

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Presentation of the 2008 – 2013 Capital Improvement Plan
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

The City Council has established a schedule to review the Capital Improvement Plan (CIP) during the summer in order to incorporate the first year budget for CIP projects and associated maintenance costs into the City's annual operating budget, which is prepared during the late summer and early fall. The Transportation Improvement Plan (TIP) consists of the projects included in the Roads Capital Fund section of the CIP. The two plans will be presented for Council's review simultaneously.

On June 11, 2007, staff will present the proposed 2008 – 2013 CIP and TIP to the City Council. The following schedule is proposed to facilitate the adoption of the 2008 – 2013 CIP.

June 11, 2007	Presentation of the Proposed 2008 – 2013 CIP and TIP
June 18, 2007	Council Discussion on the Proposed 2008 – 2013 CIP and TIP
June 25, 2007	Public Hearing and Council Discussion on the Proposed 2008 – 2013 CIP and TIP
July 2, 2007	Council Discussion on the Proposed 2008 – 2013 CIP and TIP
July 9, 2007	Council Adoption of 2008 – 2013 CIP and 2008 – 2013 TIP

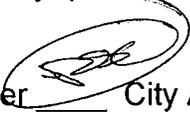
FINANCIAL IMPACT:

The Proposed 2008 – 2013 CIP is balanced as required by the Growth Management Act and totals \$172 million. The General Capital Fund totals \$32.9 million; City Facilities/Major Maintenance Fund totals \$340,000; Roads Capital Fund totals \$120.4 million; and Surface Water Utility Fund capital projects totals \$18.3 million.

Capital Fund	2008	2009	2010	2011	2012	2013	Total
General Capital	\$27,340,313	\$2,585,362	\$363,831	\$378,345	\$1,792,017	\$456,773	\$32,916,641
City Facilities	\$40,000	\$44,000	\$53,000	\$48,000	\$67,000	\$88,000	\$340,000
Roads Capital	\$20,461,211	\$26,849,156	\$28,809,247	\$20,515,392	\$21,433,743	\$2,358,632	\$120,427,380
SWM Capital	\$8,322,444	\$2,527,106	\$2,169,338	\$2,401,165	\$1,738,614	\$1,167,713	\$18,326,380
CIP By Year	\$56,163,968	\$32,005,624	\$31,395,416	\$23,342,901	\$25,031,373	\$4,071,118	\$172,010,402

RECOMMENDATION

This item is for discussion purposes only. Council discussion is desired regarding the proposed process to review and endorse the Proposed 2008 – 2013 Capital Improvement Program and any key questions or issues that Council may wish staff to address as part of the process.

Approved By: City Manager  City Attorney _____

ATTACHMENTS

Attachment A – Rising Cost for Capital Projects Memorandum



Memorandum

DATE: May 31, 2007

TO: Robert Olander, City Manager

FROM: Mark Relph, Public Works Director

CC: Debbie Tarry, Dick Deal, Tricia Juhnke

RE: Rising Costs for Capital Improvement Projects

Construction costs in this region have seen significant and unparalleled increases over the past several years. As the Council prepares to review the 2008-2013 Capital Improvement Program it is important to share the impacts for these rising costs. The purpose of this memo is to communicate some of the reasons for these rising costs and how the City can best manage the existing construction climate.

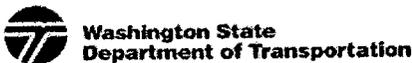
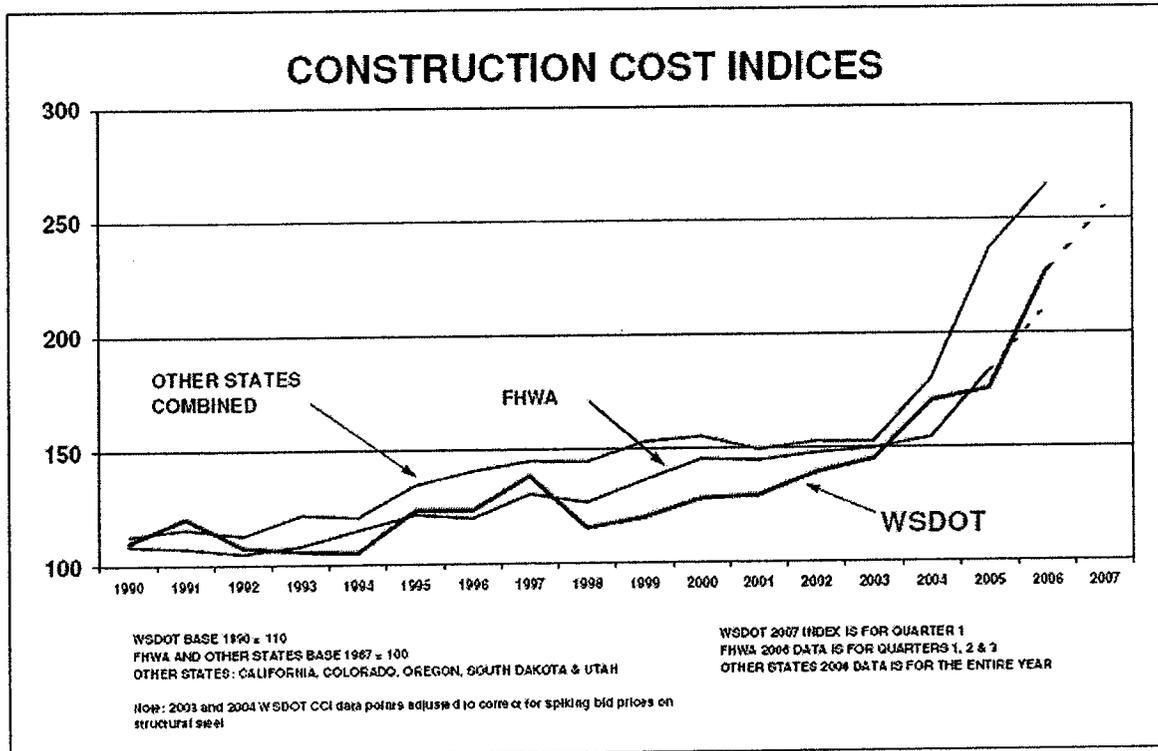
A May article in the *Daily Journal of Commerce* highlighted several factors contributing to these cost increases including:

- Heavy demands for construction materials (e.g. steel and cement) from countries such as China and India.
- Unstable oil and fuel costs stemming from global demands
- Shortage of skilled labor workers
- National and international events such earthquakes and hurricanes that may interfere with production of fuels and impact demand for key materials

This same article provided a snap shot of cost increases in construction materials occurring in the past three years:

Construction Material	Percent Increased
Asphalt	51 percent
Steel	30 percent
Cement	35 percent
Copper	220 percent
Zinc	150 percent
Gypsum products	48 percent
Fabricated steel	26 percent
Architectural metals	33 percent
Steel pipe	73 percent
Ready-mix concrete	32 percent

To further demonstrate the increases in costs, the Washington Department of Transportation graph below shows the Construction Cost Indices (CCI) beginning in 1990. It clearly shows a sharp increase in this cost index starting in 2003 and continues through 2006.



For more information, please call the WSDOT Construction Office at (360) 705-7822 or visit <http://www.wsdot.wa.gov/biz/construction>

4/25/2007

The higher costs of construction materials creates uncertainty for contractors as they bid projects; as a result contractors are adding contingency to bids and will only guarantee bids for shorter durations. In some instances they are excluding material costs to bids and proposals and/or they are scrutinizing their bid submittals carefully when considering which projects to bid.

Labor costs also contribute to higher costs. In general there is a shortage of skilled workers in the construction trades. This is even more noticeable in some specialty areas. In the last several weeks the primary unions in this region have ratified new labor agreements that will translate into approximately a 17% increase in wages over the next 3 years¹. These increases will start impacting construction bids immediately.

In addition to direct costs, contractors are exceptionally busy. A strong economy and relatively recent funding for transportation projects has generated significant demand for

¹ The Daily Journal of Commerce, May 30, 2007.

contractors on both private and public projects. Sound Transit, Washington DOT and the numerous commercial development activities in the region are competing for limited construction resources. An increase demand for construction during summer months when weather is ideal for construction is still evident but there are more and more projects being constructed outside of the summer months. In general, this creates a higher demand for municipalities that are competing for limited construction services. This environment also results in contractors being selective in which projects to pursue or submit bids.

Another factor that may impact capital projects is the real estate market, which continues to remain strong in the Pacific Northwest. This results in increasing real estate prices for right-of-way or easements essential to City projects.

The current construction environment creates numerous challenges for capital projects and the CIP budget; the City is not alone in these challenges as it is impacting municipalities and agencies throughout the state. However, there are approaches the City and staff can do to anticipate and manage these impacts. Items currently being incorporated into the CIP program and/or projects include:

- The 2008-2013 CIP has incorporated higher inflation factors for both construction and real estate costs to help project costs in the next few years. They are noted in the following table:

Year	Land	Construction	M&O and Other Costs
2007	7.0%	10.0%	3.0%
2008	7.0%	10.0%	2.6%
2009	7.0%	8.0%	2.6%
2010	7.0%	8.0%	2.5%
2011	7.0%	6.0%	2.3%
2012	7.0%	5.0%	2.4%
2013	7.0%	5.0%	2.4%

- Staff is looking at appropriate timing to advertise and construct projects to maximize interest in bidding and constructing projects
- Staff continues to look for opportunities to make projects attractive to contractors through risk allocation and the packaging of contract work..

There is plenty of opportunity to look for additional methods of monitoring and managing project costs. Staff will continue to be proactive in monitoring the current construction environment. Staff will also explore options and alternatives to make the City's projects attractive to the construction community. Some of the areas to evaluate and consider may include:

- Strategically beginning construction work in the fall and winter months to take advantage of off-peak schedules for contractors.

- Working with the construction industry to explore areas that may assist them in better managing their costs.
- Continue to explore alternate bidding methods rather than the traditional design, bid, build approach.
- Internal evaluation for the City's payment methods for contractors and possibly consider more frequent payments.
- Working with other agencies in the region such as the State of Washington Department of Transportation, King County, the Shoreline School District, neighboring cities and private industry by coordinating efforts to partner with them on specific projects.

The current environment is dynamic and difficult to predict. However it has a direct impact on the capital program and the construction of projects important to this community. Staff will continue to be proactive and looking for the best methods and alternatives to deliver these projects and programs.