



Rebuild San Diego Ballot Proposal

Presentation to City Council
January 26, 2016

Rebuild San Diego - Overview



- IBA Report 16-02 responds to a request from the Infrastructure Committee at the December 2015 meeting to analyze options for preparing a ballot measure that would dedicate additional resources to the City's infrastructure.
- IBA Report presents background context, details of how Rebuild SD Proposal could be Implemented, and Decisions for Council:
 - Timeline of Proposal
 - Definition of Infrastructure
 - Suspension Provision
 - Methodology

Rebuild San Diego - Background



- The 2016 Five Year Capital Infrastructure Planning Outlook identifies \$4.3 billion in needed capital expenditures over the next five years.
- Funding for these needs in the amount of \$2.9 billion has been identified, leaving a \$1.4 billion funding gap.
- This gap does not include needs for new parks, fire stations, or regular maintenance/repair needs.
- Nearly all the of the funding gap is in General Fund needs.
- Additional funding beyond that included in the Outlook will be necessary to meet all needs, and a new revenue source will be necessary in the future.

Rebuild San Diego - Background



- The proposed Rebuild San Diego ballot measure does not establish a new revenue source, but does dedicate a portion of new growth in existing General Fund revenues to Infrastructure.
- We believe this measure can be implemented prudently, provided that:
 - Revenue growth is **reasonably apportioned** between General Fund operations and Infrastructure expenditures.
 - There is a **reasonable assurance** based on financial projections that General Fund operations, reserves, and funding obligations are sustainable.
 - The Rebuild San Diego measure **can be suspended** in the event of a financial need.

Rebuild San Diego – Implementation



- Councilmember Kersey’s Rebuild San Diego ballot measure has three major components:
 - Dedicating all reductions in City Pension Payments to Infrastructure
 - Dedicating half of year-over-year growth in Property Tax, Transient Occupancy Tax, and Franchise Fee receipts to Infrastructure over the next five or ten years
 - Dedicating a portion of growth in Sales Tax revenue above FY 2016 receipts to Infrastructure.
- There are additional overarching elements to consider as well:
 - When should the measure begin and end; How will ‘Infrastructure’ be defined; Can the measure be temporarily suspended?

Rebuild San Diego – Implementation



Timeline for Implementation

- Due to the short amount of time between the June election and the beginning of FY 2017, we recommend that *actual implementation of the measure begin in FY 2018*.
- We recommend that *Actual Receipts for FY 2016 be used to establish a baseline year* for the Retirement and Sales Tax components of the proposal
- Council also needs to determine when this proposal should sunset. Councilmember Kersey's proposal would sunset in 30 years.
 - Council could also consider limiting the proposal to 10 or 20 years.

Rebuild San Diego – Implementation



Definition of Infrastructure

- Determining *what* Infrastructure funding under the Rebuild San Diego can be spent on is important.
- We believe that Rebuild San Diego funding should be able to be spent on capital costs, maintenance and repair costs, and related staff costs, and propose the following definition:

The moneys in the Infrastructure Fund shall be used exclusively for the acquisition, construction and completion of permanent public improvements, including real property, public buildings and facilities, and such initial furnishings, equipment, software, supplies, inventory and stock as will establish the public improvement as an ongoing concern. This fund may also be used for the replacement, rehabilitation, upgrade, reconstruction, ongoing capital repair and maintenance of such permanent public improvements. This fund may also be used to pay any financing costs associated with permitted uses including debt service, lease payments, costs of issuances and funding or replenishing reserve funds. The cost of infrastructure management and maintenance, including personnel, software, facilities, equipment and related costs are also permitted uses.

Rebuild San Diego – Implementation



Temporary Suspension of Measure

- Building a suspension provision into the proposed Charter amendment would provide this Council and future Councils with some financial flexibility in times of significant fiscal need or fiscal duress.
- A suspension provision could additionally provide rating agencies with additional comfort about the Rebuild San Diego proposal.
- *We therefore recommend that the Charter Amendment include a provision allowing for a one-year suspension of the funding requirements if two-thirds of the council votes to declare a fiscal emergency that warrants such a suspension.*

Rebuild San Diego – Implementation



Funding – Pension Payment Reductions

- The Rebuild San Diego Measure proposes to dedicate net reductions pension payments to infrastructure.
 - Under this approach, reductions in Actuarially Determined Contribution Expenditures are offset by increased SPSP-H expenditures.
 - A significant reduction in ADC payments is expected to result from the eventual payoff of the \$2.0 billion Unfunded Actuarial Liability.
- Because investment returns and actuarial assumptions change over time, it is difficult to predict actual cost reductions that could be dedicated to Infrastructure.

Rebuild San Diego – Implementation



Funding – 50% of Year-over-Year Growth in Property Tax, TOT, and Franchise Fees

- The Rebuild San Diego Measure proposes to continue the Mayor's current pledge of dedicating 50% growth in year-over-year growth in Property Tax, TOT, and Franchise Fee receipts to Infrastructure.
- The proposal originally would have continued this pledge for 10 years, though at Infrastructure Committee, a 5 year period was discussed.
- If the pledge were to continue for 10 years, this would result in approximately \$150 million being dedicated to Infrastructure; over 5 years, this amount would be reduced to approximately \$78 million.

Rebuild San Diego – Implementation

– Sales Tax Component



- The Rebuild San Diego proposal would dedicate a portion of growth in Sales Tax receipts to Infrastructure.
- Our report discusses three methodologies that could be used to determine the proportion:
 - Growth over a Baseline
 - Growth over a Baseline with a Cap
 - Proportional Growth

Rebuild San Diego – Implementation – Sales Tax Component



Growth over a Baseline *(Option 4A in IBA Report)*

- A baseline year (FY 2016) establishes the initial amount of sales tax revenue that is available for the General Fund.
- Growth up to a certain percent is available for the General Fund, and any growth beyond that would be dedicated to Infrastructure.
- This Growth in sales tax revenue above that baseline and below an established limit would be available for the General Fund, and any growth above that limit would be allocated to the Infrastructure Fund.
- This is the methodology used in the original proposal.
- The following slides show two different baselines – one based on the original proposal, and one based on CPI.

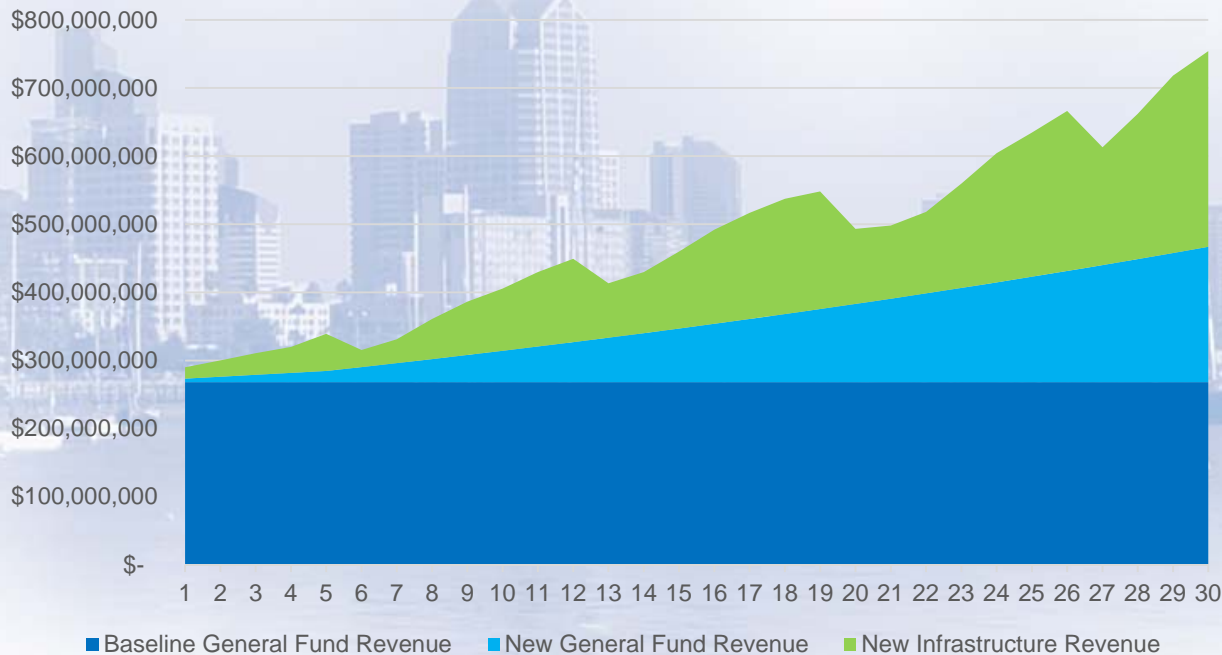
Rebuild San Diego – Implementation – Sales Tax Component



Growth over a Baseline – 1%/2% *(Option 4A in IBA Report)*

- This scenario would allow the General Fund portion to grow by 1% in the first five years, and 2% thereafter.

Growth over Baseline – 1% and 2%



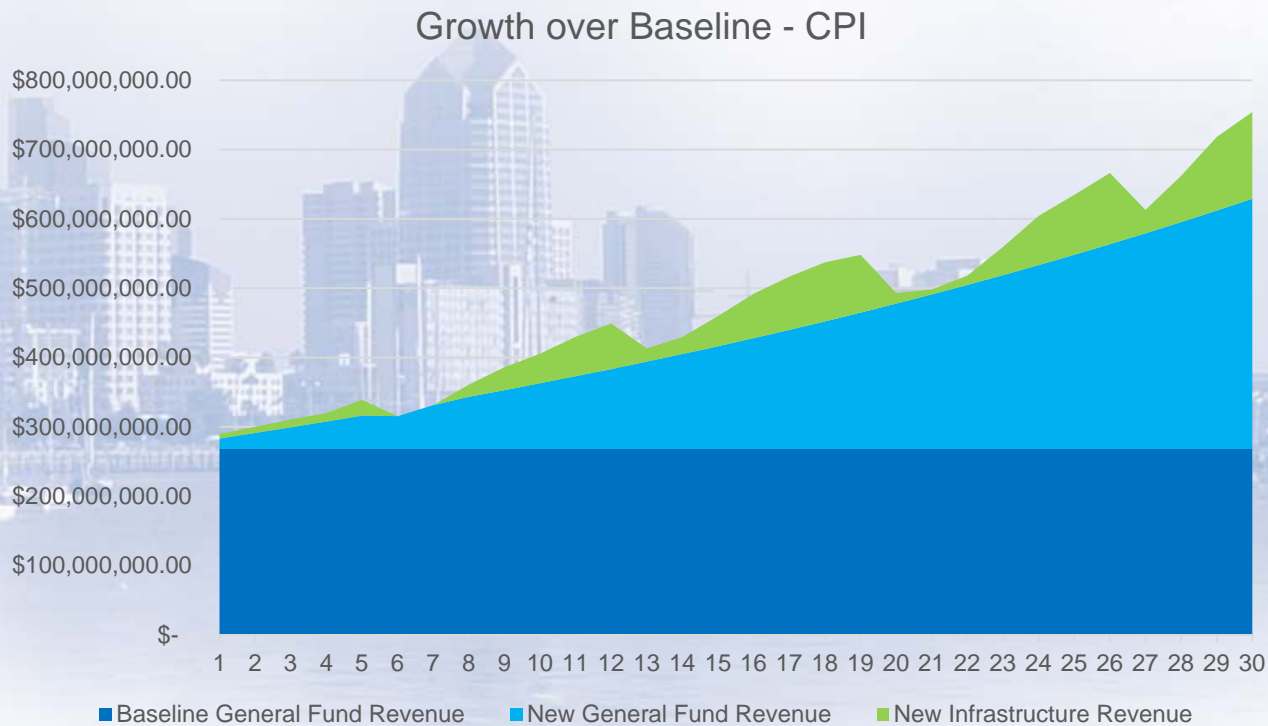
\$ in millions	New \$ - GF	New \$ - Infra
10 Years	\$ 224.7	\$ 453.4
20 Years	\$1,053.0	\$1,713.8
30 Years	\$2,649.7	\$3,665.0

Rebuild San Diego – Implementation – Sales Tax Component



Growth over a Baseline - CPI *(Option 4A in IBA Report)*

- This scenario would allow the General Fund portion to grow by the CPI (estimated here at 2.79%).



\$ in millions	New \$ - GF	New \$ - Infra
10 Years	\$ 522.5	\$ 155.7
20 Years	\$2,076.2	\$ 690.6
30 Years	\$4,971.1	\$1,343.6

Rebuild San Diego – Implementation – Sales Tax Component



Growth over a Baseline *(Option 4A in IBA Report)*

- Advantages:
 - Ensures year-over-year decline in sales tax receipts will impact Infrastructure portion before the General Fund is impacted.
 - Potentially provides a larger amount of funding to Infrastructure.
- Disadvantages:
 - If the economy expands significantly for several years in a row, this could limit the City's ability to dedicate General Fund money to expanding operational needs.
 - During recovery from recessions, this may provide more money for Infrastructure than can be spent, and not enough money for recovering operational needs.
 - Limits overall financial flexibility by dedicating revenue that would have otherwise gone to the General Fund to a specific purpose.

Rebuild San Diego – Implementation

– Sales Tax Component



Growth over a Baseline with Cap *(Option 4B in IBA Report)*

- Like the previous methodology, a baseline year (FY 2016) establishes the initial amount of sales tax revenue that is available for the General Fund.
- Growth between two percent figures is dedicated to Infrastructure, and any other growth is available for the General Fund.
- Of the three approaches, this methodology is preferred by our office.
- The following slide shows a scenario in which growth between 2% and 3.5% were to be dedicated to Infrastructure.

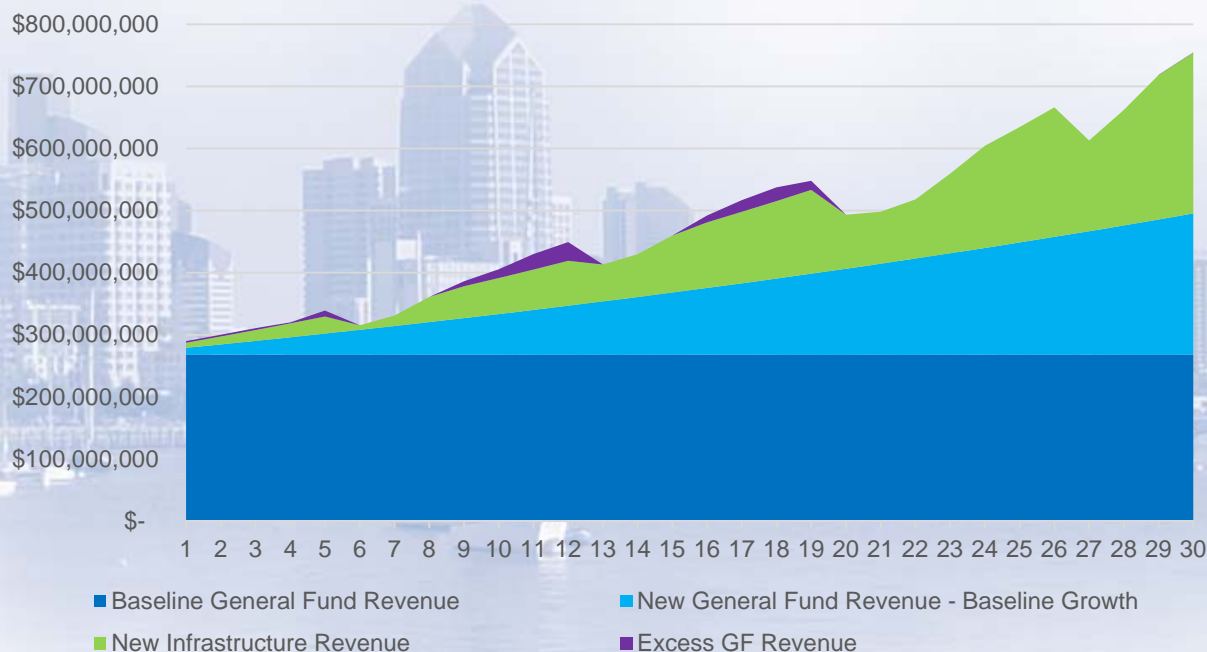
Rebuild San Diego – Implementation – Sales Tax Component



Growth over a Baseline with Cap *(Option 4B in IBA Report)*

- This scenario would dedicate growth between 2% and 3.5% to Infrastructure.

Growth over a Baseline with Cap



	\$ in millions	New \$ - GF	New \$ - Infra
10 Years		\$ 415.1	\$ 263.0
20 Years		\$1,578.1	\$1,188.6
30 Years		\$3,435.3	\$2,879.4

Rebuild San Diego – Implementation

– Sales Tax Component



Growth over a Baseline with Cap *(Option 4B in IBA Report)*

- Advantages:
 - Ensures that the General Fund portion of sales-tax revenue is allowed to grow by both the growth rate discussed in the previous approach, and also that years of high overall growth in sales-tax receipts will offer additional money for the General Fund.
 - Helps insulate the General Fund from significant economic downturns.
- Disadvantages:
 - Limits the total amount of funding that would be mandated as existing for Infrastructure
 - Limits overall financial flexibility by dedicating revenue that would have otherwise gone to the General Fund to a specific purpose

Rebuild San Diego – Implementation – Sales Tax Component



Proportional Revenue *(Option 4C in IBA Report)*

- This approach dedicates a fixed proportion of any growth to both the General Fund and Infrastructure.
- A portion of *all* growth – even if growth is very low – would be dedicated to Infrastructure.
- The following slide shows a scenario in which 80% of growth is dedicated to the General Fund and 20% is dedicated to Infrastructure.

Rebuild San Diego – Implementation – Sales Tax Component



Proportional Growth *(Option 4C in IBA Report)*

- This scenario would dedicate 20% of growth to Infrastructure and the remaining 80% to the General Fund.



Rebuild San Diego – Implementation – Sales Tax Component



Proportional Growth *(Option 4C in IBA Report)*

- Advantages:
 - Allows for a more predictable allocation of funding for both the General Fund and Infrastructure Fund.
 - Ensures that the General Fund receives a portion of unexpected growth in sales-tax revenues either during an economic boom or during recovery from a recession
- Disadvantages:
 - Leaves the General Fund more vulnerable to contractions in the economy and reductions in sales tax receipts.
 - Limits overall financial flexibility by dedicating revenue that would have otherwise gone to the General Fund to a specific purpose.

Rebuild San Diego – Other Considerations



Rating Agency Comments

- Our office contacted the major rating agencies for comments on how they might evaluate the proposal.
- The analysts we spoke with provided general preliminary thoughts, and identified potential positives and negatives about the proposal.

Positives:

- Develops a plan and funding Source to address a long-standing need
- Is a concrete move to tackle capital needs
- Restricts a portion of budget growth to a significant need
- It is appropriate to use revenue growth to address priority needs when the economy is strong.

Negatives

- Restricts otherwise unrestricted General Fund revenues
- 30-year timeframe is a long time.
- An option to temporarily suspend the measure is necessary to mitigate concerns about lack of flexibility during times of fiscal need

Rebuild San Diego – Other Considerations



Impact on Operational Needs

- While we believe that Infrastructure is the City's most pressing need, the City does have additional priorities beyond Infrastructure.
- As these needs expand, additional funding will be required.
- As an example, Public Safety is a key City priority and has operational needs that are expected to expand.
 - The Citygate report recommended construction of 19 new fire stations; if these are constructed, approximately \$42 million annually would be needed to staff and operate those stations upon full buildout.
 - The Police Department's Five-Year-Plan calls for increased sworn and civilian staffing, which will require additional funding as well.

Rebuild San Diego – Other Considerations



Capacity

- In order to meet Infrastructure needs, it is critically important to continue to develop staff and external consultants/contractors to execute projects.
- The City has increased project management capacity – and assorted personnel and related expenses – in both FY 2015 and 2016, but additional capacity needs to be developed.
- In FY 2015, staff capacity was \$300 to \$350 million annually; new hires are expected to increase capacity to \$400 to \$450 million or more annually, though the CIP Outlook requires \$560 million in expenditures each year for the next five years.
- Capacity requires gradual growth and ramping up; the Rebuild San Diego proposal provides gradual growth in Infrastructure funding that could help address this issue.

Rebuild San Diego – Other Considerations



Other Pending Funding Proposals

- Other 2016 ballot items that would provide funding for infrastructure projects are being considered.
 - Councilmember Emerald's Firehouse Bond would provide a \$200 million General Obligation Bond to fund 17 new fire stations
 - SANDAG is proposing up to a half-cent sales tax increase countywide, which could generate an estimated \$46 million annually for City infrastructure projects.
- Both these measures are being proposed for the November 2016 ballot.
- It is important that items placed on the ballot do not conflict, and that voter confusion about the City's needs and proposals is avoided.

Rebuild San Diego - Conclusion



- If Council wishes to place a Rebuild San Diego measure on the June 2016 Ballot, it should provide guidance to the City Attorney's office in drafting ballot materials by making the decisions on the following slide (from page 16 of our report).
- Our office's preferences, where they exist, are *italicized and bolded*.

Rebuild San Diego - Conclusion



1. How long should the measure be in effect for?
 - A. 10 years, 20 years, or 30 years?
2. Is the Definition of Infrastructure on pages 3 and 4 appropriate?
 - A. **Yes** or No?
3. Should Council be able to temporarily suspend the measure in future years by taking a two-thirds vote?
 - A. **Yes** or No?
4. Which approach towards Sales Tax should be taken?
 - A. Revenue above Baseline and Percentage Growth
 1. 1.0%/2.0% Growth for General Fund, or 2.0%/CPI Growth, or Other?
 - B. **Revenue Above Baseline with Cap Approach**
 1. **Between 2.0 and 3.5% Growth**, or Other?
 - C. Proportional Approach
 1. 80% General Fund/20% Infrastructure, or Other?
5. Should Growth in Sales Tax dedicated to an Infrastructure Fund gradually decrease over the last ten years of the proposal?
 - A. **Yes** or No?
6. How long should half of year-over-year growth in Property Tax, TOT, and Franchise Fee receipts be dedicated to the Infrastructure Fund?
 - A. **Five Years** or Ten Years?