

ATTACHMENT A: Project Modification Request (PMR) FORM

The purpose of this PMR form is to initiate the Project modification process and provide the District with information necessary to evaluate the Project modification request.

Regional Program	<input checked="" type="checkbox"/> Infrastructure Program Project <input type="checkbox"/> Scientific Studies Program <input type="checkbox"/> Technical Resources Program
Project/Study Name	Wilmington Q Street Local Area Urban Flow Management Project
Project/Study Lead	City of Los Angeles, Sanitation and Environment (LASAN)
Watershed Area(s)	South Santa Monica Bay
Current Project Phase	Pre-Design
Approved Stormwater Investment Plan Fiscal Year	FY21-22
Transfer Agreement ID (e.g., 2020RPULAR52)	2020RPSSMB03

Has Transfer Agreement or most recent Addendum been executed (i.e., signed by the project lead and the District)? ☐ Yes ☒ No

What type(s) of modification request?

- ☐ like-for-like modifications
- ☐ functionally equivalent BMP modifications
- ☐ modifications to Project or Study components that were not material to the WASC, ROC, or Board's decision to include the Project or Study in the SIP
- ☐ minor modifications to the budget or schedule of intermediate tasks where the total Funded Activity amount and Funded Activity completion date is unchanged
- ☐ change in primary or secondary objective
- ☐ change in Project benefits
- ☐ change in methodology (e.g., infiltration instead of diversion to sanitary sewer)
- ☐ decrease in BMP capacity
- ☐ change in Project or Study location
- ☐ change in capture area where benefits claimed are diminished or where there is a change in the municipalities that are receiving benefits
- ☐ updated engineering analysis resulting in a reduction of benefits claimed
- ☒ increase in Construction Cost or Life Cycle Cost greater than 10%
- ☒ increase or reallocation of annual funding distribution
- ☒ change in Funded Activity completion date
- ☒ other, please describe:

Increased project cost sharing.

SCW Program

Project Modification Guidelines



Impact on scope or benefits?

- ☐ Improved
☐ Diminished

- ☒ Neither
☐ Not Sure

Description of the proposed modification(s) and the reason(s) why the modification(s) is/are being proposed.

LASAN, in conjunction with the City of Los Angeles Bureau of Engineering (BOE), has selected a Design consultant and begun the Pre-Design phase of the Project which includes the preliminary engineering efforts to evaluate Project's alternatives, conduct community outreach, and prepare a Pre-Design Report (PDR) which includes a recommended alternative.

Since the execution of the Transfer Agreement (TA), the total project and construction costs have increased due to high cost escalation and economic inflation over the past few years. The Covid-19 Pandemic has been a major factor contributing to both material and labor shortages, which resulted in high escalation and inflation. BOE released a report in July 2022 with suggested inflation rate for project estimates. In August of 2023, BOE released an updated report with a revised inflation rate. Both of the rates are included as appendices for reference.

The modifications reported in this PMR are described in detail in Appendix A. Please also refer to the letters attached with modifications that were presented and approved by the SSMB WASC on September 20, 2023, before the PMR process was established. The modifications previously accepted by the WASC included changes to Section A-10 Work Schedule and Completion Date.

If applicable, list previously approved funding allocations/disbursements and revised funding request:

Note, if some or all of a previously Funded Activity cannot be completed as a result of the proposed modification, please include a description and indicate the amount of unused funds. Any unused funds should be reallocated and accounted for in your revised funding request.

Fiscal Year	Approved Funding Allocations	Revised Funding Request	Description/Phase <i>If applicable, include description of unused funds</i>
FY 21-22	\$ 2,668,325	\$ 2,668,325	The approved funding for FY 21/22 has been received.
FY 22-23	\$ 2,255,375	\$ 2,255,375	The approved funding for FY 21/22 has been received.
FY 23-24	\$0	\$0	
FY 24-25	\$0	\$ 750,000	Requesting an additional \$750k
FY 25-26	\$0	\$ 3,250,000	Requesting an additional \$3.25M
Future Funding	\$0	\$3,576,300	Requesting an additional \$3.58M in FY26/27
TOTAL	\$4,923,700	\$12,500,000	Refer to table 1 in Appendix A for details

SCW Program

Project Modification Guidelines



A: SCWP Approved Total Funding Allocations	\$4,923,700
B: Revised SCWP Anticipated Total Funding Request	\$12,500,000
C: Difference between B and A	\$7,576,300

If applicable, description of difference in SCWP Anticipated Total Funding Request. As a reminder, annual funding is at the discretion of the WASC, ROC, and ultimately the Board of Supervisors.

Besides requesting additional funding from SCWP, LASAN has been actively pursuing various options to fill the funding gap. These include leveraging the City's Measure W Municipal Funds and applying for State Grants. The Project has savings from the pre-design phase, which will be used for the construction of the Project. Appendix A is included as attachment for reference.

This PMR requests an additional \$7.6M from the SSMB WASC to address the funding deficit. This request is for the costs associated with solely inflation over the past few years since the Project's approval in Round 1.

Brief description of Supporting Documentation provided.

Appendix A - Wilmington Q Project Modification Request (PMR) Details
Appendix B - Quarter 4 (Q4) Fiscal Year (FY) 22-23 Quarterly Report Modification Letter
Appendices C and D - BOE Inflation Rate Letters

I certify the information and supporting documentation provided is accurate and true.	<input checked="" type="checkbox"/> YES
I understand this is a request and it is under the WASC's discretion to consider requested modifications.	<input checked="" type="checkbox"/> YES

Name Michael Scaduto, P.E., ENV SP

Organization City of Los Angeles, LASAN

Signature Michael Scaduto Digitally signed by Michael Scaduto
Date: 2023.11.30 07:52:19-08'00'

Date 11/30/2023

FOR DISTRICT USE ONLY

Proposed Modifications to Projects or Studies:

	Status	Date
Modified Project or Study is consistent with the Project or Study included in the current fiscal year's SIP and proposed modifications were approved by the District.	<input type="checkbox"/> YES	
Modified Project or Study is NOT consistent with the Project or Study included in the current fiscal year's SIP. If yes, select all that apply:	<input checked="" type="checkbox"/> YES	12/11/23
PMR was received after October 31 of a fiscal year and the PMR will be considered for approval during the preparation of subsequent SIP for the fiscal year <u>after</u> the next	<input type="checkbox"/> YES	-
For Infrastructure Program Projects, modified Project was sent to Scoring Committee . If yes, revised score:	<input type="checkbox"/> YES	
Project or Study abandoned the proposed modifications	<input type="checkbox"/> YES	
Project or Study was withdrawn from consideration by the WASC and shall issue repayment of unspent funds	<input type="checkbox"/> YES	
Proposed modifications were recommended for approval in the SIP	<input type="checkbox"/> YES <input type="checkbox"/> NO	

Proposed Modifications to Project Concepts:

	Status	Date
Proposed modifications were deemed consistent with the Project concept that was approved by the WASC, ROC and Board for inclusion in the SIP and can be addressed within the existing budget. District will proceed to incorporate the proposed modification into the Feasibility Study immediately.	<input type="checkbox"/> YES	
Proposed modifications were deemed significant enough to result in a significantly different Project concept from the one approved by the WASC, ROC and Board for inclusion in the SIP. If yes, select one:	<input type="checkbox"/> YES	
District to discontinue work on the Feasibility Study, return unused funds to be programmed in the SIP for the next fiscal year, and advise the proponent to submit the modified Project concept during the Call for Projects for a future fiscal year.	<input type="checkbox"/> YES	-
District to abandon the proposed modifications and proceed with the Project concept included in the SIP.	<input type="checkbox"/> YES	-

Appendix A: Wilmington Q Project Modification Request (PMR) Details

What type(s) of modification request?

Increase in Construction Cost or Life Cycle Cost greater than 10%

Since the original cost estimate as submitted in the application, construction costs have increased escalated due to escalation and inflation which was attributed by supply chain shortages in both labor and materials.

Phase	Approved	Modified
Project Management	\$20,000	
Pre-Design	\$800,000	\$383,198
Design	\$1,848,325	\$273,052
EIR Consultant		\$100,000
Bid and Award	\$200,000	\$21,867
Construction	\$2,000,000	\$9,500,000
Construction Management	\$55,375	\$900,000
Post Construction	\$0	\$871,883
Optimization	\$0	\$450,000
Total Project Cost	\$4,923,700	\$12,500,000

Increase or reallocation of annual funding distribution:

Change of total Regional funding request (from **\$4,923,700** to **\$12,500,000**).

Table 1. Approved SCW Program contribution and additional request.

Cash Flow	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27	Total
Approved	\$2,668,325	\$ 2,255,375	\$0	\$0	\$0	\$0	\$0	\$4,923,700
Additional Request	\$0	\$0	\$0	\$0	\$ 750,000	\$ 3,250,000	\$ 3,576,300	\$7,576,300
Total Regional Funding	\$2,668,325	\$ 2,255,375	\$0	\$0	\$ 750,000	\$ 3,250,000	\$ 3,576,300	\$12,500,000

Change in Funded Activity completion date:

The Transfer Agreement for this Project was executed by the District on October 29, 2020. However, due to various administrative delays, it had taken longer than anticipated to secure consultant's services for the Project. To date, LASAN in conjunction with the Bureau of Engineering have selected a design consultant in Atkins and awarded the Project to the consultant on March 15, 2023. The project is moving forward with the Pre-Design phase. The total project and Construction costs are expected to have increased over the past years of extraordinary economic conditions.

Scope of Work Section	Requested Modifications				
	Phase	Approved Start Date	Approved End Date	Start Date Modification	End Date Modification
(A-10) Reporting Module Schedule	Planning:	10/01/22	03/31/23	03/31/2023	09/30/2023
	CEQA/NEPA:	-	-	10/01/2023	01/31/2025
	Design:	04/01/23	03/31/24	10/01/2023	01/31/2025
	Bid and Award:	04/01/24	09/30/24	02/01/2025	08/01/2025
	Construction:	10/01/24	06/30/26	08/02/2025	04/02/2027
	Post Construction/ Optimization:	07/01/26	06/30/27	04/03/2027	04/03/2028
	O&M:	-	-	04/04/2028	04/03/2078

Other - Increased project cost sharing.

As reported in previous quarterly reports to date, the City has been leveraging funding from Municipal Funds in support of project delivery. LASAN has incurred cost share expenditures for the City of Los Angeles, Department of Public Works charges for project administration, design review, outreach, environmental review, and construction management. These investments reflect the City's commitment to leveraging and maximizing benefits delivered in the Regional Program. The estimated City staff cost to support the project is \$2,000,000.

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LOS ANGELES, CA 90015
TEL: (213) 485-2210
FAX: (213) 485-2979
WWW.LACITYSARL.ORG

August 14, 2023

ELECTRONIC SUBMITTAL (safecleanwaterla@dpw.lacounty.gov)

DPW-Safe, Clean Water LA
Attn: Safe Clean Water Program Team

**REQUEST FOR MODIFICATIONS TO SCOPE OF WORK - EXHIBIT A, SECTION
A-10 OF AGREEMENT NO. 2020RPSSMB03 FOR THE WILMINGTON Q STREET
LOCAL AREA URBAN FLOW MANAGEMENT PROJECT**

The City of Los Angeles Bureau of Sanitation and Environment (LASAN), as the Project Developer, is requesting to make modifications to the Scope of Work – Exhibit A, Section A-10 of Agreement No. 2020RPSSMB03 for the Wilmington Q Local Area Urban Flow Management Project (Project) for Quarter 4 (Q4) Fiscal Year (FY) 22-23 Quarterly Report.

As described in the original application and transfer agreement, the Project is a stormwater quality improvement project located in the City of Los Angeles (Q St. between Bayview St. and Avalon Blvd., Wilmington). The Project collects runoff from a 59 acre drainage area and infiltrates the water through drywells, previous sidewalk, bioswales and a street median. The Project will provide community benefits to the Wilmington neighborhood, a disadvantaged community in Council District 15, through landscaping and street improvements to enhance the utility and aesthetics of the street.

The Project aims to improve water quality in the Dominguez Channel watershed to better achieve compliance with regulatory standards and provide tangible community benefits, such as treating stormwater runoff, partially offsetting potable water use, and providing educational features. Through the installation of these BMPs this Project seeks to modernize existing stormwater infrastructure; capture and infiltrate pretreated stormwater; incorporate drought-tolerant landscaping, reduce heat island effect; and provide pedestrian safety. The estimated project cost at the time the Project was submitted for Measure W Regional Program funding was \$4.9 million dollars, which was awarded in Round 1, Measure W Regional Program Funds.

zero waste • zero wasted water

The Transfer Agreement for this Project was executed by the District on October 29, 2020. However, due to various administrative delays, it had taken longer than anticipated to secure consultant's services for the Project. To date, LASAN has selected a design consultant in Atkins and awarded the Project to the consultant on March 15, 2023. The project is moving forward with the Pre-Design phase. The total project and Construction costs are expected to have increased over the past years of extraordinary economic conditions and LASAN will promptly report these modifications once the Pre-Design Report for the Project is completed in the next two months.

At this time, LASAN would like to report modifications to the following sections of Exhibit A of the Transfer Agreement. A summary of the requested modifications is provided below.

Scope of Work Section	Requested Modifications				
(A-10) Reporting Module Schedule	Phase	Approved Start Date	Approved End Date	Start Date Modification	End Date Modification
	Planning:	10/01/22	03/31/23	03/31/2023	09/30/2023
	CEQA/NEPA:	-	-	10/01/2023	01/31/2025
	Design:	04/01/23	03/31/24	10/01/2023	01/31/2025
	Bid and Award:	04/01/24	09/30/24	02/01/2025	08/01/2025
	Construction:	10/01/24	06/30/26	08/02/2025	04/02/2027
	Post Construction/Optimization:	07/01/26	06/30/27	04/03/2027	04/03/2028
	O&M:	-	-	04/04/2028	04/03/2078

In addition, in the FY22/23 Q4 reports, LASAN is outlining a technical Scope Modification under the "Cost Share Modifications" category. As reported in previous quarterly reports to date, the City has been leveraging funding from Municipal Funds for staff charges in support of project delivery. City of Los Angeles Public Works staff charges relate to planning, design, and construction (i.e. project administration, design review, outreach, environmental review, and construction management). These investments reflect LASAN's commitment to leveraging and maximizing benefits delivered in the Regional Program. A summary of the leveraged fund amounts for this Project is provided below.

Leveraging Funds for the Project	Timeframe	Approved	Modification
	From Project Approval Through FY22/23 Q3	\$0	\$130,468.13
	FY22/23 Q4	\$0	\$41,735.38
	Estimate for the Future Through Project Completion	\$0	\$450,796.49
	Total Estimated Through Project Completion	\$0	\$623,000.00

With this letter, LASAN is notifying the Safe, Clean Water Program of the Project's modifications, which would be part of the Project's Quarterly Report for FY22/23 Q4 in the Safe Clean Water Module. If you have any questions, please contact the City's Measure W Program general email address at san.safecleanwater@lacity.org.

Sincerely,

Michael Scaduto
Digitally signed by Michael
Scaduto
Date: 2023.08.11
07:49:57-07'00'

Michael Scaduto, P.E., ENV SP
Principal Engineer
Safe Clean Water Implementation Division
LA Sanitation and Environment

cc:
Julie Allen, LASAN
Susie Santilena, LASAN
Sean Phan, LASAN
Ida Meisami-Fard, LASAN

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Agenda Item No. 9

Date: 7/28/22

To: Municipal Facilities Committee

From: Deborah Weintraub, AIA, LEEDAP
Chief Deputy City Engineer



Electronically Signed by Deborah Weintraub
on 07/12/2022 12:53:31 PM

Subject: **FUNDING FOR CONSTRUCTION COST INFLATION**

Recommendations:

1. That the Bureau of Engineering (BOE) work with the office of the City Administrative Officer to develop a funding strategy for projects that are either in construction and/or starting construction in Fiscal Year 2022-23 due to construction cost inflation, and;
2. Reassess market conditions in January 2023 to adjust this strategy accordingly.

Introduction:

The BOE is submitting this report in order to alert our City Hall colleagues of significant price increases we are experiencing in construction cost bids. The construction cost increases have a variety of causes and are extraordinary. In order to deliver committed capital projects to the City residents, the funding allocations for construction projects may need to be augmented.

Background:

Non-residential building inflation between 2011 and 2020 on a national basis was on average 3.7% annually (Zarenski, 2021¹), and 2.4% in California (California Department of General Services). While the pandemic initially decreased construction activity in 2020, in 2021 there was a large increase in demand for construction materials. Unfortunately, this demand was met with serious supply chain challenges, and this resulted in a reduction in the availability of construction materials and higher construction costs.

Between January 2020 to July 2021, prices of all materials and services for new construction performed by contractors has gone up 26.3% on a national average (AGC, August 2021²), and 13% in California (California Department of General Services, 2022). The California Department of General Services also reported that new construction costs in California went up 15.22% from June 2021 to June 2022.

Through 2022, prices for construction materials have continued their ascent and in addition, skilled labor has become even more scarce than previous years. Construction project starts are also being delayed to account for supply chain challenges and labor shortages, and the

¹ Zarenski is a nationally recognized construction economics analyst, author, educator and presenter. Website: <https://edzarenski.com/>. Article: <https://edzarenski.com/2022/02/11/construction-inflation-2022/>

² AGC is an organization of qualified construction contractors and industry related companies dedicated to skill, integrity and responsibility. Website: <https://www.agc.org/>

time delays and the uncertainty in product pricing are also resulting in higher bids (Engineering News Record, 2021). Contractors are transferring these risks to the Owner at the time of bidding.

Forecast:

Market analysis is showing the construction cost escalation rate in Los Angeles is currently 7.99% per year (Rider Levett Bucknall (RLB), 2022³), however, RLB is using 8.04% per year in their cost estimate calculations, and HNTB⁴ is using 15%.

Below is a summary of some of the other market forces impacting construction costs. As of February 2022, diesel fuel, steel mill products, lumber, plywood, copper, brass, aluminum, plastic, gypsum, concrete, pavement, and roofing have all gone up drastically and forecasts are predicting that prices through 2022 will exceed peak prices of 2021 (Engineering News Record, 2022⁵). Interest rates are set to continue to rise, and the Russia-Ukraine war creates a lot of uncertainty and has market impacts. Supply chain and labor issues continue to cause a backlog of orders and an inventory shortage, indicating a supply-demand imbalance that will result in higher-priced goods and services. The anticipated pace of inflation is not likely to decelerate until 2023, with manufacturers potentially beginning to catch up to demand in late 2022, potentially with supply chains largely unclogged by late-2023 (CBRE, 2022⁶).

³ RLB is a global cost consultant partner and a nationally recognized project management and advisory firm. Website: <https://www.rlb.com/americas/>. Article: <https://s31756.pcdn.co/americas/wp-content/uploads/sites/4/2022/03/City-Market-Insight-LOS-ANGELES-Q1-2022.pdf>

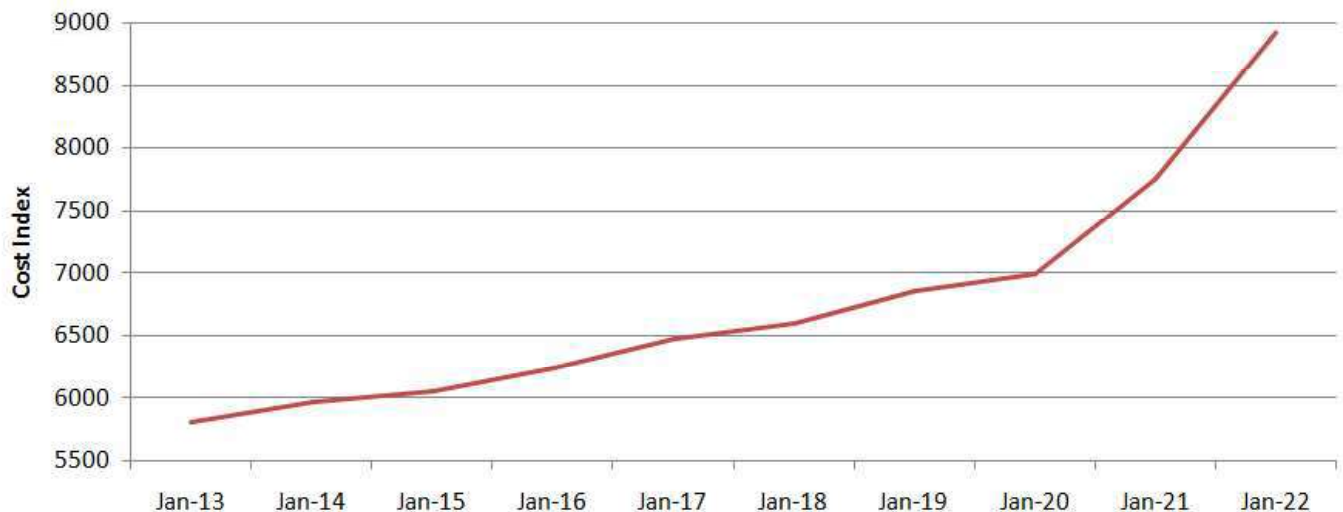
⁴ HNTB is a national engineering consulting company, with a strong presence in Southern California. Website: <https://www.hntb.com/>

⁵ Engineering News Record is a national magazine that covers the engineering and construction industry. Website: <https://www.enr.com/>

⁶ CBRE is the world's largest commercial real estate services & investment company. Website: <https://www.cbre.com/about-us> . Article: <https://www.cbre.com/en/insights/reports/2022-fm-cost-trends-report> .

Data Analysis:

10-Year New Construction Inflation



***New Construction Inflation has gone up 54% in the past 10 years**

Source: Department of General Services California Construction Cost Index (CCI), 2022

Information graphed by the Bureau of Engineering, June 2022

"The California Construction Cost index is developed based upon Building Cost Index (BCI) cost indices average for San Francisco and Los Angeles ONLY as produced by Engineering News Record (ENR) and reported in the second issue each month" (DGS).

BOE Bid Results:

In the past couple of years, there has been a wide range of cost changes with a general trend of higher than average cost increases. For example, BOE looked at price escalation data from City bids from 2021 to 2022 for two key construction scopes used on our projects that are typically bid on a unit price basis; concrete sidewalk/driveway and concrete pavement. In the past year the average unit cost of concrete sidewalk/driveway and concrete pavement increased by 79% and 21% respectively. We also found that there was a high variation on the cost changes in AC pavement.

In addition, we looked at 20 Municipal Facility project bids between 2017 to the present. These projects are typically bid on a lump sum basis. Our analysis was to look at the variance between the low bid and City Engineer's Estimate on a project-by-project basis. The average in the variance between the low bid price as compared to the City Engineer Estimate from 2017 through 2021 was that the low bid averaged 5.9% higher than the City Engineer's estimate. In 2022 this number increased dramatically to the low bids averaging 40.68% higher than the City Engineer's Estimate.

BOE Actions:

BOE is in the process of developing a draft cost inflation clause for City construction contracts, which would establish the mechanism for cost adjustments during construction for demonstrated inflationary cost increases and decreases. BOE intends to vet the proposed language with the local construction industry and with our City partners. This will help offset the perceived need by contractors to price risk into their bids.

Additionally, BOE is in the process of revising the suggested inflation rates for project budgeting. Since 2014, BOE suggested using 5% as the inflation rate for all new construction. The below chart is BOE's suggested inflation rates to use for future estimates:

Date	Annual Rate
July 1, 2022 - June 30, 2023	15%
July 1, 2023 - June 30, 2024	12%
July 1, 2024 - June 30, 2025	9%
July 1, 2025 - June 30, 2026	8%
July 1, 2026 - June 30, 2027	8%

The potential recession may cause changes in these inflation rates. Therefore, it is recommended to re-assess these rates in six months.

RL/MA:tt

Box\CMD\Administration\Municipal Facilities Meeting Minutes\MFC Report Construction Inflation

cc: Mary Hodge, Deputy Mayor
Aura Garcia, Board of Public Works
Teresa Villegas, Board of Public Works
Mike Davis, Board of Public Works
Vahid Khorsand, Board of Public Works
Susana Reyes, Board of Public Works.
Gary Lee Moore, Bureau of Engineering
Ted Allen, Bureau of Engineering
Alfred Mata, Bureau of Engineering
Julie Sauter, Bureau of Engineering
Jose Fuentes, Bureau of Engineering
Richard Louie, Bureau of Engineering

CITY OF LOS ANGELES
INTERDEPARTMENTAL CORRESPONDENCE

Agenda Item No. 3

Date: August 21, 2023

To: Municipal Facilities Committee

From: 
Ted Allen, City Engineer
Bureau of Engineering

Subject: **FUNDING FOR CONSTRUCTION COST INFLATION UPDATE**

The Bureau of Engineering (BOE) is submitting this report to follow up on the Report presented at the July 2022 meeting which alerted our City Hall colleagues to significant price increases being experienced in construction cost bids. The construction cost increases have a variety of causes and remain higher than historic norms for the last decade, but have started to decline from recent highs. In order to deliver committed capital projects to the City residents, the funding allocations for construction projects may need to be augmented.

In the July 2022 report, BOE released the following chart for suggested inflation rates to use for future estimates:

Inflation rates per July 2022 Report	
Period	Construction Cost Inflation Annual Rate (%)
July 1, 2022 - June 30, 2023	15
July 1, 2023 - June 30, 2024	12
July 1, 2024 - June 30, 2025	9
July 1, 2025 - June 30, 2026	8
July 1, 2026 - June 30, 2027	8

Based on current market conditions, we recommend the chart be updated to the following:

Inflation Rates per July 2023 Report	
Period	Construction Cost Inflation Annual Rate (%)
July 1, 2022 - June 30, 2023	15
July 1, 2023 - June 30, 2024	8
July 1, 2024 - June 30, 2025	7
July 1, 2025 - June 30, 2026	6
July 1, 2026 - June 30, 2027	5

It should be noted that inflation for different construction types may vary. The proposed inflation rates assume that cost estimates being completed now are starting with unit costs that have accounted for the large inflationary pressures seen previously. Otherwise, additional adjustments should be made as needed to account for prior inflation to the point in time that the unit costs were established.

TA/DW/RL/MA/:tt:eg

BOX\EXE_Ready for Signature\TSA\Outbox\Archived\2023\Revised_Construction
Inflation MFC Report 080323 _eg

cc: Randall Winston, Office of the Mayor
Aura Garcia, Board of Public Works
Teresa Villegas, Board of Public Works
Mike Davis, Board of Public Works
Vahid Khorsand, Board of Public Works
Susana Reyes, Board of Public Works

ATTACHMENT A: Project Modification Request (PMR) FORM

The purpose of this PMR form is to initiate the Project modification process and provide the District with information necessary to evaluate the Project modification request.

Regional Program	<input checked="" type="checkbox"/> Infrastructure Program Project <input type="checkbox"/> Scientific Studies Program <input type="checkbox"/> Technical Resources Program
Project/Study Name	Wilmington Neighborhood Greening Project
Project/Study Lead	City of Los Angeles, Sanitation and Environment (LASAN)
Watershed Area(s)	South Santa Monica Bay
Current Project Phase	Design
Approved Stormwater Investment Plan Fiscal Year	FY21-22
Transfer Agreement ID (e.g., 2020RPULAR52)	2021RPSSMB01

Has Transfer Agreement or most recent Addendum been executed (i.e., signed by the project lead and the District)? ☐ Yes ☒ No

What type(s) of modification request?

- ☒ like-for-like modifications
- ☐ functionally equivalent BMP modifications
- ☐ modifications to Project or Study components that were not material to the WASC, ROC, or Board's decision to include the Project or Study in the SIP
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- ☐ change in Project benefits
- ☐ change in methodology (e.g., infiltration instead of diversion to sanitary sewer)
- ☐ decrease in BMP capacity
- ☐ change in Project or Study location
- ☐ change in capture area where benefits claimed are diminished or where there is a change in the municipalities that are receiving benefits
- ☐ updated engineering analysis resulting in a reduction of benefits claimed
- ☒ increase in Construction Cost or Life Cycle Cost greater than 10%
- ☒ increase or reallocation of annual funding distribution
- ☒ change in Funded Activity completion date
- ☒ other, please describe:

Increased project cost sharing.

SCW Program

Project Modification Guidelines



Impact on scope or benefits?

☐ Improved

☐ Diminished

☒ Neither

☐ Not Sure

Description of the proposed modification(s) and the reason(s) why the modification(s) is/are being proposed.

LASAN, working in conjunction with City of Los Angeles Bureau of Engineering (BOE) and its consultant, have concluded the Pre-Design for the Wilmington Neighborhood Greening Project (Project). The conceptual design in the Feasibility Study served as the basis for the three (3) alternatives that were evaluated in the Pre-Design Report (PDR). All three alternatives provide equivalent water quality and water supply performances which are primarily determined based on the pollutant load reduction target of at least 80% for the primary and secondary pollutants. The tank sizes were optimized to be cost effective while keeping the diversion rate as the limiting factor for water quality performance and minimizing the impacts to the SCWP goals. Since the execution of the Transfer Agreement (TA), the total project and construction costs have increased due to high cost escalation and economic inflation over the past few years. The Covid-19 Pandemic has been a major factor contributing to both material and labor shortages, which resulted in high escalation and inflation. The City of Los Angeles Bureau of Engineering (BOE) released a report in July 2022 with suggested inflation rates for project estimates. In August of 2023, BOE released an updated report with a revised inflation rate. Both of the rates are included as appendices for reference.

The modifications reported in this PMR are described in detail in Appendix A. Please also refer to the letters attached with modifications that were presented and approved by the SSMB WASC on June 7, 2023 and November 1, 2023, before the PMR process was established. The modifications previously accepted by the WASC included changes to A-1 Budget Plan Modifications, A-3 Estimated Reasonable Total Activity Cost, A-4 Funded Activity Description and Scope of Work, A-10 Work Schedule and Completion Date Modifications, and Cost Share Modification of Exhibit A - Scope of Work of the TA.

If applicable, list previously approved funding allocations/disbursements and revised funding request:

Note, if some or all of a previously Funded Activity cannot be completed as a result of the proposed modification, please include a description and indicate the amount of unused funds. Any unused funds should be reallocated and accounted for in your revised funding request.

Fiscal Year	Approved Funding Allocations	Revised Funding Request	Description/Phase <i>If applicable, include description of unused funds</i>
FY 21-22	\$662,727	\$662,727	Approved funding received
FY 22-23	\$504,673	\$504,673	Approved funding received
FY 23-24	\$3,387,700	\$3,387,700	Approved but not yet received; Addendum #2 pending CEQA
FY 24-25	\$4,818,700	\$5,818,700	Requesting an additional \$1M
FY 25-26	\$2,809,200	\$3,809,200	Requesting an additional \$1M
Future Funding	\$0	\$2,500,000	Requesting additional funding for FY26/27 (\$2.5M)
TOTAL	\$12,183,000	\$16,683,000	Refer to table 1 in Appendix A for details

SCW Program

Project Modification Guidelines



A: SCWP Approved Total Funding Allocations	\$12,182,930
B: Revised SCWP Anticipated Total Funding Request	\$16,682,930
C: Difference between B and A	\$4,500,000

If applicable, description of difference in SCWP Anticipated Total Funding Request. As a reminder, annual funding is at the discretion of the WASC, ROC, and ultimately the Board of Supervisors.

Besides requesting additional funding from SCWP, LASAN has been actively pursuing various options to fill the funding gap. These include leveraging the City's Measure W Municipal Funds, submitting a Letter of Intent (LOI) to the Caltrans State Highway Operation and Protection Program (SHOPP), and applying for State and Federal Grants. An LOI was submitted to a NOAA grant, but was not selected. LASAN also submitted an application on 11/20/2023 requesting \$13.3M from California Natural Resources Agency Urban Greening Grant. Decisions regarding the grant award are pending.

Overall, Regional funding accounts for 63% of the total project cost while City will be contributing 37% of the total project cost to implement the Project.

Appendix A is included as attachment for reference.

Brief description of Supporting Documentation provided.

Appendix A - Wilmington Neighborhood Project Modification Request (PMR) Details
Appendix B - Project Benefit Comparison
Appendices C and D - Quarter 1 and 4 (Q1 and Q4) Fiscal Year (FY) 22-23 Quarterly Report
Modification Letters
Appendices E and F - BOE Inflation Rate Letters

I certify the information and supporting documentation provided is accurate and true.	<input checked="" type="checkbox"/> YES
I understand this is a request and it is under the WASC's discretion to consider requested modifications.	<input checked="" type="checkbox"/> YES

Name Michael Scaduto, P.E., ENV SP

Organization City of Los Angeles, LASAN

Signature *Michael Scaduto* Digitally signed by Michael Scaduto
Date: 2023.11.30 07:47:52-08'00'

Date 11/30/2023

FOR DISTRICT USE ONLY

Proposed Modifications to Projects or Studies:

	Status	Date
Modified Project or Study is consistent with the Project or Study included in the current fiscal year's SIP and proposed modifications were approved by the District.	<input type="checkbox"/> YES	
Modified Project or Study is NOT consistent with the Project or Study included in the current fiscal year's SIP. If yes, select all that apply:	<input checked="" type="checkbox"/> YES	12/13/23
PMR was received after October 31 of a fiscal year and the PMR will be considered for approval during the preparation of subsequent SIP for the fiscal year <u>after</u> the next	<input type="checkbox"/> YES	-
For Infrastructure Program Projects, modified Project was sent to Scoring Committee . If yes, revised score:	<input type="checkbox"/> YES	
Project or Study abandoned the proposed modifications	<input type="checkbox"/> YES	
Project or Study was withdrawn from consideration by the WASC and shall issue repayment of unspent funds	<input type="checkbox"/> YES	
Proposed modifications were recommended for approval in the SIP	<input type="checkbox"/> YES <input type="checkbox"/> NO	

Proposed Modifications to Project Concepts:

	Status	Date
Proposed modifications were deemed consistent with the Project concept that was approved by the WASC, ROC and Board for inclusion in the SIP and can be addressed within the existing budget. District will proceed to incorporate the proposed modification into the Feasibility Study immediately.	<input type="checkbox"/> YES	
Proposed modifications were deemed significant enough to result in a significantly different Project concept from the one approved by the WASC, ROC and Board for inclusion in the SIP. If yes, select one:	<input type="checkbox"/> YES	
District to discontinue work on the Feasibility Study, return unused funds to be programmed in the SIP for the next fiscal year, and advise the proponent to submit the modified Project concept during the Call for Projects for a future fiscal year.	<input type="checkbox"/> YES	-
District to abandon the proposed modifications and proceed with the Project concept included in the SIP.	<input type="checkbox"/> YES	-

Appendix A: Wilmington NG Project Modification Request (PMR) Details

What type(s) of modification request?

Like for like modifications:

As a part of pre-design, a target for an optimal storage tank size was set that reduced the volume from the initial 10.2-AF size, but retained the same benefits claimed in the Phase 1 and Phase 2 applications for regional project funding. Pre-design Hydrology and Hydraulic analysis opted to keep constant the diversion rates established in the Phase 1 and Phase 2 feasibility studies of 5.4 and 11.5 cfs, respectively and optimize tank size based on the proposed diversions. The results of this analysis showed that reducing the tank size from 10.2 AF to 5.5 AF, while keeping the maximum diversion rates constant, did not impact annual average project performance. A tank size of 6.0 AF was selected to: (1) optimize the project footprint and cost while retaining the same pollutant removal benefits; and (2) provide enough annual storage to maximize water quality cost effectiveness, Section A.1.1 of the SCW Regional Program Scoring Rubric.

The Wilmington Recreation Center currently has spray irrigation and converting the spray irrigation to partially or fully drip irrigation, as proposed in the Feasibility Study, was found to be cost prohibitive and O&M intensive. Therefore, diverted stormwater is no longer proposed to be treated onsite for reuse as irrigation and instead will be temporarily stored in the 6 acre-feet subsurface tank and sent to Terminal Island Water Reclamation Plant (TIWRP) for treatment and reuse.

The TIWRP is one of the four water reclamation plants owned by Los Angeles Sanitation & Environment (LASAN). It services the Harbor Area of the City of Los Angeles, which includes the residential areas of San Pedro, Harbor City, and parts of Wilmington, as well as nearby industries. The plant has the capability to provide high quality tertiary treatment for up to 30 million gallons of municipal and industrial flows daily. Approximately sixty percent of the incoming flow comes from nearby industries, while the remaining forty percent comes from residential sources. The TIWRP has had a history of innovation, being the first plant in the United States to install an Advanced Water Purification Facility (AWPF) for recycled water production, and the first publicly-owned plant with the ability to recycle 100% of its influent flow. AWPF has the capacity to produce twelve million gallons of drinking-quality water per day. Today, it is used as a potable water replacement to prevent seawater intrusion, saving millions of gallons of potable water per day.

The Watershed Management Modeling System (WMMS) analysis performed during pre-design demonstrated equal benefits in meeting the 80% load reduction of primary pollutant, bacteria, and 100% load reduction of secondary pollutant, trash.

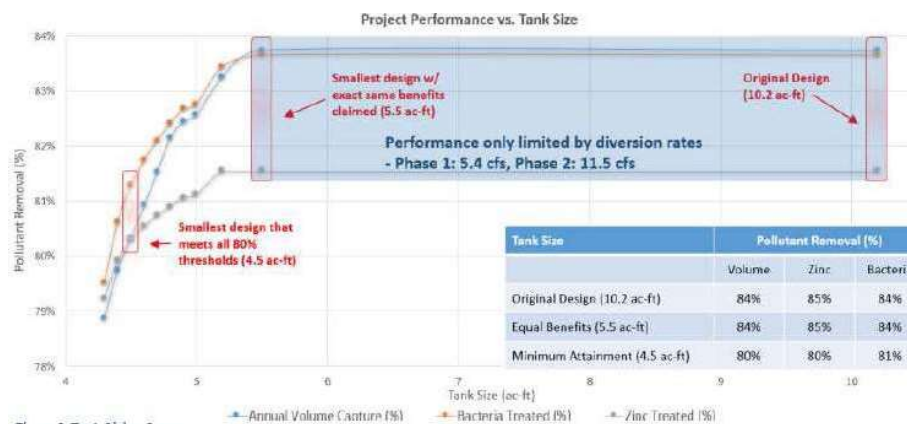


Figure 2. Tank Sizing Curve

Increase in Construction Cost or Life Cycle Cost greater than 10%

The Project cost increase is due to labor and material cost increases associated with COVID-19 and recent high inflation levels. Project scope adjustments also account for revised cost and site condition such as shallow groundwater table which will require intensive dewatering during construction. The cost estimate described in the pre-design report also considers future escalation and contingency consistent with BOE cost estimation that was not previously accounted for in the original cost.

Phase	Approved	Modified
Pre-Design	\$90,000	\$512,000
Design	\$1,171,773	\$757,859
EIR Consultant	\$0	\$451,500
Bid and Award	\$0	\$187,087
Construction	\$10,152,500	\$22,500,000
Post Construction	\$500,000	\$1,382,551
Optimization	\$0	\$709,003
Baseline Monitoring	\$268,727	\$0
Total Project Cost	\$12,183,000	\$26,500,000

Increase or reallocation of annual funding distribution:

Change of total Regional funding request (from \$12,183,000 to \$16,683,000).

Table 1. Approved SCW Program contribution and additional request

Cash Flow	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27	TOTAL
Approved	\$662,727	\$504,673	\$3,387,700	\$4,818,700	\$2,809,200	\$0	\$12,183,000
Additional Request	\$0	\$0	\$0	\$1,000,000	\$1,000,000	\$2,500,000	\$4,500,000
Total Regional Funding	\$662,727	\$504,673	\$3,387,700	\$5,818,700	\$3,809,200	\$2,500,000	\$16,683,000

Change in Funded Activity completion date:

Phase	Approved Start Date	Approved End Date	Start Date Modification	End Date Modification
Pre-Design	04/01/2022	04/01/2023	03/01/2022	08/14/2023
Design	04/01/2023	07/01/2024	08/15/2023	11/30/2024
EIR Consultant	04/01/2023	07/01/2024	08/15/2023	11/30/2024
Bid and Award	07/01/2024	01/01/2025	12/01/2024	05/31/2025
Construction	01/01/2025	09/30/2026	06/01/2025	06/30/2027
Post Construction	-	-	07/01/2027	06/30/2028
Optimization	10/01/2026	09/30/2027	-	-

Other – Increased project cost sharing.

As reported in previous quarterly reports to date, the City has been leveraging funding from Municipal Funds in support of the project delivery. LASAN has incurred cost share expenditures for the City of Los Angeles, Dept. of Public Works charges for project administration and implementation, design review, community engagement and outreach, environmental review, and construction management. The estimated cost for staff support is \$3.18M. In addition, the City is also contributing leverage funding to offset the cost increase. These investments reflect the City's commitment to leveraging and maximizing benefits delivered in the Regional Program. A summary of the leverage fund to offset the Project's cost increase is provided below.

Funding Info	FY 23/24 (Secured)	FY 24/25 (Proposed)	FY 25/26 (Proposed)	FY 26/27 (Proposed)	TOTAL
Municipal Funding	\$1,000,000	\$4,500,000	\$4,317,000	\$0	\$9,817,000

Appendix B: Wilmington Neighborhood Greening Project Benefit Comparison

SCWP Metric	Description of Changes
A. Water Quality Benefits	The overall pollutant removal for the project remains unchanged. During the pre-design process it was determined that 10.6 AF underground storage capacity to accommodate 8.4 AF would be costly, and it would be difficult to fit several acres of galleries into the park with all the tree protection zones. The Project instead shifted to decrease the underground tank size from 10.6 AF to 6 AF ensuring that the 85% reduction of zinc and the 100% reduction in trash was maintained for the whole watershed utilizing the WMMIS2.0 model storage captures. The reduce tank captures 71% of the 85th percentile 24-hour storm.
B. Water Supply Benefits	The Project will no longer have the diverted stormwater treated onsite for reuse as irrigation. During the pre-design phase, it was found that the Wilmington Recreation Center currently has spray irrigation and converting partially or fully to drip irrigation would be too costly and O&M intensive. The Project instead shifted to temporarily stored the stormwater in the 6 acre-foot subsurface tank and sent to nearby Terminal Island Water Reclamation Plant for treatment and reuse.
C. Community Investment Benefits	The modified project has the same community investment benefits including flood control management, restoring, and enhancing the Wilmington Recreation Center, reducing heat island effect, and improve air quality.
D. Nature-Based Solutions	The modified project includes same nature-based solutions including new trees, tree wells, permeable access road, and parkway rain gardens.
E. Leveraging Funds	The City of Los Angeles leveraged Municipal Funds for staff charges in support of project delivery. The estimated staff cost to support the project is \$3.18M. In addition, the City is also contributing leverage funding, \$9.82M to offset the project cost increase. These investments reflect the City's commitment to leveraging and maximizing benefits delivered in the Regional Program.
E. Community Support	The community support for the project remains the same.

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TIMEYIN DAFETA
HYPERION EXECUTIVE PLANT MANAGER

—
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TEL: (213) 485-2210
FAX: (213) 485-2979
WWW.LACITYSAN.ORG

November 8, 2022

ELECTRONIC SUBMITTAL (safecleanwaterla@dpw.lacounty.gov)

DPW-Safe, Clean Water LA

Attn: Safe Clean Water Program Team

**REQUEST FOR MODIFICATIONS TO SCOPE OF WORK - EXHIBIT A, SECTIONS
A-1 AND A-10 OF AGREEMENT NO. 2021RPSSMB01 FOR THE WILMINGTON
NEIGHBORHOOD GREENING PROJECT**

The City of Los Angeles (City) Bureau of Sanitation and Environment (LASAN), as the Project Developer, is requesting to make modifications to the Scope of Work – Exhibit A, Section A-1 and A-10 of Agreement No. 2021RPSSMB01 for the Wilmington Neighborhood Greening Project (Project) for Quarter 1 (Q1) Fiscal Year (FY) 22-23 Quarterly Report.

As described in the original application and Transfer Agreement, the Wilmington Neighborhood Greening Project is a stormwater quality improvement project located in the City (in the Wilmington Recreation Center Park at 325 N Neptune Ave. Wilmington). The Project collects runoff from a 59-acre drainage area, stores the water for irrigation and reuse. The Project will provide community benefits to the Wilmington neighborhood, a disadvantaged community in Council District 15, through landscaping and park improvements.

The Project aims to improve water quality in the Dominguez Channel watershed to better achieve compliance with regulatory standards and provide tangible community benefits, such as treating stormwater runoff, partially offsetting potable water use, and diversion for recycling stormwater at Terminal Island Water Reclamation Plant. The estimated Project cost at the time the Project was submitted for Measure W Regional Program funding was \$12,183,000, which was awarded in Round 2, Measure W Regional Program Funds.

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AN EQUAL EMPLOYMENT OPPORTUNITY - AFFIRMATIVE ACTION EMPLOYER

The Transfer Agreement for this Project was executed by the Los Angeles Flood Control District on March 25, 2022. LASAN has selected a design consultant and has begun the pre-design phase of the Project. The consultants have provided LASAN with an updated Project schedule based on the Project's scope and schedule of deliverables. Because the environmental documentation will not be completed before FY 24-25, construction funding will be delayed until FY 24-25.

LASAN would like to report modifications to the following sections of Exhibit A of the Transfer Agreement.

Table 1. Section A-1 Budget Plan Modifications

Fiscal Year	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27
Current Funding Projections	\$662,727	\$504,673	\$3,387,700	\$4,818,700	\$2,809,200	\$0
Revised Funding Distribution	\$662,727	\$504,673	\$0	\$3,387,700	\$4,818,700	\$2,809,200

Table 2. Section A-10 Work Schedule and Completion Date Modifications

Activity Name	Phase Type	Activity Type	Original Schedule		Revised Schedule	
			Activity Start	Activity End	Activity Start	Activity End
Utility Research	Planning	Pre-Design	11/01/20	02/01/22	03/21/22	3/31/23
Environmental Documentation	Design	CEQA & Permitting	06/15/22	06/15/23	04/01/23	06/30/24
Design	Design	Design	12/21/21	06/15/23	04/01/23	06/30/24
Bid and Award	Construction	Bid and Award	06/16/23	07/01/23	07/01/24	12/31/24
Construction	Construction	Construction	09/01/23	07/01/25	01/01/25	09/30/26
Optimization	O&M	Optimization	06/15/25	03/31/26	10/01/26	09/30/27

With this letter, LASAN is notifying the Safe, Clean Water Program of the Project's modifications, which would be part of the Project's Quarterly Report for Q1 FY 22-23 the Safe Clean Water Module. If you have any questions, please contact my staff, Seth Carr at seth.carr@lacity.org or Phuoc Le at phuoc.le@lacity.org. Inquiries can also be directed to the City's Measure W Program general email address at san.safeleanwater@lacity.org.

Sincerely,

Michael Scaduto Digitally signed by Michael
Scaduto
Date: 2022.11.09 22:46:45-08'00'

Michael Scaduto, P.E., ENV SP
Principal Engineer
Safe Clean Water Implementation Division
LA Sanitation and Environment

cc: Julie Allen, LASAN
Craig Cadwallader, SSMB WASC Chair
Seth Carr, LASAN

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TEL: (213) 485-2210
FAX: (213) 485-2979
WWW.LACITYSAN.ORG

August 14, 2023

ELECTRONIC SUBMITTAL (safecleanwaterla@dpw.lacounty.gov)

DPW-Safe, Clean Water LA
Attn: Safe Clean Water Program Team

**REQUEST FOR MODIFICATIONS TO SCOPE OF WORK - EXHIBIT A, SECTIONS
A-3, A-4 AND A-10 OF AGREEMENT NO. 2021RPSSMB01 FOR THE WILMINGTON
NEIGHBORHOOD GREENING PROJECT**

The City of Los Angeles Bureau of Sanitation and Environment (LASAN), as the Project Developer, is requesting to make modifications to the Scope of Work – Exhibit A, Sections A-3, A-4, and A-10 of Agreement No. 2021RPSSMB01 for the Wilmington Neighborhood Greening Project (Project) for Quarter 4 (Q4) Fiscal Year (FY) 22-23 Quarterly Report.

As described in the original application and transfer agreement, the Project is a stormwater quality improvement project located in the City of Los Angeles (in the Wilmington Recreation Center Park at 325 N Neptune Ave. Wilmington). The Project collects runoff from a 59-acre drainage area, stores and reuses the water for irrigation and reuse. The Project will provide community benefits to the Wilmington neighborhood, a disadvantaged community in Council District 15, through landscaping and park improvements.

The Project aims to improve water quality in the Dominguez Channel watershed to better achieve compliance with regulatory standards and provide tangible community benefits, such as treating stormwater runoff and diversion for recycling stormwater at Terminal Island Water Reclamation Plant. The estimated Project cost at the time the Project was submitted for Measure W Regional Program funding was \$12.1 million dollars, which was awarded in Round 2, Measure W Regional Program Funds.

The Transfer Agreement for this Project was executed by the District on May 25, 2022. After execution, LASAN awarded the Project to a design consultant and began the Pre-Design phase in December 2022. During the Pre-Design phase, the consultants provided LASAN with preliminary engineering efforts to evaluate alternatives, select a Design concept, prepare a

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Pre-Design report, and conduct outreach. In addition, the consultants have provided LASAN with an updated Project schedule based on the Project's updated scope and schedule of deliverables. The Pre-Design phase was completed in July 2023.

LASAN would like to report modifications to the following sections of Exhibit A of the Transfer Agreement based on these recent activities.

Scope of Work Section	Requested Modifications				
(A-3) Estimated Reasonable Total Activity Cost	Phase	Approved		Modifications	
	Baseline Monitoring	\$268,727		\$1,000,000	
	Planning/Pre- Design	\$90,000		\$512,000	
	Design	\$1,171,773		\$1,640,000	
	Construction	\$10,152,500		\$22,250,000	
	Construction Management	\$500,000		\$3,738,166	
	Total Project Cost	\$12,183,000		\$29,140,166	
(A-4) Funded Activity Description and Scope of Work	Requested Modifications				
	During the Pre-Design phase, the subsurface irrigation component was removed from the scope of work since RAP did not approve of subsurface irrigation on their park. In addition, removing it from the scope is warranted to reduce the construction cost. All the captured stormwater will be stored in the detention tank and diverted to the Terminal Island Water Reclamation Plant.				
(A-10) Reporting Module Schedule	Phase	Approved Start Date	Approved End Date	Start Date Modification	End Date Modification
	Pre-Design	03/21/22	03/31/23	03/01/22	6/30/23
	CEQA/Permitting:	04/01/23	06/30/24	07/01/23	11/30/24
	Design:	04/01/23	06/30/24	07/01/23	11/30/24
	Bid and Award	07/01/24	12/31/24	12/01/24	05/31/25
	Construction	01/01/25	09/30/26	06/01/25	06/30/27
	Optimization	10/01/26	09/30/27	07/01/27	06/30/28
	O&M	-	-	07/01/28	07/01/78

In addition, in the FY22/23 Q4 reports, the LASAN is outlining a technical Scope Modification under the “Cost Share Modifications” category. As reported in previous quarterly reports to date, the City has been leveraging funding from Municipal Funds for staff charges in support of project delivery. City of Los Angeles Public Works staff charges relate to planning, design, and construction (i.e. project administration, design review, outreach, environmental review, and construction management). These investments reflect LASAN’s commitment to leveraging and maximizing benefits delivered in the Regional Program. A summary of the leveraged fund amounts for this Project is provided below.

Leveraging Funds for the Project	Timeframe	Approved	Modification
	From Project Approval Through FY22/23 Q3	\$0	\$184,701.57
	FY22/23 Q4	\$0	\$93,261.51
	Estimate for the Future Through Project Completion	\$0	\$2,902,151.81
	Total Estimated Through Project Completion	\$0	\$3,180,114.89

With this letter, LASAN is notifying the Safe, Clean Water Program of the Project’s modifications, which would be part of the Project’s Quarterly Report for FY22/23 Q4 in the Safe Clean Water Module. If you have any questions, please contact the City’s Measure W Program general email address at san.safecleanwater@lacity.org.

Sincerely,

Michael Scaduto

Digitally signed by Michael
Scaduto
Date: 2023.08.11
07:52:22-07'00'

Michael Scaduto, P.E., ENV SP
Principal Engineer
Safe Clean Water Implementation Division
LA Sanitation and Environment

cc:

Julie Allen, LASAN
Susie Santilena, LASAN
Sean Phan, LASAN
Ida Meisami-Fard, LASAN

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Agenda Item No. 9

Date: 7/28/22

To: Municipal Facilities Committee

From: Deborah Weintraub, AIA, LEEDAP
Chief Deputy City Engineer



Electronically Signed by Deborah Weintraub
on 07/12/2022 12:53:31 PM

Subject: **FUNDING FOR CONSTRUCTION COST INFLATION**

Recommendations:

1. That the Bureau of Engineering (BOE) work with the office of the City Administrative Officer to develop a funding strategy for projects that are either in construction and/or starting construction in Fiscal Year 2022-23 due to construction cost inflation, and;
2. Reassess market conditions in January 2023 to adjust this strategy accordingly.

Introduction:

The BOE is submitting this report in order to alert our City Hall colleagues of significant price increases we are experiencing in construction cost bids. The construction cost increases have a variety of causes and are extraordinary. In order to deliver committed capital projects to the City residents, the funding allocations for construction projects may need to be augmented.

Background:

Non-residential building inflation between 2011 and 2020 on a national basis was on average 3.7% annually (Zarenski, 2021¹), and 2.4% in California (California Department of General Services). While the pandemic initially decreased construction activity in 2020, in 2021 there was a large increase in demand for construction materials. Unfortunately, this demand was met with serious supply chain challenges, and this resulted in a reduction in the availability of construction materials and higher construction costs.

Between January 2020 to July 2021, prices of all materials and services for new construction performed by contractors has gone up 26.3% on a national average (AGC, August 2021²), and 13% in California (California Department of General Services, 2022). The California Department of General Services also reported that new construction costs in California went up 15.22% from June 2021 to June 2022.

Through 2022, prices for construction materials have continued their ascent and in addition, skilled labor has become even more scarce than previous years. Construction project starts are also being delayed to account for supply chain challenges and labor shortages, and the

¹ Zarenski is a nationally recognized construction economics analyst, author, educator and presenter. Website: <https://edzarenski.com/>. Article: <https://edzarenski.com/2022/02/11/construction-inflation-2022/>

² AGC is an organization of qualified construction contractors and industry related companies dedicated to skill, integrity and responsibility. Website: <https://www.agc.org/>

time delays and the uncertainty in product pricing are also resulting in higher bids (Engineering News Record, 2021). Contractors are transferring these risks to the Owner at the time of bidding.

Forecast:

Market analysis is showing the construction cost escalation rate in Los Angeles is currently 7.99% per year (Rider Levett Bucknall (RLB), 2022³), however, RLB is using 8.04% per year in their cost estimate calculations, and HNTB⁴ is using 15%.

Below is a summary of some of the other market forces impacting construction costs. As of February 2022, diesel fuel, steel mill products, lumber, plywood, copper, brass, aluminum, plastic, gypsum, concrete, pavement, and roofing have all gone up drastically and forecasts are predicting that prices through 2022 will exceed peak prices of 2021 (Engineering News Record, 2022⁵). Interest rates are set to continue to rise, and the Russia-Ukraine war creates a lot of uncertainty and has market impacts. Supply chain and labor issues continue to cause a backlog of orders and an inventory shortage, indicating a supply-demand imbalance that will result in higher-priced goods and services. The anticipated pace of inflation is not likely to decelerate until 2023, with manufacturers potentially beginning to catch up to demand in late 2022, potentially with supply chains largely unclogged by late-2023 (CBRE, 2022⁶).

³ RLB is a global cost consultant partner and a nationally recognized project management and advisory firm. Website: <https://www.rlb.com/americas/>. Article: <https://s31756.pcdn.co/americas/wp-content/uploads/sites/4/2022/03/City-Market-Insight-LOS-ANGELES-Q1-2022.pdf>

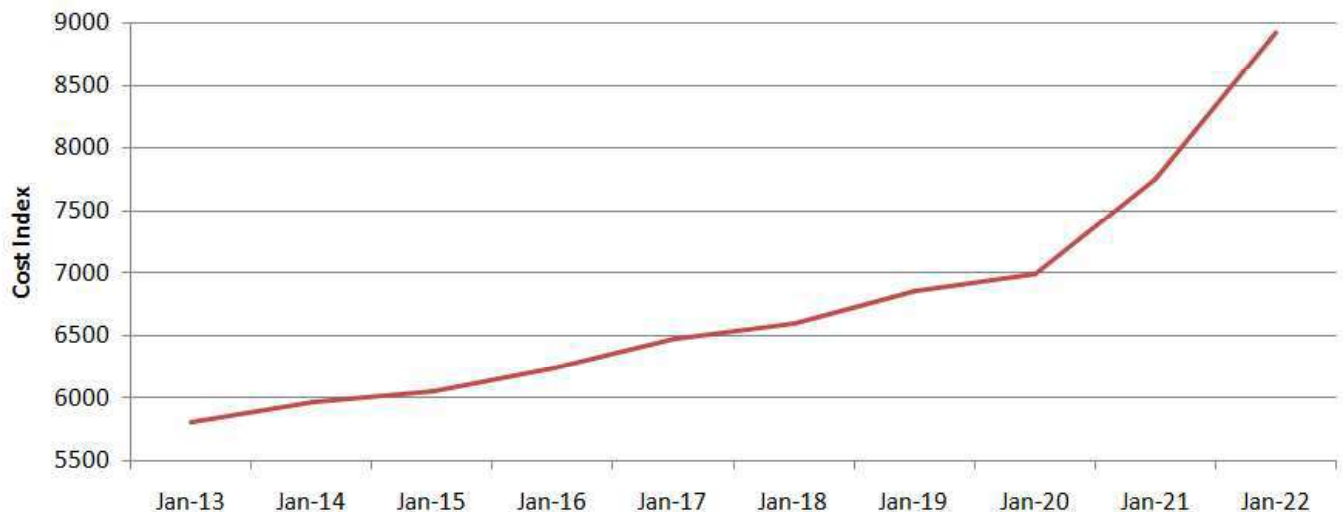
⁴ HNTB is a national engineering consulting company, with a strong presence in Southern California. Website: <https://www.hntb.com/>

⁵ Engineering News Record is a national magazine that covers the engineering and construction industry. Website: <https://www.enr.com/>

⁶ CBRE is the world's largest commercial real estate services & investment company. Website: <https://www.cbre.com/about-us> . Article: <https://www.cbre.com/en/insights/reports/2022-fm-cost-trends-report> .

Data Analysis:

10-Year New Construction Inflation



***New Construction Inflation has gone up 54% in the past 10 years**

Source: Department of General Services California Construction Cost Index (CCCI), 2022

Information graphed by the Bureau of Engineering, June 2022

"The California Construction Cost index is developed based upon Building Cost Index (BCI) cost indices average for San Francisco and Los Angeles ONLY as produced by Engineering News Record (ENR) and reported in the second issue each month" (DGS).

BOE Bid Results:

In the past couple of years, there has been a wide range of cost changes with a general trend of higher than average cost increases. For example, BOE looked at price escalation data from City bids from 2021 to 2022 for two key construction scopes used on our projects that are typically bid on a unit price basis; concrete sidewalk/driveway and concrete pavement. In the past year the average unit cost of concrete sidewalk/driveway and concrete pavement increased by 79% and 21% respectively. We also found that there was a high variation on the cost changes in AC pavement.

In addition, we looked at 20 Municipal Facility project bids between 2017 to the present. These projects are typically bid on a lump sum basis. Our analysis was to look at the variance between the low bid and City Engineer's Estimate on a project-by-project basis. The average in the variance between the low bid price as compared to the City Engineer Estimate from 2017 through 2021 was that the low bid averaged 5.9% higher than the City Engineer's estimate. In 2022 this number increased dramatically to the low bids averaging 40.68% higher than the City Engineer's Estimate.

BOE Actions:

BOE is in the process of developing a draft cost inflation clause for City construction contracts, which would establish the mechanism for cost adjustments during construction for demonstrated inflationary cost increases and decreases. BOE intends to vet the proposed language with the local construction industry and with our City partners. This will help offset the perceived need by contractors to price risk into their bids.

Additionally, BOE is in the process of revising the suggested inflation rates for project budgeting. Since 2014, BOE suggested using 5% as the inflation rate for all new construction. The below chart is BOE's suggested inflation rates to use for future estimates:

Date	Annual Rate
July 1, 2022 - June 30, 2023	15%
July 1, 2023 - June 30, 2024	12%
July 1, 2024 - June 30, 2025	9%
July 1, 2025 - June 30, 2026	8%
July 1, 2026 - June 30, 2027	8%

The potential recession may cause changes in these inflation rates. Therefore, it is recommended to re-assess these rates in six months.

RL/MA:tt

Box\CMD\Administration\Municipal Facilities Meeting Minutes\MFC Report Construction Inflation

cc: Mary Hodge, Deputy Mayor
Aura Garcia, Board of Public Works
Teresa Villegas, Board of Public Works
Mike Davis, Board of Public Works
Vahid Khorsand, Board of Public Works
Susana Reyes, Board of Public Works.
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Julie Sauter, Bureau of Engineering
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Richard Louie, Bureau of Engineering

CITY OF LOS ANGELES
INTERDEPARTMENTAL CORRESPONDENCE

Agenda Item No. 3

Date: August 21, 2023

To: Municipal Facilities Committee

From: 
Ted Allen, City Engineer
Bureau of Engineering

Subject: **FUNDING FOR CONSTRUCTION COST INFLATION UPDATE**

The Bureau of Engineering (BOE) is submitting this report to follow up on the Report presented at the July 2022 meeting which alerted our City Hall colleagues to significant price increases being experienced in construction cost bids. The construction cost increases have a variety of causes and remain higher than historic norms for the last decade, but have started to decline from recent highs. In order to deliver committed capital projects to the City residents, the funding allocations for construction projects may need to be augmented.

In the July 2022 report, BOE released the following chart for suggested inflation rates to use for future estimates:

Inflation rates per July 2022 Report	
Period	Construction Cost Inflation Annual Rate (%)
July 1, 2022 - June 30, 2023	15
July 1, 2023 - June 30, 2024	12
July 1, 2024 - June 30, 2025	9
July 1, 2025 - June 30, 2026	8
July 1, 2026 - June 30, 2027	8

Based on current market conditions, we recommend the chart be updated to the following:

Inflation Rates per July 2023 Report	
Period	Construction Cost Inflation Annual Rate (%)
July 1, 2022 - June 30, 2023	15
July 1, 2023 - June 30, 2024	8
July 1, 2024 - June 30, 2025	7
July 1, 2025 - June 30, 2026	6
July 1, 2026 - June 30, 2027	5

It should be noted that inflation for different construction types may vary. The proposed inflation rates assume that cost estimates being completed now are starting with unit costs that have accounted for the large inflationary pressures seen previously. Otherwise, additional adjustments should be made as needed to account for prior inflation to the point in time that the unit costs were established.

TA/DW/RL/MA/:tt:eg

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Inflation MFC Report 080323 _eg

cc: Randall Winston, Office of the Mayor
Aura Garcia, Board of Public Works
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