1. Approve the implementation of the adjusted TUMF CCI as of July 1, 2020, with the following fee amounts:
 - a. Single-Family: \$9,478 per dwelling unit
 - b. Multi-Family: \$6,389 per dwelling unit
 - c. Retail: \$7.50 per square foot
 - d. Service: \$4.75 per square foot
 - e. Industrial: \$1.81 per square foot
2. Approve the implementation of the adjusted TUMF CCI as of January 1, 2021, with the following fee amounts:
 - a. Single-Family: \$9,810 per dwelling unit
 - b. Multi-Family: \$6,389 per dwelling unit
 - c. Retail: \$7.50 per square foot
 - d. Service: \$4.75 per square foot
 - e. Industrial: \$1.81 per square foot

WRCOG's Transportation Uniform Mitigation Fee (TUMF) Program is a regional fee program designed to provide transportation and transit infrastructure that mitigates the impact of new growth in Western Riverside County. Each of WRCOG's member jurisdictions and the March JPA participates in the Program through an adopted ordinance, collects fees from new development, and remits the fees to WRCOG. WRCOG, as administrator of the TUMF Program, allocates TUMF to the Riverside County Transportation Commission (RCTC), groupings of jurisdictions – referred to as TUMF Zones – based on the amounts of fees collected in these groups, the Western Riverside County Regional Conservation Authority (RCA) and the Riverside Transit Agency (RTA).

Background

Staff is required to bring annual Construction Cost Index (CCI) adjustment information through the WRCOG Committee structure for discussion and recommendation for final consideration by the Executive Committee. The CCI is an administrative element of the TUMF Program and is intended to keep the dollar value of the TUMF Program whole. In recent years, the Executive Committee has not approved a CCI adjustment to the TUMF.

Proposed CCI Adjustment to the Existing TUMF

Since the adoption of the 2016 TUMF Nexus Study, construction, labor, and land costs have demonstrated an increasing trend. Factors contributing to a potential increase in the CCI include tariffs and the rebounding economy placing competition on transportation construction from other sectors for materials and labor. This is intended to demonstrate the rising costs of transportation improvements in the state, including a handful of interchange projects that are currently underway in the WRCOG subregion. Information provided by the Public Works Committee (PWC) indicates that project costs continue to escalate, forcing agencies to find additional funding for their transportation projects.

The table below documents the current TUMF fee schedule, the TUMF fee schedule included in the 2016 Nexus Study, and the proposed CCI adjustment. WRCOG is required, per the TUMF Administrative Plan, to present a proposed CCI adjustment for consideration by the Executive Committee each year after the approval of the Nexus Study.

Land Use Type	Units	2016 Nexus Study TUMF	Current TUMF	CCI Adjustment
Single-Family Residential	DU	\$ 9,418	\$ 9,146	\$ 9,810
Multi-Family Residential	DU	\$ 6,134	\$ 6,134	\$ 6,389
Retail	SF	\$ 12.31	\$ 7.50	\$ 13.01
Service	SF	\$ 4.56	\$ 4.56	\$ 4.75
Industrial	SF	\$ 1.77	\$ 1.77	\$ 1.81

Staff would note that during the 2016 Nexus Study update process the Executive Committee approved a reduction to the TUMF retail land use fee in response to comments from stakeholders regarding retail developments in Western Riverside County. The Fee Analysis Study completed by WRCOG in 2017, and updated in 2019, confirmed that, on average, the impact fee costs to develop a retail project is higher in Western Riverside County than in surrounding areas.

Additionally, as part of the adoption of the 2016 Nexus Study, the Executive Committee approved a two-year freeze, followed by a two-year phase-in, to the Single-Family residential fee. The first portion of the phase-in was implemented on July 1, 2019. Staff has reviewed the TUMF collections made since the 2016 Nexus Study fee schedule took effect and has estimated that approximately \$5 million in TUMF has not been collected as a result of the Single-Family residential freeze.

At its May 9, 2019, meeting, the PWC directed staff to develop options for implementation of an adopted CCI increase. At its June 13, 2019 meeting, the PWC recommended that the Executive Committee implement the CCI adjustment as noted below, which would maintain the retail fee reduction and phase-in the Single-Family residential fee increase. The Technical Advisory Committee (TAC) approved this option at its July 18, 2019 meeting.

Land Use Type	Units	2016 Nexus Study TUMF	Current TUMF	Interim Fee Increase (with CCI)	Final Fee Increase (with CCI)
Single-Family Residential	DU	\$ 9,418	\$ 9,146	\$ 9,478	\$ 9,810
Multi-Family Residential	DU	\$ 6,134	\$ 6,134	\$ 6,389	\$ 6,389
Retail	SF	\$ 12.31	\$ 7.50	\$ 7.50	\$ 7.50
Service	SF	\$ 4.56	\$ 4.56	\$ 4.75	\$ 4.75
Industrial	SF	\$ 1.77	\$ 1.77	\$ 1.81	\$ 1.81

Staff would note that the CCI adjustment to the TUMF results in an increase for transportation improvements that are included in the 2016 Nexus Study. The average increase per facility is approximately 5%, which means that available TUMF funding for each facility would increase by a commensurate amount.

Implementation

The current TUMF ordinance, which was adopted by WRCOG’s member agencies, has the following fee schedule in effect from now until July 1, 2020:

Land Use Type	Units	Current TUMF
Single-Family Residential	DU	\$ 9,146
Multi-Family Residential	DU	\$ 6,134
Retail	SF	\$ 7.50
Service	SF	\$ 4.56
Industrial	SF	\$ 1.77

Because of a previous action by the Executive Committee, the full fee increase for single-family homes was deferred until July 1, 2020. Because of that deferral, the following fee schedule will take effect on July 1, 2020 regardless of any action related to the CCI.

Land Use Type	Units	Current TUMF
Single-Family Residential	DU	\$ 9,418
Multi-Family Residential	DU	\$ 6,134
Retail	SF	\$ 7.50
Service	SF	\$ 4.56
Industrial	SF	\$ 1.77

If approved by the Executive Committee, WRCOG would work with each agency participating in the TUMF Program to adopt an updated TUMF Ordinance, which would have the following fee schedule:

Land Use Type	Units	July 1, 2020 TUMF (with CCI)	January 1, 2021 TUMF (with CCI)
Single-Family Residential	DU	\$ 9,478	\$ 9,810
Multi-Family Residential	DU	\$ 6,389	\$ 6,389
Retail	SF	\$ 7.50	\$ 7.50
Service	SF	\$ 4.75	\$ 4.75
Industrial	SF	\$ 1.81	\$ 1.81

Our experience historically is that it requires 3 to 6 months for various WRCOG agencies to adopt an updated fee schedule. Because of the time frame, WRCOG recommends that the initial CCI increase be scheduled to take effect on July 1, 2020. This period of time will allow ample time for WRCOG to notify its member agencies and developers in the subregion that the fee will be increasing.

The final fee increases for the Single-Family residential would occur on January 1, 2021. This recommendation is consistent with the direction of the PWC and TAC, in which both identified a need to phase-in the Single-Family residential increase. Implementing a CCI increase will generate additional revenues for the TUMF Program, resulting in approximately 5% additional revenue per year after the implementation of the CCI increase.

WRCOG reviewed each of these fee increases in terms of overall development costs, as identified in the updated Fee Comparison Study (April 2019). As shown in the table below, the fee increase will have a nominal increase in overall fees and development costs.

Land Use Type	Units	Percentage Increase in Fees (with CCI)	Percentage Increase in Development Costs (with CCI)
Single-Family Residential	DU	1%	0.07%
Multi-Family Residential	DU	1%	0.08%
Retail	SF	0%	0.00%
Service	SF	1%	0.06%
Industrial	SF	1%	0.03%

To illustrate the limited impact of the CCI adjustment, consider fees and costs associated with a Single-Family home. Based on the data collected by WRCOG and summarized in the 2019 Fee Comparison Study, a prototypical Single-Family home (2,700 square feet) pays approximately \$47,000 in all impact fees including traffic, water / sewer, park, school, and other city fees. That home, on average, would have a price of approximately \$561,000 based on the 2019 WRCOG Fee Comparison Study. A \$400 increase in TUMF fees would result in a 1% increase in all of the fees (\$400 / \$47,000) and an overall impact in the cost of a house of 0.07% (\$400 / \$561,000). Therefore, staff would note that this fee increase would have a nominal effect on overall fees, home prices, and affordability. Most importantly, this fee would only apply to new homes and not existing homes since fees are collected from developers during the construction process.

Staff acknowledges that there is wide-variety of housing products and home prices throughout the WRCOG subregion. To present how this fee increase might impact housing of various cost levels, the table below documents the anticipated increase in overall development costs with the implementation of the CCI adjustment. As noted in the table below, the increase is nominal regardless of the home price.

New Home Cost	Percentage Increase in Development Costs (with CCI)
\$300,000	0.13%
\$400,000	0.10%
\$500,000	0.08%
\$600,000	0.07%

Prior Actions:

October 9, 2019: The Administration & Finance Committee recommended that the Executive Committee implement the TUMF CCI adjustment as identified below with a Single-Family residential phase-in and no increase to the retail fee.

July 18, 2019: The Technical Advisory Committee recommended that the Executive Committee implement the CCI with the actions approved by the Executive Committee as part of the 2016 Nexus Study in July 2017 (maintain the retail reduction and continue the phase-in for Single-Family residential).

June 13, 2019: The Public Works Committee recommended that the Executive Committee implement the CCI with the actions approved by the Executive Committee as part of the 2016 Nexus Study in July 2017 (maintain the retail reduction and continue the phase-in for Single-Family residential).

May 16, 2019: The Technical Advisory Committee received and filed.

May 9, 2019: The Public Works Committee received and filed.

April 11, 2019: The Public Works Committee received and filed.

Fiscal Impact:

Adopting a CCI increase would increase revenues generated by the TUMF Program by approximately 5% in the 2020/2021 Fiscal Year.

Attachments:

1. October 9th Comment Letter from Building Industry Association.
2. WRCOG’s Response to BIA Comment Letter.

Item 6.E

Consideration of 2019 TUMF
Construction Cost Index Adjustment

Attachment 1

October 9th Comment Letter from
Building Industry Association

October 9, 2019

3390 University Ave. Suite 450
Riverside, CA 92501
Chair Bonnie Wright
Admin and Finance Committee Members



RE: Transportation Uniform Mitigation Fee Construction Cost Index Adjustment

Dear Chair Wright and Admin and Finance Committee Members,

The Building Industry Association – Riverside Chapter (BIA-RC) is writing in reference to the proposed “Transportation Uniform Mitigation Fee Construction Cost Index Adjustment” scheduled to be heard at the October 9th, 2019 Western Riverside Council of Governments (WRCOG) Admin and Finance Committee. As the lead body in Riverside County, that is dedicated to protecting and advocating for the interests of the building industry, we submit the following comments.

1. The BIA-RC requests copies of the hybrid National Association of Realtors (NAR) and Cal-Trans tables and charts used to create the CCI Adjustment of 3.6% from current to first implementation on July 1, 2020 and a 3.5% increase from the first implementation to the second implementation on January 1, 2021, or a 7.2% increase overall (average of around 5% per year) from current rate to the second implementation.
2. The BIA-RC respectfully requests a written explanation as to the methodology used for the hybrid between the NAR and Cal-Trans tables arrived at the proposed CCI adjustment levels.
3. The BIA-RC requests the methodology used to determine the average cost of a new home to be \$561,000 in Western Riverside County. When The BIA-RC examined the average prices of new homes, except for a few cities, we find the average price of a new home to be several hundred thousand dollars below the \$561,000 estimate.

The BIA appreciates our working partnership with WRCOG. For any questions or clarification, please call 951-781-7310.

Thank you,

Damian Fussel
Deputy Director of Governmental Affairs

Item 6.E

Consideration of 2019 TUMF
Construction Cost Index Adjustment

Attachment 2

WRCOG's Response to BIA
Comment Letter



Western Riverside Council of Governments

County of Riverside • City of Banning • City of Beaumont • City of Calimesa • City of Canyon Lake • City of Corona • City of Eastvale • City of Hemet
City of Jurupa Valley • City of Lake Elsinore • City of Menifee • City of Moreno Valley • City of Murrieta • City of Norco • City of Perris • City of Riverside
City of San Jacinto • City of Temecula • City of Wildomar • Eastern Municipal Water District • Western Municipal Water District • Morongo Band of Mission
Indians • Riverside County Superintendent of Schools

October 22, 2019

Damian Fussel, Deputy Director of Governmental Affairs
Building Industry Association of Southern California
Riverside County Chapter
3891 11th Street
Riverside, CA 92501

Subject: WRCOG's Response to BIA Letter Regarding Proposed TUMF Construction Cost Index Fee Increase

Dear Mr. Fussel:

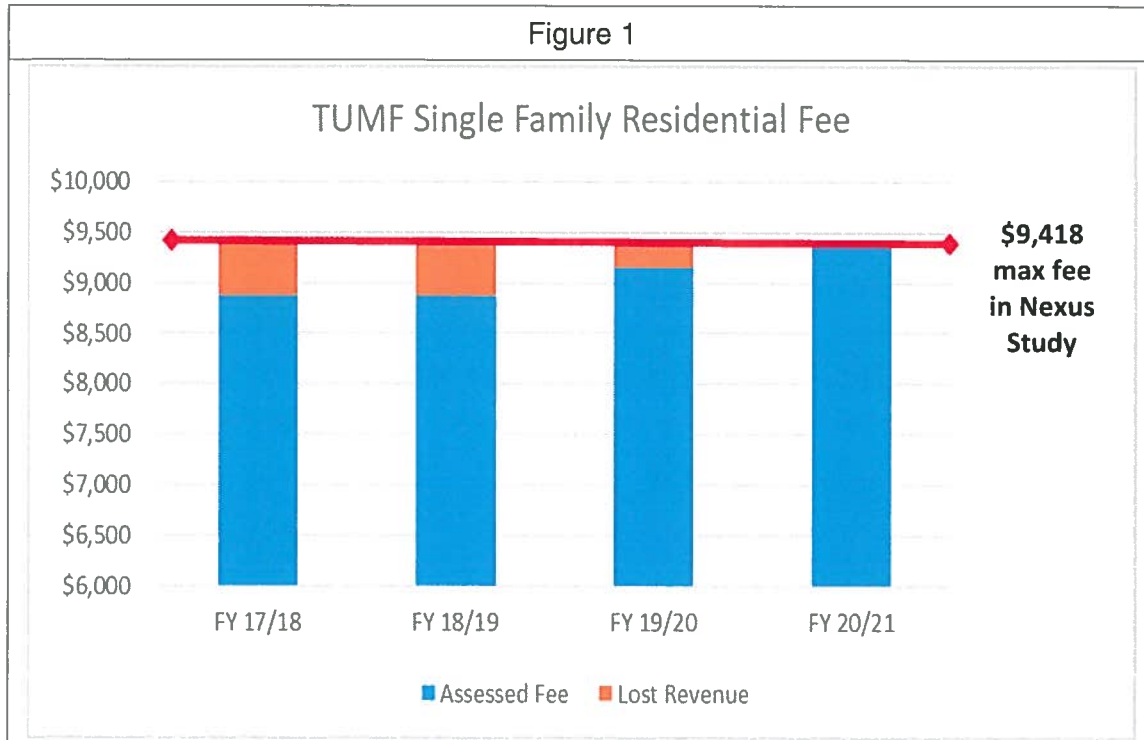
WRCOG is in receipt of your correspondence dated October 9, 2019, in which you requested several additional items regarding the proposed TUMF Construction Cost Index Fee Increase (CCI). Your letter posed three questions, for which WRCOG is providing responses to each below.

Question #1: The BIA-RC requests copies of the hybrid National Association of Realtors (NAR) and Caltrans tables and charts used to create the CCI adjustment of 3.6% from current to first implementation on July 1, 2020, and a 3.5% increase from the first implementation to the second implementation on January 1, 2021, or a 7.2% increase overall (average of approximately 5% per year) from current rate to the second implementation.

Response #1: Per the WRCOG Executive Committee, the TUMF CCI is calculated using two factors including the Engineering News Report (ENR) national CCI and the National Association of Realtors (NAR) median home price for Riverside and San Bernardino Counties. The actual calculations for each index are provided in Table 1 (attached) which includes the source of each data. This table also lists the percentage increase in each index (3.58% for the ENR CCI and 5.66% for the NAR). The CCI data from Caltrans is not used in this analysis but presented for informational purposes.

One point that staff would like to state is that the single-family fee is only increasing by 4% from its current level since the 2016 Nexus Study recommended a single-family fee of \$9,418 per unit. The Executive Committee deferred this increase for two years and then directed staff to implement 50% of the fee increase from the previous level of \$8,873. The current fee (\$9,146) was the interim fee increase, per the direction of the Executive Committee. The single-family fee is already scheduled to increase from \$9,146 to \$9,418 even if no action is taken on the CCI in July of 2020. Therefore, the CCI increase only results in a fee increase from \$9,418 to \$9,810 (4%).

Staff would also state that deferring the single-family fee increase has cost the TUMF Program approximately \$5 M since we have not been collecting the full amount allowed under the 2016 Nexus Study after its adoption. The change in single-family fees are shown on Figure 1 below.



Question #2: The BIA-RC respectfully requests a written explanation as to the methodology used for the hybrid between the NAR and Caltrans tables arrived at the proposed CCI adjustment levels.

Response #2: As noted above, the CCI calculation uses only two factors, the ENR and the NAR. The ENR is applied to any construction costs calculated in the 2016 Nexus Study. The NAR is applied to any Right of way (ROW) costs in the 2016 Nexus Study.

To illustrate how this works in both instances, please consider the following examples:

Example #1 – The 2016 Nexus Study included a line item for a one lane of roadway for one mile in level terrain. That cost was estimated to be \$692,000. The appropriate CCI to apply would be the ENR CCI, since this cost includes the actual cost of roadway construction itself. Applying a factor of 3.58% increases that line item to \$717,000. That line item cost is then applied to each facility with that designation, which is then input into the total construction cost of each facility. That total construction cost is then summed up for each facility in the Nexus Study.

Example #2 – The 2016 Nexus Study included a line item for ROW that would be needed to add one mile of single lane roadway in a suburban area. This cost was estimated to be \$2,263,000 per lane mile. Applying the NAR factor of 5.66% increases the ROW cost to \$2,391,000 per lane mile. That line item is then applied to each roadway, which increases the total cost of each project. That total cost is then summed up for each facility in the Nexus Study.

As noted above, the Caltrans data is only provided for reference and not used in the analysis.

Question #3: The BIA-RC requests the methodology used to determine the average cost of a new home to be \$561,000 in Western Riverside County. When The BIA-RC examined the average

prices of new homes, except for a few cities, the average price of a new home is several hundred thousand dollars below the \$561,000 estimate.

Response #3: The \$561,000 estimate is taken from WRCOG's Fee Comparison Study, which can be found at <http://www.wrcog.cog.ca.us/DocumentCenter/View/5901/Fee-Comparison-Analysis-2018?bidId=>. The data is derived from an analysis of prototypical development in Western Riverside County for Single-Family, Multi-Family, Retail, Office, and Industrial projects. For each type of development, WRCOG's consultant, Economic and Planning Systems (EPS), developed a detailed pro-forma based on recent projects and identified total development costs for each land use type. For single-family projects, that prototypical project is a 2,700 square foot, single-family, detached multi-story home on a 7,200 square foot acre lot. The average cost for that home was calculated to be \$561,000.

WRCOG does acknowledge that home prices within the subregion vary significantly with some communities having higher new home prices and others having lower prices. Recognizing this range of costs, WRCOG prepared an updated analysis which demonstrates the effect of the proposed \$400 fee increase on homes of varying costs across the region as shown in the following table:

New Home Cost	Percentage Increase in Housing Costs (with CCI)
\$300,000	0.13%
\$400,000	0.10%
\$500,000	0.08%
\$600,000	0.07%

As shown in the table above, the proposed TUMF increase of \$400 will increase home prices by 1/10 of 1% or a negligible amount. Therefore, WRCOG can conclude that this fee increase will have no significant effect on housing affordability.

WRCOG would be happy to meet with you and the rest of the BIA staff to discuss the proposed TUMF CCI increase. Please let us know if you have any questions or require additional information.

Sincerely,



Christopher Gray
Director of Transportation & Planning

Attachment: Table 1 – CCI Data

Table 1
WRCOG CCI Calculations

Engineering News Record Construction Cost Index (CCI)

Source: BNP Media Engineering News Record - Construction Index History (http://www.enr.com/economics/historical_indices/construction_cost_index_history?)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	ANNUAL
2009	8,549	8,533	8,534	8,528	8,574	8,578	8,566	8,564	8,586	8,596	8,592	8,641	8,570
2010	8,660	8,672	8,671	8,677	8,761	8,805	8,865	8,858	8,836	8,921	8,951	8,952	8,802
2011	8,938	8,998	9,011	9,027	9,035	9,053	9,080	9,088	9,116	9,147	9,173	9,172	9,070
2012	9,176	9,198	9,268	9,273	9,290	9,291	9,324	9,351	9,341	9,376	9,398	9,412	9,308
2013	9,437	9,453	9,456	9,484	9,516	9,542	9,552	9,545	9,552	9,689	9,666	9,668	9,547
2014	9,664	9,681	9,702	9,750	9,796	9,800	9,835	9,846	9,870	9,886	9,912	9,936	9,806
2015	9,972	9,962	9,972	9,992	9,979	10,039	10,037	10,039	10,065	10,128	10,092	10,135	10,034
2016	10,133	10,182	10,242	10,280	10,315	10,337	10,379	10,385	10,403	10,434	10,442	10,530	10,338
2017	10,532	10,281	10,277	10,678	10,692	10,703	10,789	10,826	10,823	10,817	10,870	10,873	10,737
2018	10,878	10,889	10,959	10,971	11,013	11,069	11,116	11,124	11,170	11,183	11,184	11,186	11,062

CCI Percentage Change

July 2017 to December 2018

3.68%

National Association of Realtors (NAR) Median Sales Price of Existing Single Family Homes in the Riverside/San Bernardino Metropolitan Statistical Area

Source: NAR Website - Metropolitan Area Existing-Home Prices and State Existing-Home Sales Quarterly Reports (<http://www.realtor.org/topics/metropolitan-median-area-prices-and-affordability>)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	ANNUAL
2009	172.5	161.5	168.1	176.8	169.7
2010	180.5	190.2	182.9	177.6	179.3
2011	173.4	171.5	172.1	172.3	172.3
2012	174.3	183.0	193.9	209.3	189.3
2013	216.7	239.6	249.1	263.6	241.4
2014	266.4	274.6	275.4	277.7	273.9
2015	281.0	291.7	292.8	295.6	290.7
2016	297.9	315.5	319.0	317.7	313.5
2017	326.5	340.7	339.9	340.0	336.0
2018	350.0	360.0	362.5	360.0	360.0

NAR Percentage Change

2nd Qtr 17 to 4th Qtr 18

5.66%