Agenda Item No. 2

File Code No. 120.03

CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: September 13, 2016

TO: Finance Committee

FROM: Transportation Division, Public Works Department
Administrative Division, Finance Department

SUBJECT: Recommendations To Council On Alternatives To Meet Unfunded Infrastructure Needs

RECOMMENDATION: That the Finance Committee:

A. Hear a presentation from staff responding to remaining requests for information from the Committee and summarizing past presentations and actions of the Committee;

B. Recommend to Council that the remainder of Fiscal Year 2017 funding for the Downtown Shuttle (State Street route) ($301,967) and Waterfront Shuttle (Cabrillo Boulevard route) ($173,981) be transferred from Measure A to the Downtown Parking Fund and Waterfront Fund respectively;

C. Recommend to Council that staff pursue borrowing against future Measure A revenues as a means of accelerating street repair;

D. Recommend that staff return to Council for direction regarding pursuing a ½ cent or ¾ cent sales tax measure; and

E. Provide any other recommendations to Council.

DISCUSSION:

Background

At the Council meeting on February 2, 2016, Council directed staff to work with the Finance Committee to develop options for increasing the amount of funding available for streets, sidewalks, storm drains, streetlights, traffic signals, and other related infrastructure (Streets Infrastructure).

The following summarizes the meetings held to date and the topics covered:

1. On March 1, 2016, the Finance Committee heard staff presentations related to the Streets Fund revenue projections and related expenditures. In Fiscal Year 2016, Utility Users Tax and Gas Tax revenues were expected to be below budget by approximately $308,159. In Fiscal Year 2017, those same revenues are estimated to be approximately $399,427 less than originally proposed. Measure A revenue has seen modest growth.

2. On March 15, 2016, the Finance Committee heard a staff presentation related to the LA Consulting report dated August 2015. The report highlighted current Street Section activities and the potential to achieve monetary savings through the implementation of improved field-level maintenance planning activities.

3. On April 12, 2016, the Finance Committee heard a staff presentation related to the City's Capital Improvement Program Streets Funds related projects. There are currently over 30 capital projects in various stages of completion. The majority of these projects are funded primarily, and in some cases entirely, through grants. The amount of capital funds available is well below the amount of funding necessary to maintain the streets infrastructure, and grants are not available for basic maintenance needs, including pavement and sidewalk maintenance. This presents a difficult choice between leveraging the limited City funds for grants, and allocating these funds for maintenance without leveraging grant funds.

4. On April 26, 2016, the Finance Committee heard a staff presentation related to the Streets Funds Operating Program. The Public Works Department's Transportation Division is currently reducing operating expenses by increasing the efficiencies associated with ongoing maintenance work. These operating expense savings will directly translate to future increases to capital spending, although these savings will not be sufficient to bridge the gap between current funding levels and maintenance needs.

5. On May 10, 2016, the Finance Committee heard a presentation from staff regarding the unfunded capital needs for Streets and General Fund assets. The presentation highlighted the funding gap needed for the maintenance of City parks, buildings, fire stations, roads, sidewalks, and storm drains.

6. On June 7, 2016, the Finance Committee heard a presentation from staff regarding potential strategies to increase capital funding for streets and related infrastructure. The presentation highlighted the Streets Section's budgetary cost savings and efficiencies completed or anticipated in the near term. It also showed potential cost shifts of activities and services from the Streets Fund to other funding sources.

7. On June 28, 2016, the Finance Committee heard a presentation from staff summarizing unfunded infrastructure needs and the increase to various tax rates that would be needed to achieve funding for these needs. The presentation

highlighted previous City efforts to identify these capital funding needs, and compared those efforts with current capital needs assessment work. The Finance Committee requested that staff return with a comprehensive list of alternatives for new funding sources and an estimate of need for sidewalk infill.

8. At the July 26, 2016, Finance Committee meeting, staff presented additional information on sidewalk infill and maintenance needs, and presented follow up information to questions from the June 28 meeting on sidewalk infill needs and storm drain system needs. Staff also presented options for generating additional revenues. At this meeting, the Finance Committee requested additional information related to sidewalk infill needs and potential new revenue sources for the Streets Fund.

At today's meeting staff will summarize the Citywide Capital Improvement needs that previously have been presented. In addition, staff will provide information based on additional requests from the Committee as listed below:

- Additional information on sidewalk infill needs,
- An analysis of the pros and cons of borrowing against future revenues to prefund street maintenance,
- Additional information regarding how the City of Santa Barbara compares with other comparable agencies with respect to tax revenues generated, and
- Additional information associated with the potential increase of a real property transfer tax as one means to generate additional revenue for funding infrastructure.

<u>Sidewalk Needs</u>

Staff analyzed the remaining missing sidewalk as identified in the Pedestrian Master Plan. Future planned construction costs were estimated based on the length of a missing sidewalk, and the average slope of the segment. Generally, the steeper the slope the higher the segment cost. While the cost to install sidewalks on every street section where they do not currently exist is in excess of $200 million, many locations may not be desired by some neighborhoods or will be too costly to construct. Staff estimates that $30 million to $40 million is needed to construct the remaining missing sidewalk links in the street grid, as well as key connections to providing pedestrian connectivity in other areas. Missing sidewalk gaps that are less than 200 feet in length that do not require additional site improvements (i.e. curb, gutter, or retaining walls), are estimated to cost approximately $4 million.

<u>Pros and Cons of Borrowing against Measure A Revenues</u>

One of the many options staff presented to the Finance Committee in a previous meeting was borrowing against existing, ongoing, Measure A revenues. The approach involved the City selling bonds, which typically have a repayment term of 20-30 years. The bonds would be secured by a portion of Measure A revenues. Only $1 million currently allocated to capital (the balance of funds are allocated to operating costs) could be re-allocated to debt service. Based on a 20-year repayment term, the City could borrow approximately $15 million.

While a viable option, staff had several concerns with this option. One of the concerns is the high costs associated with issuing bonds – bond counsel, disclosure counsel, financial advisor and bond rating. Since these costs are fixed, regardless of the size of the bond issue, the smaller the issue the higher the costs are proportionally. Another concern is the loss of flexibility created by committing revenues to debt service for many years. These funds would not be available, for example, in an emergency or to address changing priorities or circumstances. And finally, borrowing over a 20-year basis does not match the useful life of the improvement, which means the value of the improvement will have been fully consumed before the related debt is paid off. Best practices dictate that the term of the debt match the useful life the improvement.

Subsequent to the July 26 Finance Committee meeting, staff contacted the Santa Barbara County Association of Governments (SBCAG) to determine if there were any restrictions to borrowing against Measure A revenues if the City decided to pursue that route. SBCAG plans to issue bonds for the final phase of the Highway 101 widening project, secured by Measure A revenues, and indicated that the City could participate in its planned bond issuance. City staff met with SBCAG staff who said the City may be able to borrow with a repayment term as low as ten years, which closely aligns with useful life criteria since the life of most overlays is approximately ten years. In addition, the City's share of issuance costs, which are fixed, will be nominal. Staff believe that $1 million per year could safely be allocated to paving while still meeting other capital and operational needs. While we would still lose flexibility by having these funds committed for ten years, staff believes more funds could be freed up in the future through planned and anticipated efficiencies, thereby providing a cushion and extra funds for capital if needed. Therefore staff recommends pursuing a borrowing strategy whereby the City participates in SBCAG's upcoming bond issue secured by Measure A money that otherwise would have been designated for Capital Improvement Program projects (approximately $8 Million).

Comparison to Other Agencies and Information on Real Property Transfer Tax

Staff are still in the process of compiling data in response to this information request regarding a Real Property Transfer Tax Option. The results of the data gathering will be presented at this September 13, 2016 meeting.

There are a few things to note, however. First, the City's "Real Property Transfer Tax" (RPTT) is technically a Documentary Transfer Tax (DTT), authorized by State statute. The DTT is set at $1.10 per $1,000 of value and assessed when a property is sold or otherwise changes title. The DTT is split between the City and County.

In contrast a RPTT can be set at any rate. Charter cities, unlike general law cities, have the ability to levy taxes (subject to voter approval) without the need for specific state authorizing legislation. In addition, because a RPTT is deemed to be imposed on the privilege of exercising one of the incidents of property ownership – its conveyance – it is not considered a “property tax” and thus not subject to Proposition 13. As such, only Charter cities can establish an RPTT.

Lastly, one of the interesting and awkward side effects of implementing a RPTT is that the City forfeits its share of the DTT to the County. Thus, in cities where a RPTT has been approved, the County gets the full $1.10 per $1,000 of the DTT.

BUDGET/FINANCIAL INFORMATION:

The City’s infrastructure relies heavily on funds from special purpose or restricted funds. Funds for this infrastructure are flat or declining, while construction costs continue to rise. Deferral of the construction of these projects will result in continued deterioration of citywide assets and ultimately will accelerate the final construction costs needed for improvement of these assets.

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