

BUDGET LETTER

	NUMBER: BL 10-15
SUBJECT: ESCALATION OF CONSTRUCTION COSTS FOR STATE FUNDED CAPITAL OUTLAY PROJECTS	DATE ISSUED: July 12, 2010
REFERENCES: SAM SECTION 6818	SUPERSEDES: BL 09-26

TO: Agency Secretaries
Department Directors
Department Budget Officers
Department Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Project Cost Estimates and CCCI Escalation Procedures

Consistent with BL 09-26, the Department of General Services (DGS) will continue to publish each month the current California Construction Cost Index (CCCI) data at:

<http://www.documents.dgs.ca.gov/resd/pmb/ccci/cccitable.pdf>

Departments must apply the most recently published CCCI when preparing budget packages, preliminary plans, working drawings, or any other required estimates for a given project. These costs shall represent the estimated hard (direct) costs at the time each estimate is prepared. Older estimates may also be updated to reflect actual changes in the CCCI since the previous estimate was prepared.

The CCCI update is calculated by subtracting the published CCCI at the time the last estimate was prepared from the published CCCI at the time the estimate is updated, with the difference divided by the previous CCCI. This calculation will yield a fraction that is then multiplied by the total hard costs to find the CCCI adjustment. Any such CCCI adjustments shall be identified on the project estimate as a distinct line item, immediately following the total direct costs. The CCCI adjusted total direct costs are hereinafter referred to as the Total Current Costs.

Example: An estimate with direct costs of \$10 million is completed in October 2009 at a CCCI of 5400. The estimate was subsequently updated in May 2010 at a CCCI of 5292, a decrease of 108 points or 2.0 percent (0.02). Based on the new CCCI, the direct costs would be reduced by \$200,000, for a revised Total Current Costs of \$9,800,000. This amount would then be escalated to the start and midpoint of construction pursuant to the instructions below (See Attachment).

Note: Updating estimates for actual CCCI changes is only allowed if a new estimate is not available. The above CCCI references are used for example only.

Escalation Procedures

For projects with an estimated contract award date before January 2012, the Total Current Costs for each project shall be escalated on a monthly basis starting from the date the construction estimate was last updated to the projected start and mid-point of construction at a rate of **0.25** percent. This escalation represents a projected annual increase of approximately 3.0 percent and is intended to help offset anticipated near-term CCCI increases.

For projects with an estimated contract award date after December 2011, the Total Current Costs for each project shall be escalated on a monthly basis starting from the date the construction estimate was last updated to the projected start and midpoint of construction at a rate of **0.42** percent. This escalation represents a projected annual increase of approximately 5.0 percent and is intended to help offset anticipated longer-term CCCI increases.

Regardless of which escalation rate is used, the monthly escalation rate is not to be compounded monthly; instead the escalation to the start of construction is to be calculated by multiplying the number of months estimated between the date the estimate was last updated and the start of construction by the appropriate escalation rate, as specified above. The escalation to the mid-point of construction is calculated in the same manner by dividing the construction period (in months) by two and multiplying that number by the Total Current Costs (not including the escalation to the start of construction).

Example: The same project used in the previous example, with Total Current Costs of \$9,800,000 as of May 2010, is projected to start construction in May 2012, a total of 24 months, and end construction in May 2013, twelve-months later. Therefore, to calculate the escalation to the start of construction, the Total Current Costs are multiplied by 24 (number of months to start of construction) and 0.0042 (the escalation rate for projects starting construction after December 2011), for a total escalation to the start of construction of \$988,000.

The same process would then be used for calculating the escalation to the midpoint of construction. Using the same project as an example, the Total Current Costs of \$9,800,000 would be multiplied by 6 (number of months to the midpoint of construction) and by 0.0042, for an additional escalation of \$247,000, with the product from the escalation to the start of construction (\$988,000) and escalation to the mid-point of construction added to the Total Current Costs, for a Total Contracts amount of \$11,035,000 (See Attachment).

Note: Departments are required to base their 2011-12 Capital Outlay Budget Change Proposals (COBCPs) on the published CCCI as described above. Any COBCPs revised per this BL must be submitted to Finance no later than **September 1, 2010** (per BL 10-05). Any COBCPs submitted after this deadline will generally not be accepted unless approved by the Department of Finance (Finance) **prior** to this deadline.

Instructions for Projects Not Managed by DGS

The escalation procedures and reporting requirements for projects not managed by DGS are the same as described above, except that alternative fiscal reporting documents may be used, which differ slightly from those used by DGS. However, any alternative fiscal reporting documents must contain substantially the same information as required for DGS managed projects and must be approved by Finance.

For any questions, contact your Capital Outlay budget analyst at (916) 445-9694.

/s/ Greg Rogers

Greg Rogers
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Attachment