

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

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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.

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Inflation MFC Report 080323 _eg

cc: Randall Winston, Office of the Mayor
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