



City of Orlando

Cost Escalation Formula

Transportation Advisory Committee

April 17, 2007

Intent of Cost Escalation

- **Method to estimate growth in costs, through the computation of a three-year average of the actual cost growth rates.**
- **Provides a growth rate that should be smoothed to avoid overcompensating for major fluctuations in costs that have occurred due to short-term material shortages.**

Section 59.1010

Method for Calculating Cost Escalation

- **Cost Escalation Formula** *(from model ordinance)*:

$$\text{Cost}_n = \text{Cost}_0 * (1 + \text{Cost_growth}_{3\text{yr}})^n$$

Where:

Cost_n = The cost of the improvements in year **n**

Cost₀ = The cost of the improvements in the current year

Cost_growth_{3yr} = The growth rate of costs over the last 3 years

n = The number of years until the improvement is constructed

Section 59.1010

Method for Calculating Cost Escalation *(cont)*

- **Three-year Cost Growth Rate** *(from model ordinance)*:

$$\text{Cost_growth}_{3\text{yr}} = (\text{Cost_growth}_1 + \text{Cost_growth}_2 + \text{Cost_growth}_3) / 3$$

Where:

Cost_growth_{3yr} = The growth rate of costs over the last 3 years

Cost_growth₁ = The growth rate of costs in the previous year

Cost_growth₂ = The growth rate of costs two years prior

Cost_growth₃ = The growth rate of costs three years prior

Cost Escalation Issues

- **Which costs shall be included?**
 - *Design*
 - *Right-of-way*
 - *Acquisition*
 - *Planning*
 - *Engineering*
 - *Inspection*
 - *Physical development costs directly associated with construction*

- **Who shall determine improvement costs?**
 - *City roads = Public Works Department*
 - *County roads = Orange County*
 - *State roads = FDOT D5*

Cost Escalation Issues *(cont.)*

- **Improvement costs shall be fixed at time of City Council approval of the Proportionate Fair-Share Agreement**
- **Cost value of an improvement project proposed by applicants and accepted by the City shall be determined by the Section 59.1010 cost escalation method**
- **Non-site related right-of-way dedication may be creditable for the proportionate fair-share contribution**
- **Value of right-of-way dedications shall be assessed through a City-approved appraisal process at no expense to the City**
- **If estimated value of right-of-way dedication proposed by applicant is less than City estimated total proportionate fair-share obligation for that development, the applicant shall pay for the difference**
- **Compliance with FDOT and federal law and regulations**



Questions?