



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: November 22, 2016

TO: Mayor and Councilmembers

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

SUBJECT: Financing Options For Capital Infrastructure

RECOMMENDATION: That Council:

- A. Hear a presentation from staff on the funding gap for repairing and maintaining the City of Santa Barbara's infrastructure and the alternatives to provide additional funding;
- B. Transfer the responsibility for funding the Downtown Shuttle (State Street route) and Waterfront Shuttle (Cabrillo Boulevard route) from Measure A to the Downtown Parking Fund and Waterfront Fund, respectively;
- C. Approve an increase in appropriations of \$333,540.48 in the Downtown Parking Fund, from unappropriated reserves, for the cost of the Downtown Shuttle service;
- D. Approve an increase in appropriations of \$94,075.52 in the Waterfront Fund, from unappropriated reserves, for the cost of the Waterfront Shuttle service;
- E. Direct staff to pursue the feasibility of bonding against future Measure A revenues to allow pre-funding of the Street Capital Improvement Program; and
- F. Direct staff to return to Council in January 2017 for further direction related to potential revenue options.

EXECUTIVE SUMMARY:

This report provides Council with an assessment to show the extent of the funding gap for maintenance of City buildings, roads, parks, sidewalks, and other infrastructure and alternatives for new revenue that could provide the City with the funding needed to repair and maintain General Fund and Streets Funds infrastructure needs. The annual deferred maintenance for all City General Fund and Streets Funds capital infrastructure is estimated to be \$27 million, including existing street pavement maintenance costs estimated at \$10 million per year. At today's meeting, staff also seeks approval to

transfer Downtown and Waterfront Shuttle costs from Measure A funding to the Downtown Parking Fund and Waterfront Fund, respectively.

DISCUSSION:

Background

In 2008, a private group of community members known as the Infrastructure Task Force studied the City's infrastructure needs and concluded that the City was facing a significant funding shortfall for maintaining essential infrastructure. In 2014, the City Council appointed a Council Infrastructure Committee (Mayor Schneider, Councilmember White, and Councilmember Rowse) to conduct public outreach and obtain input on facility needs and ideas to close the gap in infrastructure funding. Based on extensive outreach efforts, the Committee learned that the highest ranked priorities for upgrades, modernization, or replacement were: 1) street and pavement maintenance; 2) the Police Station; and 3) sidewalks.

While the City of Santa Barbara has historically done a good job of providing revenues for infrastructure from multiple sources, including both restricted and unrestricted revenues, there still remains a significant funding gap between available ongoing funding resources and capital infrastructure needs. Over time, this gap has created a large unfunded liability relative to current and future infrastructure needs. In particular, without additional funding, the City's streets and sidewalks will continue to degrade, and maintenance to City buildings will continue to be deferred. The Pavement Condition Index (PCI) for the City of Santa Barbara is currently at 61, which is regarded as "At Risk". Pavements in this "At Risk" category are no longer candidates for less expensive preventive surface treatments and require more expensive rehabilitation to address structural issues. The Council goal is to maintain the PCI at a level of 70 or better, when the less expensive preventive maintenance treatments are most effective. Without additional funding, pavement condition will continue to decline.

As roadways crack and develop potholes allowing water into the subgrade, the rate of deterioration accelerates, requiring significantly more money to be expended by cities and counties for repairs. The cost borne by vehicle owners also deserves consideration. As roads fall into the "Poor" category, the national average annual cost in extra maintenance approaches \$333 per vehicle due to damage, tire wear, and other incidents. In San Francisco for example, an estimated \$1,044 per year in extra maintenance costs is borne by vehicle owners due to a lack of pavement maintenance.

Much of the funding for street related infrastructure maintenance is provided by a combination of state funding that is generated from fuel taxes, utility user's taxes, and Local Measure A funding. Across the nation, the lack of funding for infrastructure, particularly infrastructure maintenance, has reached a critical point. In particular, bridges, streets, highways, sidewalks, and other essential transportation systems are in a marked state of disrepair and will continue to get worse without new funding sources to address this issue. The state and federal fuel taxes haven't changed since 1993,

while fuel efficiency, vehicle miles of travel, population and lane miles have all increased significantly.

Staff brought the issue of insufficient funding for street-related infrastructure (including bridges, sidewalks, storm drains, streetlights, traffic signals, and other related streets-based infrastructure) to the City 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 and related infrastructure. Accordingly, from March 2016 through September 2016, staff made ten presentations to the Finance Committee on this issue. While the scope of the discussions with the Finance Committee included streets-related infrastructure, it also encompassed all City infrastructure needs. Additionally, the Finance Committee heard recommendations to redirect certain revenues, as well as efforts being made by staff to improve efficiencies and redirect operating resources within the Streets Program to provide more funding for repair and maintenance of street infrastructure. A summary of the meetings held to date and the topics covered is included as Attachment 1.

The annual deferred maintenance for all City General Fund capital infrastructure is estimated to be \$27 million. Among other things, this includes: (a) amounts needed each year to maintain existing street pavement, estimated at \$10 million; (b) the annualized cost to fund major rehabilitations to City facilities, such as City Hall, fire stations, and recreation facilities, estimated at \$5.5 million; and (c) the estimated debt service cost of \$6.5 million to finance a new Police Station (based on an estimated cost of \$80 million) through some form of bonded indebtedness. Attachment 2 is a general categorization of deferred maintenance by operational area.

In particular, the Police Station built in 1959 is not seismically safe. As a result of the building not being prepared for an earthquake, all of the 9-1-1 dispatchers were recently moved out of the building to the Granada Garage at a cost of \$2.3 million. This was considered a temporary solution to ensure the continuation of emergency communications. A permanent solution has not been identified and the remaining police operations in the building could be compromised in the event of earthquake. The building also lacks ADA accessibility, operates with outdated building systems, and does not comply with Building and Fire Code requirements. A history of the Police Station building with various improvements completed over the years is included in Attachment 3.

While there are unfunded infrastructure needs in the City's enterprise funds, specifically the Water and Wastewater Funds, these funds are almost exclusively financed from direct rates and charges to customers. As such, enterprise funds do not have the same practical limitations on raising revenues as, for example, the General Fund, to finance general governmental operations, including related infrastructure, which are largely funded from taxes. Although proposed rate increases require noticing and public hearings and are limited by a majority protest, any new or expanded tax must be approved by at least a majority vote at the ballot box.

At today's meeting, staff will summarize the Citywide Capital Improvement Program needs and the key funding options presented to the Finance Committee. Staff also will seek Council direction on Finance Committee recommendations related to funding infrastructure.

Borrowing Against Measure A Revenues

One of the many options staff presented to the Finance Committee in a previous meeting was borrowing against future Measure A revenues. As streets continue to degrade, the cost of their repair increases exponentially. Pre-funding a portion of the street Capital Improvement Program would allow many streets to be repaired and their life expectancy extended more cost effectively. Important to the decision to secure debt for these capital improvements is that the length of the financing term of the debt not exceed the anticipated lifespan of the asset acquired or improved.

Staff contacted the Santa Barbara County Association of Governments (SBCAG) to determine if there were any restrictions to borrowing against Measure A revenues should the City decide to pursue bonding. Coincidentally, SBCAG plans to issue bonds within a year for the final phase of the Highway 101 High Occupancy Vehicle 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 that the City may be able to borrow with a repayment term as low as ten years. This term closely aligns with the useful life criteria since most street overlays will require some additional maintenance at approximately ten years. In addition, the City's share of issuance costs, which are fixed, would be nominal. Staff believes that \$1 million per year could safely be allocated to the repayment of the debt while still meeting other capital and operational needs. While the City would 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 thus extra funds for capital if needed. Therefore, staff recommends pursuing a borrowing strategy whereby the City participates in SBCAG's upcoming bond issuance secured by Measure A money that otherwise would have been designated annually for streets-related Capital Improvement Program projects (approximately \$10 million). While SBCAG's staff information is important, it is not conclusive or binding on the City. Staff will also confirm the legality and feasibility of any borrowing should Council wish to proceed.

Assigning MTD Shuttle Expenses to Downtown Parking and Waterfront

The Downtown Waterfront Shuttle (Shuttle) is operated by Santa Barbara Metropolitan Transit District (MTD) on behalf of the City. This service is currently being funded primarily from Measure A revenues with a portion being contributed by the Waterfront Fund. The Shuttle provides service in support of the Downtown Parking Program's "Park Once" policy to encourage walking and decrease congestion, as well as to provide connectivity to Waterfront locations and activities.

Because of the financial linkage of the shuttles to the Downtown Parking and Waterfront Enterprise Funds, staff recommends that the cost for the Shuttle services currently budgeted in the Measure A Fund of \$427,616 be assigned to these enterprise funds (Downtown Parking Fund and Waterfront Fund).

Additional Sales Tax

The Finance Committee explored a number of alternatives for generating new revenue. In virtually all cases, the funding source would involve some type of tax and voter approval. Some examples include:

1. Parcel Taxes (new)
2. Real Property Transfer Taxes (new)
3. Special Assessments Tied to Special Benefit Assessment Districts (new)
4. General Obligation Bond combined with an increase in property tax (new and one-time funding source)
5. An increase to existing taxes – i.e., sales tax, utility users' tax, transient occupancy tax, or business license tax

The Finance Committee and City staff discussed each option and the unique nature and applicability of each; and, which group of taxpayers would be the most impacted. Except for item 4 above, all of the options for creating new taxes or increasing existing taxes could be established in a way to generate varying degrees of revenues based on the desire of Council (and the community). However, both staff and the Committee believed that the best option for now would be an increase in the existing sales taxes. Many agencies across the state have proposed a sales tax measure over the last several years with a very high rate of voter support. In most cases, the additional revenues are being used for enhancing public safety and funding infrastructure needs.

Currently, the County-wide sales tax rate is 8 percent. In January 2017, the temporary state sales tax enacted pursuant to Proposition 30 will expire, lowering the overall rate to 7.75 percent. In both cases, the City receives the local "Bradley-Burns" portion equal to 1 percent, which is estimated to generate approximately \$22.4 million in Fiscal Year 2017. As such, each quarter percent increase to the local portion would generate approximately \$5.6 million in today's dollars. The Finance Committee recommended that Council evaluate and consider raising the local rate by a quarter, half, three-quarters, or a full one percent. The first step to seeking a tax increase would be to evaluate the likelihood of voter approval for the various increments of increase.

In the November 2016 election, 50 out of 59 general purpose sales tax increases or extensions passed, ranging from ¼ cent to one cent. As shown in the table below, 19 of these measures represented a ½ cent increase and 21 of the measures represented a one cent increase. In the June 2016 election cycle, six of eight general purpose sales tax increases passed, including three proposals for one cent increases.

Approved General Purpose Sales Tax Increases or Extensions

| | ¼ cent | ½ cent | ¾ cent | 1 cent |
|---------------|--------|--------|--------|--------|
| November 2016 | 4 | 19 | 6 | 21 |
| June 2016 | 1 | 2 | 0 | 3 |

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.

- ATTACHMENTS:**
1. Summary of Finance Committee Presentations
 2. Table showing Total Unfunded Infrastructure Needs
 3. Overview of Police Building History

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APPROVED BY: City Administrator's Office

SUMMARY OF FINANCE COMMITTEE PRESENTATIONS

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. On July 19, 2016, the Finance Committee heard a presentation from staff summarizing Facilities infrastructure needs. The Facilities Division is funded through inter-fund charges and is responsible for the physical operation and maintenance of City buildings, and operation and maintenance of critical communication infrastructure. It also provides many other facilities-related services to City departments. This discussion focused on the derivation and design of the Facilities Division budget for the operation and maintenance of buildings, and on the software tool used to estimate capital infrastructure costs.
9. 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, 2016 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.
10. At the September 13, 2016, Finance Committee meeting, staff summarized the Citywide Capital Improvement needs that previously have been presented. In addition, staff provided information based on additional requests from the Committee related to sidewalk infill needs, issues surrounding borrowing against future revenues to prefund street maintenance, comparisons of Santa Barbara's tax revenues with other comparable agencies, and information related to a potential increase of real property transfer tax as one means to generate additional revenue for funding infrastructure.

Total Unfunded Infrastructure Needs

| | Need | 20-Year Cost | Annual Cost |
|-----|--|---------------|----------------|
| 1. | Debt service on \$80M PD Building | \$130M | \$6.5M |
| 2. | Traffic Signals | \$8M | \$0.4M |
| 3. | Streets | \$200M | \$10.0M |
| 4. | Sidewalks | \$30M | \$1.5M |
| 5. | Stormdrains | \$10M | \$0.5M |
| 6. | Streetlights | \$8M | \$0.4M |
| 7. | Fire | \$8M | \$0.4M |
| 8. | Major Facility Renewals | \$110M | \$5.5M |
| 9. | P&R | \$34M | \$1.7M |
| 10. | Library | \$8M | \$0.4M |
| | Total | \$546M | \$27.3M |

OVERVIEW OF POLICE BUILDING HISTORY

Key Actions

- 1999: Bond Measure to replace building was unsuccessful – 45%/55%
- 2008: Infrastructure Task Force comprised of business leaders recommended replacement as most urgent facility need
- 2011: Council Subcommittee evaluates building options (major renovation, relocation, police sub-stations, or replacement) and recommends full building replacement
- 2012: Council earmarks \$30 Million in Redevelopment Agency funding for replacement project
- 2014: Identified as top priority in Community Survey on Infrastructure Needs
- 2015: Council Committee on Infrastructure completes public outreach, identifies top infrastructure needs, and discusses placement of general sales tax increase on ballot

Background

- Built in 1959 for total police staff of 85 and 212 police staff
- Facility Size: 27,570 sf
- Recent Improvements: Lobby remodeled for improved security in 2005; HVAC system replacement in 2015 for \$2 Million; Adjacent building leased in 2000 for additional office space for \$190,000 annually; 9-1-1 Dispatch Center moved out of basement to the Granada Garage for \$2.3 Million; Locker Remodel completed for \$2 Million
- Facility Must Remain Operational 24/7 and serve as Main Administrative Facility with Specialized Areas for:
 - Secure holding areas for detainees
 - 9-1-1 Dispatch
 - Crime evidence handling
 - Shooting range
 - SWAT equipment
 - Locker and training rooms



Facility Deficiencies

- Seismically Unsafe
- Outdated Building Systems: plumbing, electrical
- Insufficient Parking for Police Vehicles and Staff Vehicles
- Non-Compliant with Building and Fire Code Requirements
- Overcrowded work areas that no longer meet current standards
- Lacks ADA Accessibility
- Roof replacement needed
- Lead and Absbestos removal required