

Risk Factors, Effect on Public Works Costs, and Some Possible OCTA Mitigations

Risk Factor	Impact on Costs	Likelihood	Comments	Possible OCTA Mitigations
Sustained low unemployment	Increases costs beyond Table 5 model prediction	Likely in the next 2 to 5 years	Wage pressure is still low, suggests that the economy has continued room to expand without necessitating policy efforts (i.e. interest rate increases) that would induce a recession	Accelerate the next 2 to 3 years of the Next 10 Plan Increase the supply of contractors
Increased Building Permitting (and hence residential construction)	Increases costs	Unlikely given long-term political factors, but regulatory change could be sudden	Increasing permitting depends in part on state or local political changes, but Inland Empire construction has been increasing rapidly	Accelerate next 2 to 3 years of the Next 10 Plan Labor force training to increase supply of skilled construction labor
Continued Consolidation in Construction and Architecture/Engineering Industry	Increases costs in near-term, then pressure for costs to remain high	Likely, given recent consolidation trends	The industry has been consolidating. Unclear whether that trend has played out or will continue.	OCTA becomes a preferred client Reduce barriers to new entrants into OCTA bid process Innovate in ease of doing business with OCTA
Interest Rate Increases	Short-term cost increases as financing costs, for OCTA and contractors, increase – long-term downward cost pressure if recession ensues	Highly likely to have moderate interest rate increases in next 2 to 5 years	U.S. is near historically low interest rates; global savings glut will exert downward pressure on interest rates; on net, rate increases likely to be moderate and sustained	Complete financing agreements in the near-term to avoid higher interest rates

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Neighboring County Transportation Programs Exert Cost Pressure	Increases Costs	Highly Likely; current work programs in neighboring counties meet or exceed level in Orange County	Recent self-help sales tax increases “lock in” sustained demand for public works contractors in Southern California	<p>OCTA becomes a client of choice</p> <p>Simplify the bid process and process of doing business with OCTA</p> <p>Accelerate Next 10 Plan to lock in prices before peak market pressure from neighboring counties</p>
Increasing Construction Wage Pressure	Increases Costs	Likely in foreseeable future, unless residential market reverses course (which would likely coincide with a recession)	Construction wages increases by from 4.39 to 5.3 percent annually, 2014 to 2016, in Orange and neighboring SCAG region counties	<p>Accelerate Next 10 Plan in advance of additional increases in construction wages</p> <p>Support efforts to increase the pool of construction labor</p>
Recession	Decreases Costs	Likely within the next 10 years, but timing highly uncertain	Recession will reduce demand for private sector residential and commercial construction, but public sector demand will remain although sales tax revenues will drop in a recession	Timing uncertainty makes mitigation measures, beyond those listed above, difficult to implement

OCTA – Orange County Transportation Authority

SCAG – Southern California Association of Governments