



## MEMORANDUM

**To:** Mayor and City Council

**From:** Mike Land, City Manager

**Date:** July 11, 2023

**Reference:** Discussion regarding inflationary impacts to the budget and planning.

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Since the beginning of COVID-19, there has been a lot of talk about inflation: what could happen, what would happen, what was happening, where we are now and what may happen. Everyone is familiar with CPI, the Consumer Price Index. Most are not aware of the Municipal Cost Index as developed by American City and County. While CPI is linked to consumer spending, the Municipal Cost Index (see attached description) is more representative of the cost of providing municipal services which in many instances represents the cost for commodities purchased in quantities such as concrete. In 2022, while CPI was reported to be approximately 8.4%, the MCI for that same time period was 10.23%. MCI typically runs approximately 1-2% higher than CPI.

The Consumer Price Index for the Dallas Area since 2019 according to the Bureau of Labor Statistics:

2019	1.80%
2020	0.03%
2021	7.50%
2022	8.40%

Currently in 2023, CPI is reported to be around 3.5% and its increase has been slowing.

Knowing things will change between now and bidding/contract awards, these numbers should not necessarily be used as a carved-in-stone new project cost, as they were not necessarily line by line updates. Instead, we simply asked for engineers' best current estimate based on what they see happening in their market. The bottom line is that inflation is still having an impact. Some may recall at one point several years ago we were adding about 1.5% cost increase per month to our projects. We are back in that mode again.

The following are updated estimates to projects already in discussion:

Parks Projects:

- Magnolia Park Trail- original construction estimate - \$1.1M; Updated is \$2.1M (total budget allocated to this, including design was \$1.5M)
- Veterans Monument (based on current design)- early estimate and budget \$300K. Updated is more than \$500K
- Dog park- There was no original estimate for new construction. Current all-in estimate and budget based on very preliminary plans- \$1.760M (had about a 20% contingency built into this number, but they are seeing cost increases of about 1%/month)

Public Works Projects:

- Traffic Signal: Royal and Northpoint one year ago \$285K; Freeport and Northwestern by Vari for this year- \$550K
- Woodhurst- current estimate about a year ago was \$5M; updated is \$6M.
- Service Center- about 4.4% inflation every quarter. Project is put on hold for the time being.
- Royal lane- at 60% plans (\$18.8M) vs. 90% plans (\$24M) (additional work beyond just the road construction are now included in the project, these include trails/sidewalk and changed landscaping which accounts for the majority of the change between the 60% and 90% plans. Inflation accounts for about \$3M)
- Arborbrook Channel- original estimate and budget was \$1M (Dec 2022), current estimate is \$1.3M.
- Bullock and Howell, original estimate was \$2.1M in July 2022, most recent is \$2.4M

Fire Projects and equipment:

- FS 5- The architect firm that staff is bringing to Council for FS5 design contract indicates they are seeing 1.5% inflation per month on their other projects. Projected out 12 months to cover the design period, we are looking at an 18% increase by the time we are ready to bid.
- Overall cost increases for apparatus have surpassed the estimates we were accustomed to in years preceding COVID-19. Prior annual increases were averaging 5%. The last couple of years we have had over 15% increases in supplier and labor driven components as well as other countries that supply commodities such as nickel for stainless steel, rubber, resins, etc.
  - Build times for large apparatus are running 27-40 months. EPA compliance issues are having an impact on engine delivery delays.

Capital and ES Replacement Funds:

- Adding \$5.1 for the full 5-year window to fully fund vehicles (not all is in General Fund). Cost driven mostly by Fire apparatus, but almost all are experiencing increases and delays.
- ES has increased its replacement cost to include inflationary increases at 3% annually, adding nearly \$1M.