Office of the Independent Budget Analyst

Revenue Options to Address Critical Infrastructure and Affordable Housing Needs

Presentation to
BOMA Government Affairs Committee
May 18, 2015

Overview

- The City is facing significant funding requirements for its deferred capital, infrastructure, and affordable housing needs.
- All these needs, along with other City goals, will compete for many of the same potential revenue sources.
- The City will need to determine the full extent of its needs, prioritize which projects need to be funded, create internal capacity to meet those needs, and consider exploring new revenue sources.

Affordable Housing Needs

- The need for affordable housing is immense - 52,000 people are on the waiting list for Section 8 vouchers, the wait time is estimated at 10-12 years.

- The General Plan Housing Element goal for 2013-2020 calls for 9600 new units over a 10-to-12 year period, costs are estimated at $600 million.

Affordable Housing Needs

- Workforce Housing impact fee increases , recently approved by City Council, will return fees to 1990 levels by 2017, generating roughly $1.4 m annually, and providing for 14 new housing units annually.

- Workforce Housing impact fees are an important resource for affordable housing, but were never intended to be a primary funding solution.

Infrastructure Needs

- The City recently released a Multi Year Capital Plan (MYCP), which identified $3.9 billion in infrastructure needs over the next 5 years.
- At the same time, only $2.2 billion of funding has been identified, leaving a $1.7 billion funding gap.
- Additional infrastructure needs will be identified in ongoing condition assessments of more City facilities, streets, and sidewalks.
- There are significant additional needs beyond those in the MYCP:

Infrastructure Needs

- Funding for the Mayor's commitment to add a thousand miles of street repair will carry additional costs not included in the MYCP.
- Proposals for an expanded convention center and a new football stadium are also being developed, and will require funding to be implemented, and are not included in the MYCP.
- The City also faces a funding gap in paying for Stormwater projects that are being mandated by the State and Federal governments.

City Capital Funding Needs

- Full costs of the proposed PURE Water program are not included in the MYCP.
- In short, the $1.7 billion funding gap identified in the MYCP represents deferred capital needs of **existing** facilities and not **new** City structures such as Fire Stations , Lifeguard stations, Police facilities, parks or recreation centers.
- With the exception of the 2011 Citygate Report which addressed the need for Fire stations, there are no updated plans which comprehensively identify **new** infrastructure needs in these areas.

City Capital Funding Needs

- Citygate identified the need for 19 new fire stations to address service gaps in response times.
- A Five-Year Lifeguard Needs Assessment was presented to Council in March 2014 which discussed their capital needs but no costs were identified.
- The Police Five Year Plan issued in 2012 addressed staffing, equipment and vehicle needs but not facilities needs.

Expenditure Commitments to Date

- In 2009 the City issued its first deferred capital bond for $103.3 million.

- In March 2012 Council took significant steps to fund infrastructure when it approved Enhanced Option B Deferred Capital Fund Plan.

Expenditure Commitments to Date

- This plan called for annual issuances of lease revenue bonds totaling $494 million through FY 2016.
- Issuance of the $120 million in FY 2014 and 2015 was been delayed due to litigation, which was recently resolved
- Included in the Mayor's plan for funding his commitment to street repair is a notice that the City will resume issuance of the full amount contemplated in Enhanced Option B, with issuances going out through FY 2018.

Expenditure Commitments to Date

- In the FY 2016-2020 Outlook, the Mayor has also committed 50% of major revenue growth annually to infrastructure.

$ in millions	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Total
Commitment in New Financial Outlook - 50% of Major Revenue Growth:	$28.8	$14.8	$12.6	$17.9	$16.2	$90.3

Why Pursue New Revenues?

- Other than lease revenue bonds, no significant alternative revenue options have been identified in support of infrastructure financing.
- Lease revenues are not a long-term solution; they require commitment of a finite number of City assets and ongoing debt service paid by the City's General Fund.
- Continuing to fund infrastructure at current rates will only slow the rate of its deterioration.
- Deterioration increases future costs, and can lead to health and safety risks, expanded liability exposure, and hinder the provision of vital City services.

Why Pursue New Revenues?

- Many of the City's facilities are between 30 and 50 years old, and several facilities have significantly exceeded their useful lives or been insufficiently maintained.
- The cost to maintain infrastructure like streets increases exponentially as their condition deteriorates.

Potential Revenue Sources

- There is a need for additional revenue to support Infrastructure, Affordable Housing, and many other needs.

- We provide information on 8 potential sources:

  - Sales Tax
  - TOT
  - Utility Users Taxes
  - Parking Taxes
  - Repeal of the People's Ordinance
  - Stormwater Fees
  - General Obligation Bonds
  - Infrastructure Financing Districts

Sales Tax

- The Sales Tax rate in the City is 8.0%
- The City receives 1% of that, which generates $257.1 million in General Fund dollars annually.
- An increase in the Sales Tax rate of 0.25% would generate $64 million annually.
- Requires a 2/3rds vote if dedicated to a specific use, majority vote if general use.

Sales Tax

- No city in San Diego County has a lower effective sales tax rate, than the City's; five cities have higher rates: though the following five cities in the County have aggregate rates above 8.0%:

- El Cajon	9%	-La Mesa	8.75%
- Vista	8.5%	-National City	9.0%
-Vista Park	8.5%		

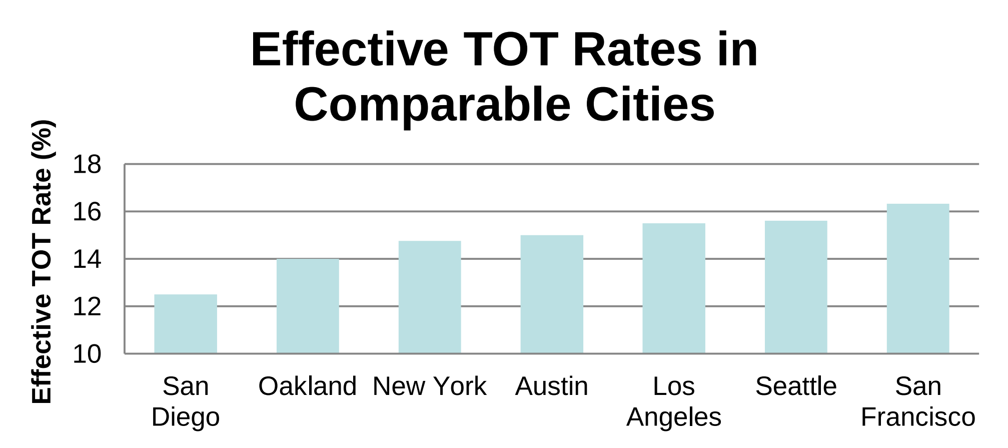
- San Diego's existing Sales Tax rate is low compared to other cities.

Transient Occupancy Tax

- San Diego's TOT rate is currently 10.5%.
- An additional 0.55% to 2.0% is applied by the TMD.
- The 10.5% rate generates $174 million annually.
- An increase in TOT rates of 1% would generate an additional $16.6 million each year.
- Requires a 2/3rds vote if dedicated to a specific use, majority vote if general use.

Transient Occupancy Tax

- The City's current TOT rate is lower than comparable cities.



- Council Policy 100-3 limits TOT rates to the average of 15 other major cities. The average effective TOT of those cities is 15%.

Parking Occupancy Tax

- San Diego does not currently have a Parking Occupancy Tax.
- These taxes are levied on pay-parking lots, and require lot operators to collected and remit the tax.
- A 10% parking tax could generate approximately $38 million annually based on revenue generated in other California cities.

Parking Tax in Select California Cities		
City	*Tax Rate*	*FY 2014 Revenue*
Los Angeles	10%	$96.6 million
Oakland	18.50%	$16.3 million
San Francisco	25%	$83.2 million

- Requires a 2/3rds vote if dedicated to a specific use, majority vote if general use.

Utility Users Tax

- A Utility User Tax is a tax on utilities that is applied to the consumption of electricity, gas, water, sewer, telephone, and/or cable television services.
- 150 counties and cities in California have various UUTs ranging from 1 to 11 percent. San Diego is unique in not having any UUTs.
- In 2010, the total UUTs collected by similar California cities amounted to $74 per capita.
- If the City were to impose a UUT at the $74 average, it would generate $99.6 million annually.
- Requires a 2/3rds vote if dedicated to a specific use, majority vote if general use.

People's Ordinance

- San Diego is the only major California city that does not recover at least a portion of its refuse collection expenses from those provided collection services.
- The FY 2015 budget includes $47.3 million in expenditures related to collection services for refuse, recyclables, and green waste. Of that $47.3 million, $31.3 million comes from the General Fund and provides for refuse collection.
- Repeal of the People's Ordinance could therefore relieve the General Fund of $31.3 million annually.
- Repeal requires a majority vote.

Stormwater Fees

- San Diego currently collects a fee of $0.95 per month from single-family residences to provide for storm drain maintenance and stormwater projects, and usage-based fees from multi-family residences. These generate $5.7 million per year.
- Other coastal cities charge much more (Los Angeles – $1.92/month; Monterey – $5.44/month; Sacramento - $11.31/month.
- If San Diego were to increase its fees $5.00 per month, it would generate an additional $24.3 million annually.
- Requires a 2/3rds vote of the General Public, or a majority vote of property-holders.

General Obligation Bond

- General Obligation Bonds provide funding for capital projects and land purchases. They *cannot* be used for ongoing operations.
- When approved, bonds are paid for by increasing local property taxes to cover required debt service.
- In San Diego, debt service on a $100 million bond would represent an annual property tax assessment 0.0032% of a property's valuation over the life of a 30 year bond.
- This represents an annual assessment of $14.24 on a house valued at $445,000 (the median sale price of a home in August 2014).

General Obligation Bond

- General Obligation Bonds require a 2/3rds vote of the general public.
- Cities such as San Antonio, Austin, and Phoenix have successfully carried out numerous GO bond programs and serve as good models.
- Ballot propositions have included significant funding of infrastructure as well as affordable housing.

Infrastructure Financing Districts

- SB 628 was recently adopted by the California state legislature, and will allow California cities to form Enhanced Infrastructure Financing Districts beginning in January 2015.
- EIFDs would be financed through distribution of a participating jurisdictions' property tax increment revenue.
- No public vote is required to form an EIFD, though there is a detailed process required of participating agencies.
- EIFDs will be permitted to issue tax increment bonds with approval of 55% of voters living in EIFD boundaries.
- EIFDs are geographically limited, and as they have only recently been approved, there is no data on best practices in other cities.

Next Steps

- There are still several things that need to happen before the City pursues any of those potential revenue options.
- The City needs to identify existing funding that can be used for some of its infrastructure needs.
- The City needs to ensure it has the staffing capacity to complete necessary capital projects.
- Service levels and Priorities need to be clearly established
- Any Bond program should include a detailed list of projects to be funded.

Next Steps – Existing Funding

- The City does have unspent money that could be used to finance infrastructure repairs and improvements. Examples include:
  - $46 million in TransNet funding
  - $18 million in Parking-Meter Revenue
  - $TBD in Capital Project Accounts under Review
- Existing unspent funding should be identified and dedicated to appropriate capital projects.

Next Steps – Increase Capacity

- The City needs to ensure that it has sufficient capacity to make infrastructure improvements.
- At present, the City is capable of overseeing $300 to $350 million of capital projects each year (including Public Utilities and the General Fund).
- Needs identified in the MYCP average over $750 million a year, and identified funding averages $550 million a year.
- The City needs to determine the extent to which it can expand its capacity to complete capital projects, and what is necessary to increase that capacity.

Next Steps – Service Levels and Priorities

- The City needs to determine the service levels it is committed to maintain.
  - What condition levels should buildings, streets, etc be maintained at?
- The City also needs to determine which capital needs are true priorities, and determine which projects need immediate funding, and the order in which projects should be completed.

Next Steps – Pursuing New Revenue

- The City needs to be *specific* about which projects would be funded by any new revenue stream. Individual projects should be identified.
- Enough lead-time needs to exist for citizens to have input on project selection.
- The City needs to demonstrate a good track-record of effectively completing infrastructure and capital projects.
- Potentially competing proposals for other revenues (SANDAG/TransNet, Stadium, Convention Center, etc) need to be considered as well.

Next Steps – Good Government BMPs

- Any new and significant source of revenue will require a public vote.
- Revenue Measures should therefore include good government practices that ensure openness, transparency, and public accountability regarding revenue that is raised.
- Good practices could include:
  - Creation of Citizen Oversight Boards
  - Periodic Mandatory Audits
  - Public and Open Access Requirements

Next Steps – Good Government BMPs

- For ongoing sources of revenue, it may be appropriate to consider sunset provisions as well.
- These and other measures may prove critical in obtaining voter approval of new revenue sources.

Questions?