Office of the Independent Budget Analyst

Ballot Scenarios for Infrastructure Funding

Presentation to
Infrastructure Committee
June 24, 2015

IBA Report 15-25

Overview

- In January, this Committee directed our office to report back with potential revenue options and financing plans to support City infrastructure.
- We met with Council offices and several City Departments and Agencies to gather ideas and infrastructure priorities throughout the City.
- Our report identifies asset classes that could be funded, potential funding sources, and the next steps necessary to move forward, along with time-lines for putting an item on a ballot in November 2016 or 2018.

Background

- Addressing infrastructure needs remains the most significant financial challenge facing the City, with decades of underinvestment resulting in significant deterioration of existing assets.
- The City's first Multi-Year Capital Plan (MYCP) was released in January, and is a major step towards identifying infrastructure needs throughout the City.
- The MYCP identified a five-year funding gap of $1.7 Billion in what is necessary to repair and maintain the City's existing infrastructure.

Background

- Capital Needs in the MYCP are $3.9 Billion. Funding of $2.2 Billion for those needs has been identified.
- The $1.7 Billion shortfall pertains to General Fund infrastructure needs, as shown below:

MYCP Five-Year Funding Shortfall *(billions)*			
	Needs	**Resources**	**Shortfall**
Utilities	$ 1.4	$ 1.4	$ -
Other/General Fund	$ 2.5	$ 0.8	$ 1.7
Total	**$ 3.9**	**$ 2.2**	**$ 1.7**

- $1.4 Billion of the gap is attributable to four Asset Classes:

$141 million – Facilities | *$675 million – Storm Water*

$225 million – Street Lights | *$269 million – Streets/Roads*

Background

- Significant progress has been made in addressing infrastructure challenges, including:
  - Creating of the City Council Infrastructure Committee
  - Releasing the MYCP
  - Implementing Enhanced Option B
  - Creating and Implementing new Streamlining Reforms
  - Improving the City's Cash-Management Processes
  - Implementing Citywide Asset Management
  - Completing of detailed condition assessments for City Facilities, Streets, and Sidewalks
  - Increasing staffing in the Public Works Department to allow for a higher level of project delivery

Asset Classes for Funding

- Based on our discussions with Council Members and Department Staff, we identified four asset classes/programs that could be funded with new revenue.
- We chose to focus on asset classes that meet City needs and/or regulatory mandates, that have existing plans that have been approved by Council, that could conceivably receive broad community support, and that have needs for additional funding.
- The Asset Classes/Programs we identified are:

- Streets and Sidewalks

- Storm Water

- Fire Stations

- Affordable Housing

Asset Classes for Funding Streets and Sidewalks

- In April, Council approved the Mayor's Five-Year Street Pavement Repair Program, which proposed 1,000 miles of street repairs over the next five years, and increasing the OCI of City streets to 70 by 2025.
- In our review of the program, we determined that $206 million of funding beyond that already identified is necessary to meet the OCI of 70 goal, as shown on the following slide.

Asset Classes for Funding Streets and Sidewalks

FY 2016-2020 Streets Repair Funding Needed for an OCI of 70 vs. Proposed						
	FY16	**FY17**	**FY18**	**FY19**	**FY20**	**Total**
OCI 70 Need *(millions)**	$ 108.2	$ 108.2	$ 108.2	$ 108.2	$ 108.2	$ 541.0
Mayor's Plan *(millions)***	$ 73.6	$ 89.3	$ 84.8	$ 87.0	$ -	$ 334.7
Shortfall *(millions)*	**$ 34.6**	**$ 18.9**	**$ 23.4**	**$ 21.2**	**$ 108.2**	**$ 206.3**

*Needs are based on 2011 streets assessment and may be less depending on results of updated assessment planned for completion in Fall 2015

**Includes combination of cash for Gas Tax, Prop 42, Transnet, General Fund, as well as lease revenue bonds

- As shown above, additional funding is necessary to reach the new OCI goal over the next five years.

Asset Classes for Funding Streets and Sidewalks

- In April, the City completed its Sidewalk Condition Assessment, which identified over 78,000 locations with deficiencies throughout the City.
- The total cost to repair these locations totals $46.4 million, as shown below.

FY 2016-2020 Sidewalk Repair Funding Needs		
Damage Treatment	**Damaged Locations**	**Total Cost Estimate**
Maintenance - Slice/Grind	40,039	$ 6,000,000
Tree-related Replacement	7,585	$ 23,500,000
Non Tree-related Replacement	30,758	$ 16,900,000
Total Sidewalk Damage Repair	**78,382**	**$ 46,400,000**

- The FY 2016 Adopted Budget does include $4.5 million to address 9% of this damage.

Asset Classes for Funding
Fire Stations

- On June 3rd, this Committee heard an updated Facilities Condition Assessment.
- Part of that Assessment included the condition for 17 fire stations. Of those 17 stations, 10 were in poor condition.
- The total maintenance and capital backlog for those 17 stations is $24.0 million; $17.3 million of that amount are repairs needed for the stations in poor condition.

Asset Classes for Funding Fire Stations

- In 2011, the City prepared its Citygate Report, which identified service gaps and recommended construction of 19 additional fire stations.
- Funding for six new fire stations is included in the FY 2016-2020 Five Year Outlook, though four stations – Skyline Hills, Home Avenue, Paradise Hills, and College Avenue – have a total of $43.9 million in additional capital needs.
- New fire stations, on average, cost approximately $12.0 million per station.

Asset Classes for Funding Storm Water

- In 2013, the Regional Water Control Board adopted a new municipal storm water permit that mandates stringent pollution control measures.
- The City prepared a Watershed Asset Management Plan (WAMP) that details compliance activities and costs.
- An updated list of WAMP costs was included in the Jurisdictional Runoff Management Plan, which identified $3.4 billion in compliance costs through FY 2040.

Asset Classes for Funding Storm Water

- Costs over the next five years in the updated WAMP are $723.8 million.
- The Five-Year Financial Outlook identifies $344.4 million in funding for storm water over that same time, leaving a gap of $379.4 million.
- If the City does not comply with permit requirements, it could incur penalties up to $10,000 per day per violation from the state and $27,500 per day per violation from the EPA.

Asset Classes for Funding Affordable Housing

- The General Plan Housing Element for 2013-2020 includes a goal of producing 10,300 new affordable housing units by 2020.
- The need for affordable housing in San Diego is greater; 58,000 households are on a waiting list for Section 8 housing, and the wait-list is 8-10 years long.
- While increased Housing Impact Fees will help provide some funding - $2.4 million in FY 2016, it falls short of both the goal and the need for affordable housing.

Asset Classes for Funding Affordable Housing

- If the City were to include $100 million in new revenue for affordable housing, it could support development of 1,000 new affordable housing units.

- New funding could supplement the City's local affordable housing resources and help support new construction, as well as acquisition and rehabilitation of existing housing units.

Existing Funding Sources

- As discussed, the MYCP did identify $800 million in General Fund support for infrastructure over the next five years.
- Between 2009 and 2012, the City issued $213.0 million of lease-revenue bonds.
- Over the next four years, an additional $270 million is planned to be issued (only $168 million of this is included in the MYCP).
- These bonds require the City to commit a portion of its general fund to ongoing debt-service, and require the City to pledge City-owned properties to each of the bonds.

Existing Funding Sources

- $100 million in Transnet funds are included in the MYCP. These funds can only be used on roadway improvements, bicycle facilities, bridges, pedestrian facilities, and traffic signals.
- 70% of Transnet dollars must be used on capital projects.
- The Mayor also committed to allocating half of new growth in major revenues towards infrastructure. This is expected to provide $90 million through FY 2020.

$ in millions	FY 2016 Outlook	FY 2017 Outlook	FY 2018 Outlook	FY 2019 Outlook	FY 2020 Outlook	TOTAL
Commitment in Outlook - 50 percent Major Revenue growth	$ 28.8*	$ 14.8	$ 12.6	$ 17.9	$ 16.2	$ 90.3

Existing Funding Sources

- Additional funding comes from the following sources:
  - Development Impact Fees
  - Facilities Benefit Assessments
  - Grants
  - Capital Outlays

Revenue Options – Sales Tax Increase

Option: 1/4 cent increase for 15 years ≈ $68 million/year

- Would require two-thirds voter approval
- Sales tax increase dedicated to infrastructure projects in the City
- Proceeds could be used to bond finance projects
- Proceeds could also be used to cash fund projects
- Proceeds could also be used to cash fund maintenance & repair

Scenario:
$42 million – to support annual debt service for 15-year $500M bond
$26 million – available to cash fund projects and/or for M&R
$68 million

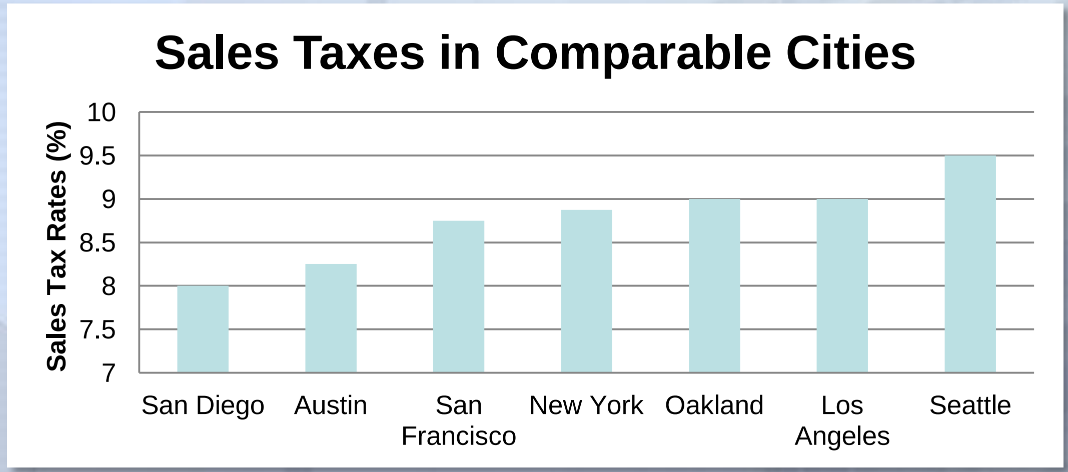
** Allows flexibility to adapt funding plan to meet project demands over time. $500 M in bonds could be issued in more than one series.

Revenue Options – Sales Tax Increase

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

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

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



Revenue Options – GO Bond

Option: Issue a $500 million 30-year GO Bond

- Would require two-thirds voter approval; supported by property taxes
- Annual debt service paid by owners of real property in the City
- Bond proceeds dedicated to capital infrastructure projects in the City
- Proceeds cannot be used to fund infrastructure operations and maintenance

Scenario:

$500 million – 30-year GO bond issued in one or more series as needed

$ 27 million – estimated annual debt service to be paid for 30 years

.00013695 – additional property tax factor applied to assessed property value

$ 64.43 – estimated annual property tax for median priced home ($470,500)
30 years – term of the GO bond/additional property tax

** If bond proceeds are used to finance new facilities (e.g., fire stations), funding would need to be identified for the operations and maintenance of the new facilities.

Revenue Options – People's Ordinance

Option: Begin recovering the cost of refuse collection

- Would require majority voter approval
- Approximately 285,000 households would begin to pay for collection service
- Resulting bill estimated to be approximately $14/month per household
- Based of FY 2016 budget, this would recover $32.2 million for the General Fund
- Recovered General Fund revenue better enables the City to issue additional lease revenue bonds (LRBs) in support of infrastructure projects
- Addresses equity issue with businesses and multifamily households who already pay

Scenario:

$500 million – 30-year LRBs issued in one or more series as needed

$ 29 million – estimated annual debt service to be paid for 30 years

Council authorizes issuance of bond; bonds secured by lease of City property

1. $500 million of LRBs could be issued over and above the current plan to issue $90 million of LRBs in FY 2017, FY 2018 and FY 2019
2. Alternatively, Council could choose to not issue bonds and instead use additional General Funds to cash fund projects and/or do more maintenance & repair work

Revenue Options – SANDAG QofL

Option: Support SANDAG's contemplated countywide sales tax measure in lieu of a City measure

- Contemplated Measure: 1/2 cent sales tax increase for 40 years ≈ $300 million/yr
- Funds allocated to cities in County on a per-capita basis (City of San Diego ≈ 42%)
- 1) Improve roads & transportation; 2) Open-space preservation; and 3) Equitable Neighborhood Infrastructure
- Would require two-thirds voter approval in County
- If approved, SANDAG can issue bonds or remit cash for City infrastructure projects
- QofL Measure expenditure rules and requirements still under discussion
- SANDAG staff will return to Board in the fall to ask for a recommendation to go forward

Scenario:

Assume $300 million year; City Neighborhood project allocation ≈ $42 million/yr

$500 million – 30-year sales tax revenue bond issued in one or more series

$ 29 million – estimated annual debt service to be paid for 30 years

$ 13 million – available to cash fund projects/M&R (if allowed by measure)

$ 42 million – hypothetical annual allocation to City

Revenue Options – EIFD

Option: Form an Enhanced Infrastructure Financing District (EIFD)

- Once formed, EIFDs can issue property tax increment bonds with 55% voter approval
- Comprehensive infrastructure financing plan (IFP) required before District formation
- Property tax increment sharing allowed between cities and counties – not school districts
- After noticed public hearing, Council adopts IFP and acts to form EIFD
- Bonds must be issued within 180 days of ROI to form EIFD
- Requires independent financial and performance audit every 2 years after bonds issued

Scenario: **IBA does not recommend an EIFD for this infrastructure objective**

1) Challenging formation process and timing considerations
2) Questions related to mutual interest for tax increment sharing
3) Difficult to project tax increment related to this type of infrastructure
4) Tax increment fluctuation reduces certainty of revenue for projects

* EIFDs more appropriate vehicle for other types of infrastructure projects

Revenue Scenarios

- For the purposes of discussion, and having a starting point, we prepared two funding scenarios for the Committee to consider, based on either a cash-based funding approach or a bond-based approach.
- The scenarios provide funding for each asset class we discussed, though the amounts to be funded should be adjusted based on public input.
- Council could consider adjusting amounts, or even dedicating a new revenue source entirely to one or two asset classes.

Revenue Scenarios – Bond Funding

- Our first scenario assumes $500 million in bond funding. GO Bonds would be backed by property taxes; a Sales Tax Revenue Bond or additional lease-revenue bonds supported by funding that currently subsidizes the People's Ordinance are also possible.
- If a bond were based on a quarter-cent sales tax, and paid off over 15 years, an additional $26 million per year would be available to cash-fund projects or maintain and repair of infrastructure projects.
- The advantage of bond funding is the availability of a greater amount of up-front funding. Projects could be executed over 5-7 years, provided sufficient staff capacity exists.

Revenue Scenarios – Bond Funding

$500 Million GO or Sales Tax Revenue Bond Funding Scenario (*$ in millions*)		
Streets	$200	This amount would provide funding consistent with and necessary for maintaining progress to meet the Mayor's goal of improving the OCI of City streets to 70 by 2025.
Fire Stations	$100	This amount could provide funding for repair of 10 fire stations currently in poor condition, fill the funding gap that currently exists for four partially-funded fire stations identified in the Citygate report, and allow for the construction of 3 additional fire stations identified in the Citygate report that could be constructed in areas of critical need.
Storm Water	$100	This amount would provide partial funding for tackling the City's storm water permit compliance efforts, and could be targeted towards BMPs that have a nexus with transportation and/or drought response projects.
Affordable Housing	$100	This amount could provide approximately 1,000 affordable housing units for low and moderate income households including but not limited to veterans, seniors, and disabled persons.

Revenue Scenarios – Cash Funding

- Our second scenario assumes annual cash funding. Repeal of the People's Ordinance would free up $32 million in General Fund dollars each year. A Quarter-Cent Sales Tax increase would generate $68 million annually.
- This scenario therefore provides additional amounts, depending on which type of revenue is used.

Revenue Scenarios – Cash Funding

$32 - $68 Million Annual Cash Funding Scenario (*$ in millions*)			
Asset Class	*$32 (People's Ordinance)*	*$68 (Sales Tax)*	*Funding Use*
Streets	$14	$28	This amount would provide additional annual funding to support the Mayor’s goal of improving the OCI of City streets to 70 by 2025, and to repair sidewalk deficiencies.
Fire Stations	$6	$14	This amount would provide annual funding that could go towards repair of fire stations currently in poor condition, towards filling the funding gap for partially-funded stations identified in the Citygate report, and/or to fund construction of new fire stations.
Storm Water	$6	$13	This amount would provide partial funding for tackling the City's storm water permit compliance efforts, and could be targeted towards BMPs that have a nexus with transportation and/or drought response projects.
Affordable Housing	$6	$13	This amount could provide approximately 60-130 affordable housing units for low and moderate income households including but not limited to veterans, seniors, and disabled persons.

Staff Capacity Considerations

- Large capital projects are generally executed by the Public Works Department.
- Historically, Public Works has executed $300 to $350 million in projects annually.
- Based on *existing* funding identified in the MYCP, the City needs to execute roughly $450 million in projects annually.
- To support a ramping-up of project execution, the FY 2016 Adopted Budget added over 100 new staff for Public Works.
- Additionally, the City is moving forward with several streamlining process improvements.

Staff Capacity Considerations

- Ramping up capacity will be critical to addressing ongoing infrastructure needs and to achieve $450 million in projects annually.
- It will be important to monitor how increased staffing and streamlining efforts in FY 2016 affect the City's capacity to complete projects.
- It will also be important to ensure that the City has sufficient contract administration staff, as well as overall contracting capacity, to support a large-scale infrastructure program.

Timeline and Next Steps

- State law and Council policy govern the City's timelines for placing measures on a City ballot.
- Before an item is submitted for consideration, substantial work is necessary, and generally includes public outreach efforts.
- A number of critical decisions are before the Committee and Council:
  - Should the City pursue a new revenue source?
  - Should the City pursue a City-only revenue source, or support a region-wide SANDAG effort?
  - If the City pursues a City-only revenue source, what form should it take (Sales Tax/GO Bond/Trash Fee)?
  - How will the City ensure it has sufficient capacity to implement projects?

Timeline and Next Steps

- Additional decisions will also be necessary:
  - What asset classes/programs should be funded, and in what amounts?
  - What is an appropriate amount of total new revenue to be raised?
  - What specific projects and programs should be funded?
- These decisions require input from the Mayor, Council, operating departments, and the general public. Significant public input should be obtained.
- With that in mind, we proposed the following timeline, which we believe to be aggressive, but achievable given focus and committed leadership.

Timeline and Next Steps

- June-July 2015 — Committee Review, Follow-up with the Mayor, COO, CFO, IBA, and Departments to confirm needs, priorities, capacity, and scenarios
- September 2015 — Decide whether to support SANDAG QofL measure, or determine top-two City-only revenue types. Prepare plan for public out-reach
- October 2015-March 2016 — Ongoing discussions at Committee and Council; outreach to receive public feedback, refine asset categories, funding levels, and revenue source.

Timeline and Next Steps

March 2016 - May 2016	Prepare ballot proposal for presentation to Infrastructure and ED&IR Committees
June 2016	Committee and Council Review of Ballot Proposal
July 2016	Council Adoption of Election Ordinances
August 12, 2016	Submittal of Ballot Measure to Registrar of Voters.

Timeline and Next Steps

- Council could also consider a ballot measure for November 2018.
- This could provide additional time to develop a proposal, engage with the public, potentially appoint a Citizen's Advisory Committee, and continue to show a good track-record in completing infrastructure projects.
- Lease Revenue Bond issuances are currently planned through FY 2019; after FY 2019 the corresponding $90 million in annual funding is anticipated to stop.
- A new revenue source at that point will be critical to ensure the City can address its needs going forward.

Conclusion/Recommendation

- The City faces ongoing funding needs for deferred capital and infrastructure. The MYCP's funding gap of $1.7 billion demonstrates the scale of the challenge, and additional needs not included in the MYCP for facilities, sidewalks, and affordable housing increase that gap.
- If the Committee wishes to pursue new revenue sources, we recommend that it request the Committee Consultant, Mayor's Office, impacted Operating Departments, and the IBA work together to prepare more information on priorities and necessary funding, and to report back to this Committee as part of a larger discussion on whether the City should pursue its own new revenue source, support the potential SANDAG initiative, or take another course.

Questions?