Office of the Independent Budget Analyst

Revenue Options to Address Critical Infrastructure and Affordable Housing Needs

Presentation to the
Infrastructure Committee
January 21, 2015

IBA Report 14-43

Overview

- In July 2014, Smart Growth and Land Use Committee requested IBA to identify potential revenue sources to address a critical shortage in affordable housing.
- Update: At SG&LU's November 20, 2014 meeting, the Committee also requested that the IBA research potential ways to reduce the cost of affordable housing.
- At the same time, City is facing significant funding requirements for its deferred capital and infrastructure needs.
- These significant needs, along with other important City programs and services, will compete for many of the same potential revenue sources.

Affordable Housing Needs

- The need for affordable housing has never been greater- 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.

Infrastructure Needs

- The city's needs for deferred infrastructure funding for storms drains, streets and facilities were originally estimated at $898 million
- This estimate is outdated and understated
  - Based on 2008, 2009 and 2011 condition assessments
  - Included three asset classes only
- It is widely acknowledged that current needs are much greater. Timely completion of the numerous condition assessments underway is imperative.

City Capital Funding Needs

CAPITAL NEEDS FOR GENERAL FUND DEPARTMENTS *$ in millions*		
1) Deferred Capital Backlog Estimate Based on February 2012 Condition Assessment Reports		
Streets	$	478
Storm Drains		235
City Facilities		185
TOTAL		898
2) Condition Assessments Underway		
Updated Street Condition Assessment	$	TBD
Updated City Facilities Assessment		TBD
Sidewalks Assessment		TBD
Parks and Recreation Facilities Assessment		TBD
3) Significant Deferred Capital Funding Needs Identified at Other City-Owned Facilities		
Qualcomm Stadium	$	80
Convention Center Phase II		30
4) Other Known Infrastructure Funding Needs		
Storm Water Projects to Comply with New Permit Regulations	$	1,055
Facilities Capital Renewal Costs		483
Convention Center Expansion		520
Affordable Housing		63
2011 Citygate Study – New Fire Stations		43

New Facility Needs Are Not Included in Estimates

City Capital Funding Needs

- Numbers largely represent 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.

Expenditure Commitments to Date

- In 2009 the City issued its first deferred capital bond (DC1) for $103.3 million.
- In March 2012 Council took a significant step to fund infrastructure by adopting the City's first 5-year funding plan known as Enhanced Option B.
- Subsequent bond issuances include:
  - DC 2: $75 million
  - DC 2A: $35 million
- DC 3 bond issuances of $120 million were delayed this year pending final resolution of court case.

Expenditure Commitments to Date

- Enhanced Option B called for annual issuances beginning in FY 2012 of lease revenue bonds totaling $494 million over 5 years.
- The FY 2016-2020 Outlook provides for $398 million in deferred capital bonds, $96 million less than Option B called for.

$ in millions	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Total
Council Approved Enhanced Option B Plan (March 20, 2012)	$75.0	$80.0	$81.0	$90.0	$84.2	$84.2	$494.4
Bonds Issued or Planned in the FY 2016-2020 Financial Outlook:	$75.0	$35.0	$0.0	$120.0	$84.0	$84.0	$398.0
Enhanced Option B Plan: Bonding Shortfall:							**$96.4**

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.

- 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

- It is clear 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%		

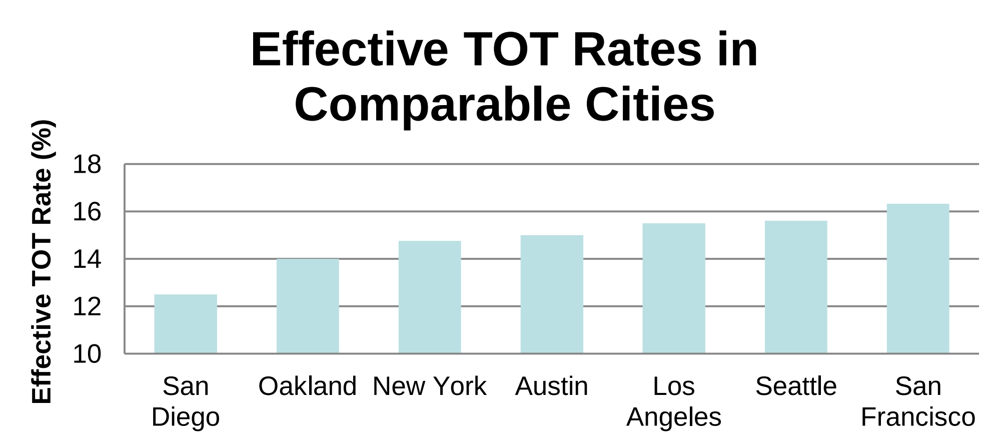
- San Diego's existing Sales Tax rate is low compared to other cities.

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 2/3^{rds} 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 District

- 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.

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

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?