



Storm Drain Oversight Committee

MEMORANDUM

Date: March 7, 2007

To: Honorable City Council

From: Members of the Storm Drain Oversight Committee
John Melton, Chair

Subject: Cost Growth of Storm Drain Projects

Summary

Construction costs have increased dramatically in the time period since the storm drain ballot measure was passed, and are projected to continue growing faster than inflation generally. Increases in storm drain fee income are limited to the rate of increase in the consumer price index. As a result there will be insufficient funds to accomplish all of the capital projects listed in the ballot measure without supplemental funding from a source other than the present storm drain fees.

Data and Estimates

Construction cost estimates derived from both public and private sector sources indicate that over the past 2-3 years costs have increased 30-50% driven primarily by worldwide macro-economic factors. The first storm drain project to be completed (Gailen/Bibbits) cost 58% more than originally estimated. The San Francisquito Creek pump station is next in line to be bid, and the current estimate is 25+% higher than the original estimate. This rate of increase is expected to moderate and for storm drain planning purposes we have used 10-15% per year for projecting future cost growth. We have continued to use 3% per year as the projected rate of increase in storm drain fee income. In establishing fees for future storm drainage and other public works projects, we recommend that fee increases be based on an index of construction costs rather than the consumer price index (CPI). Using these estimates we have attempted to forecast the impact on the storm drain capital improvement program.

Assuming 30% past cost growth and 10% per year future cost increases, 68% of the capital improvement projects can be completed.

Assuming 50% past cost growth and 15% per year future cost increases, 56% of the capital improvement projects can be completed.

Between these two scenarios is a broad range of possible outcomes that will almost certainly change over time, but even the better case scenario indicates that final outcome will fall well

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short of the capital program set forth in the ballot measure. The Committee recommends using the 68% scenario for planning until more data is available.

Near Term Impact

The San Francisquito Creek pump station project has the greatest benefit, and therefore the highest priority of the seven capital improvement projects to be funded. It is currently estimated that the cost of this project will be 25+% higher than originally budgeted. In the 2006-07 Capital Budget, Council authorized funds for the Clara Drive storm drain capital project, but these funds have not been spent pending better estimates of the cost of the San Francisquito Creek project. It now appears that the Clara Drive project should be postponed and Council will be asked to reallocate those funds to the San Francisquito Creek pump station project so that it can go out to bid this summer.

Long Term Impact

The long term impact will be dictated by economic factors and by the City Council's decision on providing supplemental funding and/or internal financing (such as from general fund infrastructure funds) to help complete the storm drain projects. The supplemental funding required to complete all projects is \$7-11 million in today's dollars, which will inflate to \$18-45 million by 2016-2017 when the present storm drain fee increase sunsets. If supplemental funding is not provided, the City Council will have to prioritize the list of capital projects to accomplish the most important within the funds available. The Committee has developed one alternative based on one set of priorities to see what the impact on the capital projects would be based on the 68% scenario.

Gailen/Bibbits – completed full scope

San Francisquito Creek pump station – complete full scope

Matadero pump station and trunks – complete full scope

Channing/Lincoln trunks – reduce scope by 33%

Alma Street – reduce scope by 67%

Clara Drive – cancel

Southgate – cancel

Other sets of priorities and costs would produce different alternatives; this is intended to demonstrate the magnitude of the problem in terms of impact on the list of projects. There is no scenario in which all of the projects approved in the ballot measure can be completed without supplemental funding.