



MEMORANDUM

TO: City Council

FROM: Whitney McDonald, City Manager
Bill Robeson, Assistant City Manager/Public Works Director
Nicole Valentine, Administrative Services Director
Jill McPeck, Capital Improvement Project Manager

SUBJECT: Discussion of Infrastructure Financing Options and Consideration of a Sales Tax Measure

DATE: April 26, 2022

SUMMARY OF ACTION:

Review and provide direction on Infrastructure Financing Options and direct staff to prepare a resolution and ordinance for City Council consideration at the June 14, 2022 meeting to place a 1% local sales tax measure on the November 2022 ballot.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The 2022 Pavement Management Program (PMP) Update reports that the City will require \$6.1 million annually to maintain the current Pavement Condition Index (PCI) level of 56. Historically, the City has been able to allocate approximately \$1,250,000 annually towards the pavement management program. A new 1% local sales tax measure increase will generate approximately \$5 million annually that may be allocated towards maintaining the City's streets, sidewalks, and stormwater infrastructure.

RECOMMENDATION:

1) Receive and file the 2022 PMP Update report; and 2) Direct staff to prepare a ballot measure for the November 8, 2022 consolidated election seeking a 1% local sales tax increase, to be provided at the June 14, 2022 City Council meeting.

BACKGROUND:

On April 27, 2021, the City Council considered and established goals and priorities for incorporation into the upcoming Biennial Budget. On June 8, 2021, the City Council adopted the Fiscal Year (FY) 2021-23 Biennial Operating Budget with 3 Categories:

- Investing in the Future
- Investing in City Infrastructure and Facilities
- Investing in People

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Within the Investing in City Infrastructure and Facilities category, an item was included to “identify and pursue short- and long-term funding mechanisms, such as a sales tax measure, for pavement maintenance and other infrastructure maintenance needs.” This report will focus on Streets, Sidewalks, and Stormwater Infrastructure needs. It will provide a detailed review of different funding mechanisms to accomplish the infrastructure needs outlined.

Streets Repairs

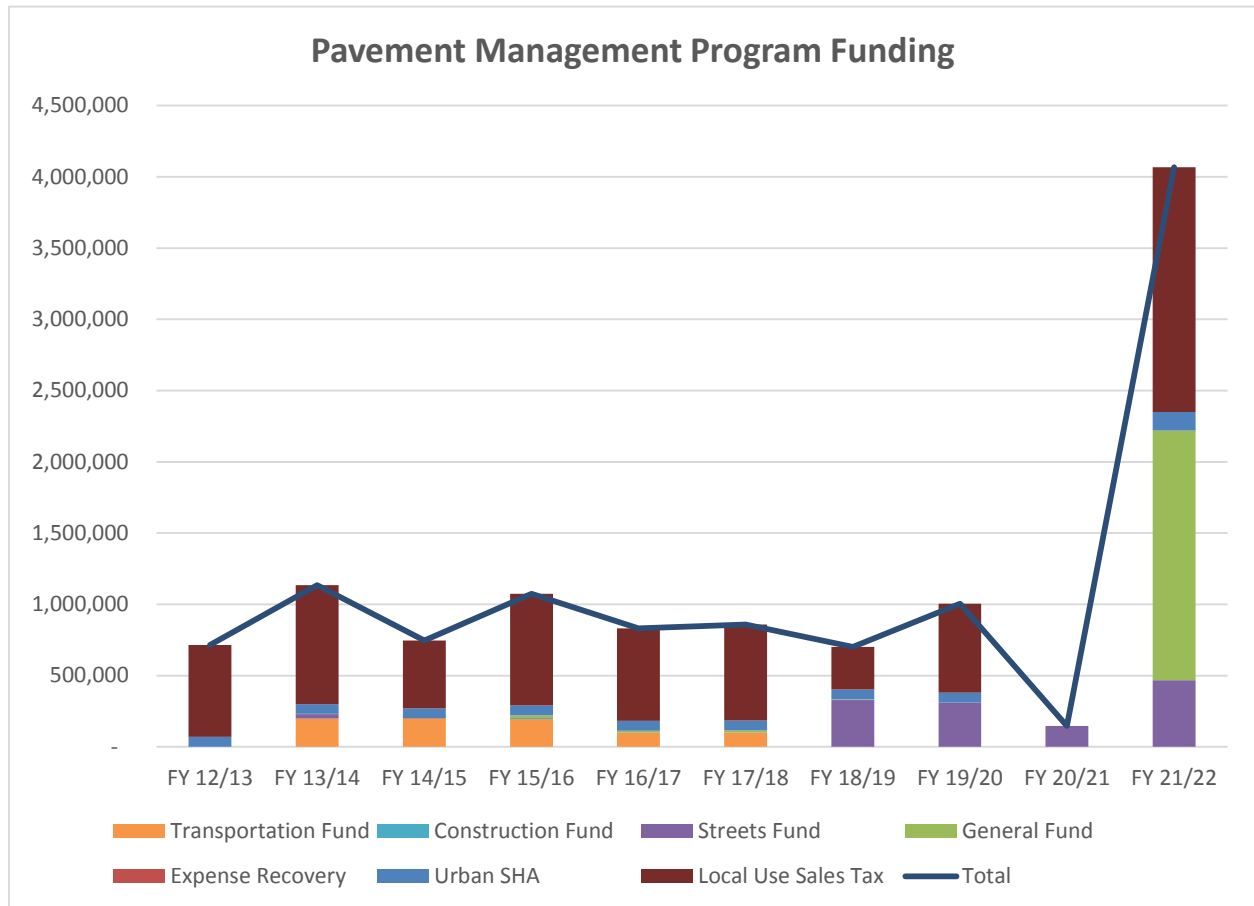
Pavement Management Program and System

On February 14, 2017, the City Council adopted the 2016 Update to the Pavement Management Plan (PMP) and endorsed the “Critical Point Management” methodology for the City’s Pavement Management System (PMS). The Critical Point Strategy approach selects the road segments for repair or resurfacing that are at a “critical point” of deterioration. The critical point is a point located on the pavement deterioration graph which indicates the Pavement Condition Index (PCI) value is about to drop to a level which would trigger a more expensive maintenance or rehabilitation approach. The Critical Point Strategy is a long-range methodology that maintains and improves roadways before they slip into a PCI range that reflects costlier repairs. Roadways are then treated with an appropriate maintenance or rehabilitation treatment before degrading into a more expensive treatment. The PMS will annually evaluate and provide recommendations for repair and resurfacing based on this critical point approach. This method, along with field evaluations is currently being used each fiscal year when considering the Street Repairs Projects.

Over the last ten years, the City has allocated the following funds towards the Pavement Management Program:

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Chart 1



**Table 1
PMP Funding**

Funding Source	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Urban SHA	\$ 70,000	\$ 69,335	\$ 68,829	\$ 68,828	\$ 69,172	\$ 70,000	\$ 70,000	\$ 70,000	\$ -	\$ 131,000
Expense Recovery	-	90	60	-	-	-	-	-	-	-
General Fund	-	-	-	17,159	12,620	14,665	4,313	-	-	1,751,000
Streets Fund	-	32,962	-	-	-	-	328,474	309,610	146,328	468,072
Construction Fund	-	-	-	3,267	-	-	-	-	-	-
Transportation Fund	-	197,800	200,507	200,000	100,000	100,000	-	-	-	-
Local Use Sales Tax	644,472	835,265	476,532	785,164	649,341	672,920	298,305	625,089	-	1,717,837
Total	\$ 714,472	\$ 1,135,453	\$ 745,928	\$ 1,074,418	\$ 831,134	\$ 857,584	\$ 701,092	\$ 1,004,699	\$ 146,328	\$ 4,067,909

Urban SHA = the City’s annual allocation through SLOCOG

General Fund = general revenue, including Reserve Fund Balance

Streets Fund = SB 1 funds

Transportation Fund = Local Transportation Fund (LTF) provided by the San Luis Obispo County of Government’s (SLOCOG)

Local Use Sales Tax = Measure O-06 revenue

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As indicated in Chart 1 above, the past two years have been outliers in the City’s average annual PMP. In 2020-21, street repairs were delayed in order to evaluate the additional streets that were able to be funded using excess General Fund Reserves, as discussed in more detail below. As a result, the 2021-22 PMP includes both the 2021 and 2022 street repair projects, including the excess reserves allocated to the 2020-21 PMP project.

2021 Streets Repairs

On April 27, 2021, in addition to the Goals and Priorities set for Fiscal Years 2021-23 and based on an available budget of \$1.4M for construction, the City Council approved Streets Selection for the 2021 Street Repairs Project, Option 2, allocating \$1,338,000 to correct base failures and alligator cracking using a dig out treatment method shown in Table 2

Table 2
2021 Streets Repairs Project Options

Street Segment	Option 1 - Correct Base Failures Only (Digouts)	Option 2 - Correct Base Failures (Digouts) and Alligator Cracking
	Expected Service Life 3 - 5 Years	Expected Service Life 5 - 7 Years
Valley Rd - Sunrise Terrace to Bridge	\$ 113,000	\$ 149,000
Corbett Cyn Rd - Rte 227 to City Limits	183,000	184,000
Fair Oaks Ave - S Halcyon to Bridge	167,000	230,000
Wesley Street - End Street to W Branch	79,000	95,000
Vernon Street - End Street to W Branch	91,000	132,000
S Elm Street - The Pike to City Limits	64,000	166,000
E Grand Ave - Halcyon to ECR	289,000	382,000
N Halcyon Rd - ECR to E Grand Ave	230,000	351,000
S Elm Street - Ash St to Farroll Ave	330,000	525,000
S Elm Street - Farroll Ave to The Pike	37,000	162,000
Rancho Pkwy - James Wy to W Branch	489,000	713,000
Total	\$ 1,216,000	\$ 1,338,000

At that time, the City’s pavement consultant, Joe Ririe, reviewed street repairs, explained how to evaluate pavement conditions, PCI and good pavement management to maintain

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the Road System. The presentation included an estimated total Roadway Replacement Cost of \$268 million and an Average Citywide PCI in 2021 as shown in Table2:

Table 3
Average Citywide PCI in 2021

FUNCTIONAL CLASS	LANE MILES	AVERAGE PCI (2016)	AVERAGE PCI (2019)	AVERAGE PCI (2021)
Arterial	9.36	76	69	65
Minor Arterial	19.73	69	63	62
Major Collector	25.13	68	60	53
Residential	83.42	70	66	62
Other	1.73	68	61	57
TOTAL	139.37	70	64	61

In an effort to further strengthen the City’s PMP, on July 27, 2021, the City Council appropriated \$1,751,000 of the General Fund Reserve Balance (reserve balance) towards the Pavement Management Program and funded repairs of the four remaining road segments identified in the list of potential 2021 Street Repairs shown in Table 2. This reserve balance occurred as a result of a number of factors, chiefly expenditure reductions instituted at the outset of the COVID-19 pandemic combined with better-than-anticipated revenue received during the pandemic and one-time relief funds received from the Federal government. In considering this additional allocation of one-time reserve balance to street repairs in 2021, it was estimated that the cost to complete the four segments would be \$1,751,000 (about \$4.02/square foot), whereas if these four street segments were to receive no maintenance and continue to deteriorate, the cost to reconstruct them would reach \$9,738,780 (about \$22.37/square foot). This estimate did not factor for inflation, so reconstruction costs would likely be higher in the future. These figures are presented in the Table 4 below, which demonstrates how completing the four street segments offered the greatest return on investment for the City.

Table 4
Deferred Maintenance Cost (specific street segments of 2021 Streets Repairs Project)

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2021 Street Repairs, PW 2021

	L	W	SF	Correct Base Failures (Digouts) and Alligator Cracking	Reconstruction *	Difference
N Halcyon Rd - ECR to E Grand Ave	1,630	37	60,310	351,000	1,349,135	998,135
S Elm Street - Ash St to Farroll Ave	1,450	62	89,900	525,000	2,011,063	1,486,063
S Elm Street - Farroll Ave to The Pike	1,510	62	93,620	162,000	2,094,279	1,932,279
Rancho Pkwy - James Way to W Branch	4,560	42	191,520	713,000	4,284,302	3,571,302
Cost to Repair Now	9,150		435,350	1,751,000	9,738,780	7,987,780
Price per Square Foot to Repair Now				\$4.02		
Price per Square Foot to Reconstruct					* \$19.23 - \$25.51	

(say \$22.37 avg - does not include inflation)

In addition, at the July 27, 2021 City Council, meeting, it was noted that in order to maintain an overall pavement condition index of “Fair” (PCI range of 51 to 70) an annual budget increase of approximately \$4.6 million would be needed.

Construction of the 2021 Street Repairs project began in February 2022 and is anticipated to be complete in June 2022.

Sidewalk Repairs

In 2016, City Public Works staff completed a deferred maintenance assessment that identified each sidewalk segment in need of repair and estimated a total cost of \$1,346,250 to repair all sidewalk defects in the City. Since 2016, the City has allocated an average of \$120,000 annually to sidewalk repairs. Funding for sidewalk repairs is provided almost entirely from local sales tax revenue, with occasional funds (e.g. up to \$50,000 in FY 2018-19) provided by regional State Highway Account (SHA) grants.

Table 5
Historical Sidewalk Repairs Funding

Fiscal Year	Gen Fund	Sales Tax	RSHA	Total
15/16	\$ 301.02	\$ 94,326.62		\$ 94,627.64
16/17	\$ 2,123.55	\$ 27,936.46		\$ 30,060.01
17/18	\$ 9,488.83	\$ 143,808.07		\$ 153,296.90
18/19	\$ 3,106.32	\$ 103,893.25	\$ 50,000.00	\$ 156,999.57
19/20		\$ 133,104.64		\$ 133,104.64
20/21		\$ 138,601.83		\$ 138,601.83
21/22		\$ 148,296.60		\$ 148,296.60

Stormwater Repairs

Stormwater is defined as the runoff generated when precipitation from rain events flows over land or impervious surfaces without percolating into the ground. Stormwater is often considered a nuisance because it mobilizes pollutants such as motor oil and trash. Stormwater Repairs are not paid for through the City’s Water and Wastewater Enterprise

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Funds and have, instead, been funded through the CIP Budget using local sales tax revenue. The FY 2021-23 Biennial budget included the following Stormwater Projects as shown in Table 5:

Table 6
Stormwater Projects included in the FY 2021-23 Biennial budget

Proj. No.	Project Name	Total Project Budget	2021-22 Total Budget	2022-23	2023-24	2024-25	2025-26	Revenue to Complete
5778	Tally Ho/Corbett Canyon Creek Confluence Restoration/Sedimentation Reduction	231 Drainage Facility 218 Sales Tax	5,487 53,500					58,987
5795	Oak Park Boulevard / El Camino Real Storm Drain System	218 Sales Tax	390,972					390,972
5796	Storm Water Master Plan Update/Watershed Management Plan	218 Sales Tax	172,500					172,500
57XX	Storm Drain System at 251 East Grand Avenue	218 Sales Tax	410,000					410,000
5794	Corrugated Metal Pipe (CMP) Lining	218 Sales Tax	100,000	100,000	100,000	100,000	100,000	500,000
57XX	Trash Capture Devices	218 Sales Tax	4,000	4,000	103,000	103,000		214,000
5780	Corporation Yard Stormwater Compliance Plan Implementation	218 Sales Tax		65,231	20,000	20,000	20,000	125,231
Total Drainage Projects			1,136,459	169,231	223,000	223,000	120,000	1,871,690

Over the course of a few meetings held in July, October, and November 2021, and finally in February 2022, the City Council allocated American Rescue Plan Act (ARPA) Funding received from the Federal government to certain Stormwater Projects. The following Stormwater projects are now funded through ARPA:

Table 7

Stormwater Infrastructure Projects

Corrugated Metal Pipe (CMP) Lining	500,000
Storm Drain System at 251 East Grand Avenue (Chevron Station)	525,800
Oak Park Boulevard/El Camino Real Storm Drain System	400,000
Trash Capture Devices	214,000
Stormwater Master Plan Update/Watershed Management Plan	116,700
Stormwater GIS Layer (incorporate into the Stormwater Master Plan Update)	50,000
	1,806,500

As identified in Tables 6 and 7 above, the City is completing two major repair projects involving failed Corrugated Metal Pipe (CMP) stormwater facilities. The City has approximately 2.57 miles of existing CMP facilities. Addressing deteriorating CMP while it is still intact with an in-place lining treatment can be approximately 80 percent less in cost versus addressing a partial or full failure of a CMP. This was demonstrated when significant CMP failures at 251 East Grand Avenue (Chevron Station) and Oak Park

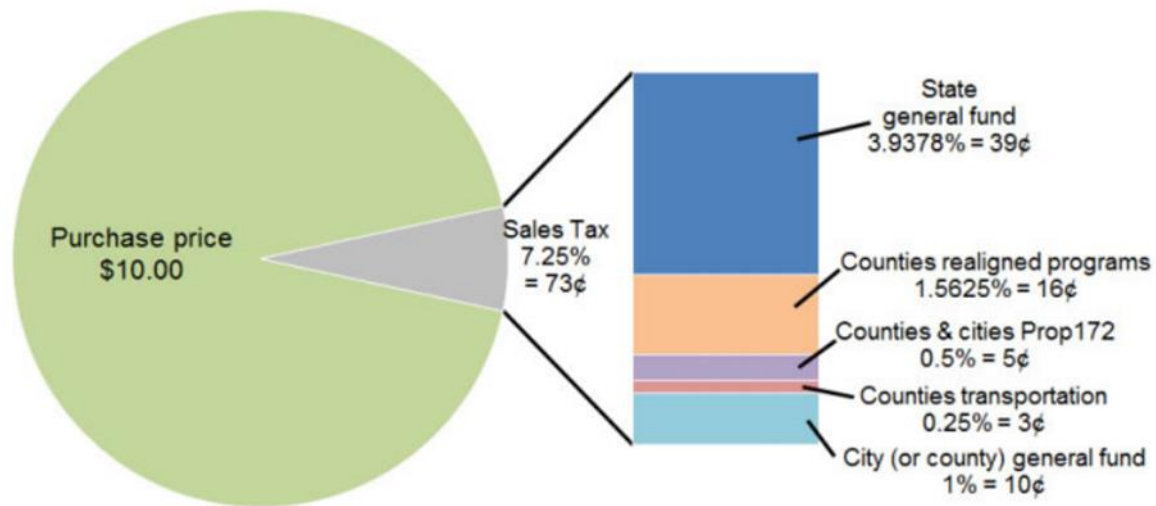
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Boulevard and El Camino Real. The cost to line the 251 East Grand CMP would have been approximately \$60,000. Staff has prioritized the CMPs that will be first in line for a lining treatment and will be evaluating (in-pipe video) other CMPs where treatment is likely needed.

Sales Tax

California has a State-mandated minimum sales tax of 7.25 percent. Attachment 3 provides a Local Government Guide to California Sales, Use and Transaction Tax from the City’s sales tax consultant, HdL, detailing the allocation of sales tax and how use tax is imposed in California. Counties, municipalities, and districts are allowed to increase the sales tax in their jurisdictions up to a total of 2 percent.

Not all sales tax revenue goes to the City. California’s base sales tax is 6%. The additional sales tax of 1.25% is called the Bradley-Burns tax, of which 1% is allocated to counties or incorporated cities to use at their discretion and the remainder 0.25% is distributed to county local transportation funds (LTFs) to support transportation programs. The following graphic provides a general breakdown of the standard 7.25% sales tax charged throughout the State and its general distribution:



In most areas of California, local jurisdictions have added local taxes that increase the tax owed by a seller. Sellers are required to report and pay the applicable local taxes for their taxable sales and purchases. Arroyo Grande currently has a ½ cent (0.5%) sales tax measure that was approved by the voters in 2006; during the election process this measure was name Measure O-06. This brings the total tax charged to customers purchasing items in the City of Arroyo Grande to 7.75%.

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Measure O-06 passed by 50.11%, which met the majority voter approval required for establishing a local transactions and use tax. The operative date of the transactions and use tax commenced on April 1, 2007. Advisory Measures K-06, L-06, M-06, and N-06 were placed on the ballot to ask voters if a portion of the revenue from the sales tax should be used to fund specific needs identified in the City's long-range financial plan. Advisory Measure K-06 (transportation improvements) asked:

If the proposed sales tax measure is approved, should a portion of the proceeds be used to fund transportation improvements, including, but not limited to, upgrade of the Brisco Road/Halcyon Road – Highway 101 Interchange?

This Advisory Measure passed favorably by 70.45%.

Advisory Measure L-06 (infrastructure improvements) asked:

If the proposed sales tax measure is approved, should a portion of the proceeds be used to fund maintenance and upgrade of City's infrastructure, including, but not limited to, street maintenance and improvements, upgrade of the drainage system, and projects to prevent pollution, erosion and sedimentation in the creek system from storm water runoff?

This Advisory Measure passed favorably by 68.57%.

Advisory Measure M-06 (public safety equipment, staffing, facilities) asked:

If the proposed sales tax measure is approved, should a portion of the proceeds be used to fund public safety expenses, including, but not limited to, expansion of the Police Station, purchase of Fire apparatus, and additional Fire Department staffing?

This Advisory Measure passed favorably by 59.89%.

Advisory Measure N-06 (improving City facilities/ADA compliance) asked:

If the proposed sales tax measure, is approved, should a portion of the proceeds be used to fund improvements to City facilities to meet Federal Americans with Disabilities Act (ADA) requirements, including, but not limited to, upgrade of the City Hall Complex?

This Advisory Measure did not pass, receiving 58.85% "No" votes.

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The Advisory Measures are not legally binding; however, they provide important information to the City to help establish funding priorities and the City has spent its Measure O-06 funds consistent with the advisory measures' directions since 2007. On May 12, 2015, the City Council confirmed that "infrastructure improvements" funded through Measure O-06 revenue may also include information technology infrastructure, such as network servers, switches and enterprise-wide software. The City publishes and distributes an annual report to each household on the revenues and expenditures from the Measure O-06 sales tax proceeds. Additionally, the City Council is required to conduct a public hearing every five years to determine whether it is necessary for the sales tax to remain in effect.

On July 14, 2020, the City Council considered placing a Local Transaction and Use Tax ("Sales Tax") Measure on the November 3, 2020 Ballot. Extensive Council discussion ensued and, at that time, Council did not direct pursuit of a measure due to the unknown financial impacts on the City's residents as a result of COVID-19.

Here is a table displaying the current Sales & Use Tax Rates for the Region:

Table 8
Sales & Use Tax Rates (Effective April 1, 2022)

<u>City</u>	<u>Rate</u>	<u>County</u>
Monterey	9.25%	Monterey
Salinas	9.25%	Monterey
Carmel-by-the-Sea	9.25%	Monterey
Del Rey Oaks	9.25%	Monterey
Gonzales	8.75%	Monterey
Greenfield	9.50%	Monterey
King City	8.75%	Monterey
Marina	9.25%	Monterey
Pacific Grove	8.75%	Monterey
Sand City	8.75%	Monterey
Seaside	9.25%	Monterey
Soledad	9.25%	Monterey
Arroyo Grande	7.75%	San Luis Obispo
Atascadero	8.75%	San Luis Obispo
Grover Beach	8.75%	San Luis Obispo
Morro Bay	8.75%	San Luis Obispo
Paso Robles	8.75%	San Luis Obispo
Pismo Beach	7.75%	San Luis Obispo
San Luis Obispo	8.75%	San Luis Obispo
Unincorporated SLO County	7.25%	San Luis Obispo
Goleta	7.75%	Santa Barbara
Santa Barbara	8.75%	Santa Barbara
Santa Maria	8.75%	Santa Barbara
Carpinteria	9.00%	Santa Barbara
Guadalupe	8.75%	Santa Barbara

ANALYSIS OF ISSUES:

Street Repair Costs

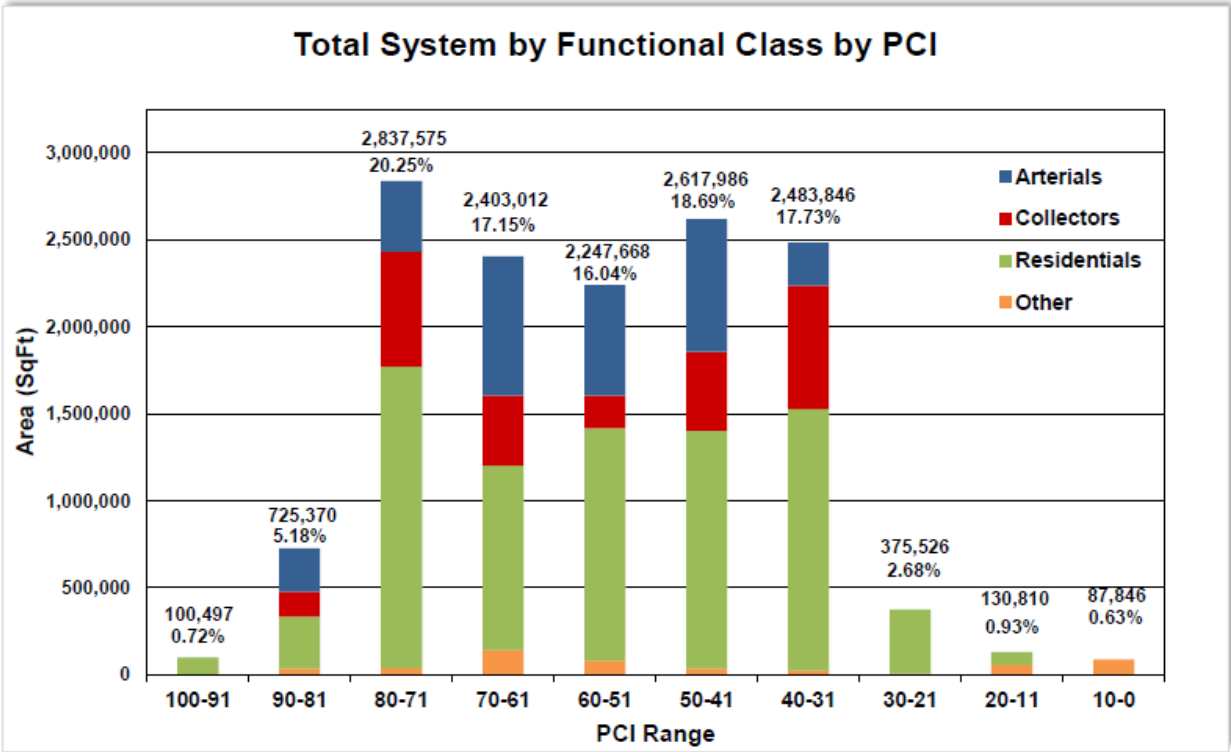
In February 2022, the City contracted with Pavement Engineering Inc. (PEI) to update all the City’s Pavement Management System. The final report was received on April 21, 2022 (Attachment 1). The City currently maintains approximately 67.5 centerline miles of roads representing 13,922,291 square feet of pavement with a replacement value of approximately \$313,566,000 as calculated by StreetSaver. Despite past efforts, the condition of the City’s streets has declined. On a pavement condition scale of 0 to 100, streets now rank an average of 56, down from an average of 69 in 2016. The breakdown by functional classification is as follows in Table 9:

Table 9

Functional Classification	Centerline Miles	Lane Miles	Pavement Area (sq. ft.)	Percent of System	Average PCI
Arterial	11.32	29.66	3,100,945	22.3%	58
Collector	12.38	24.91	2,561,293	18.4%	55
Residential	43.41	86.53	7,839,302	56.3%	56
Other	0.39	1.73	420,751	3.0%	55
Totals	67.50	142.83	13,922,291	100.0%	56

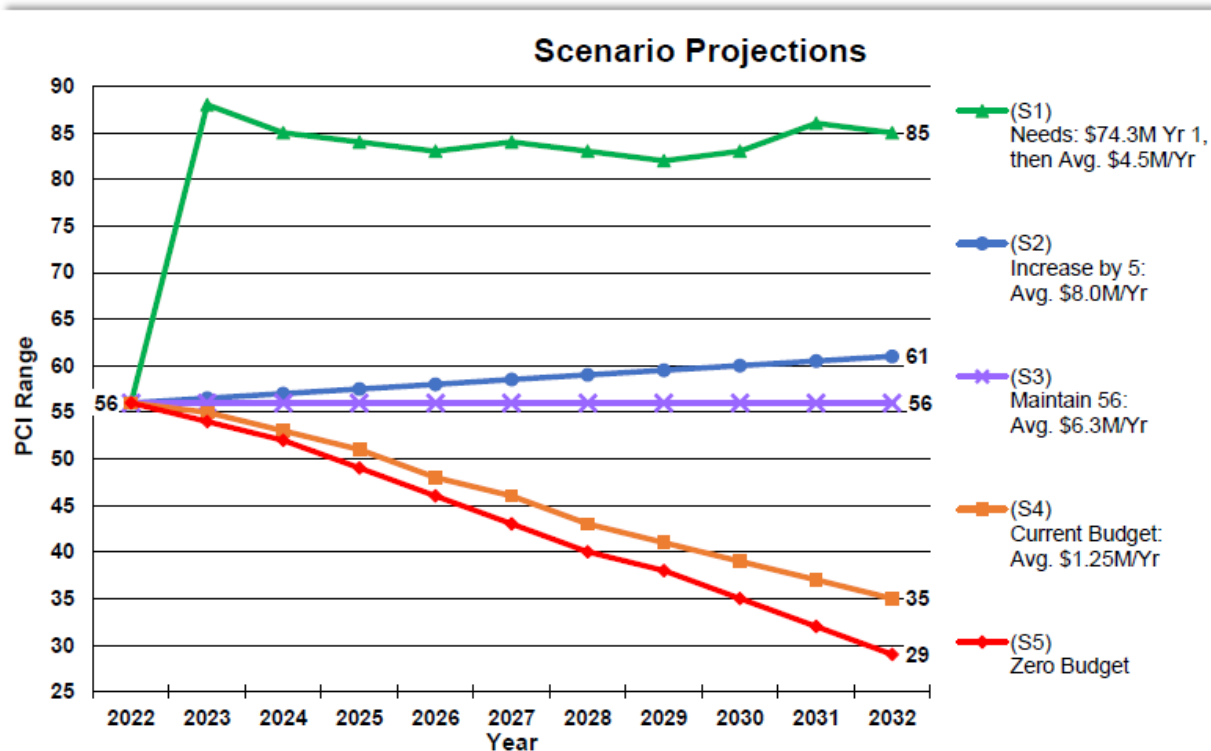
The chart below shows the City’s street system broken down into 10-point PCI ranges:

Chart 2



PEI generated five (5) scenario projections of future pavement conditions in the City and the costs to obtain and maintain those conditions over the course of ten years, which are represented graphically below in Chart 3:

Chart 3



A summary of each of the scenario projections are as follows:

- Scenario 1: Unconstrained Budget/ Funds Needed to obtain Optimum PCI of 85 (\$74.3M for Year 1, \$4.5M/Yr Avg. for Years 2-10.)
- Scenario 2: Amount of funding to increase PCI by 5 (Avg. \$8.0M/Yr.)
- Scenario 3: Amount of funding to maintain PCI of 56 (Avg. \$6.3M/Yr.)
- Scenario 4: Impact of the current funding amount (\$1.25M/Yr.), showing that the current PCI would decline from 56 to 35, a 21 point overall drop in 10 years.
- Scenario 5: Represents the impact to the PCI if Zero dollars are spent

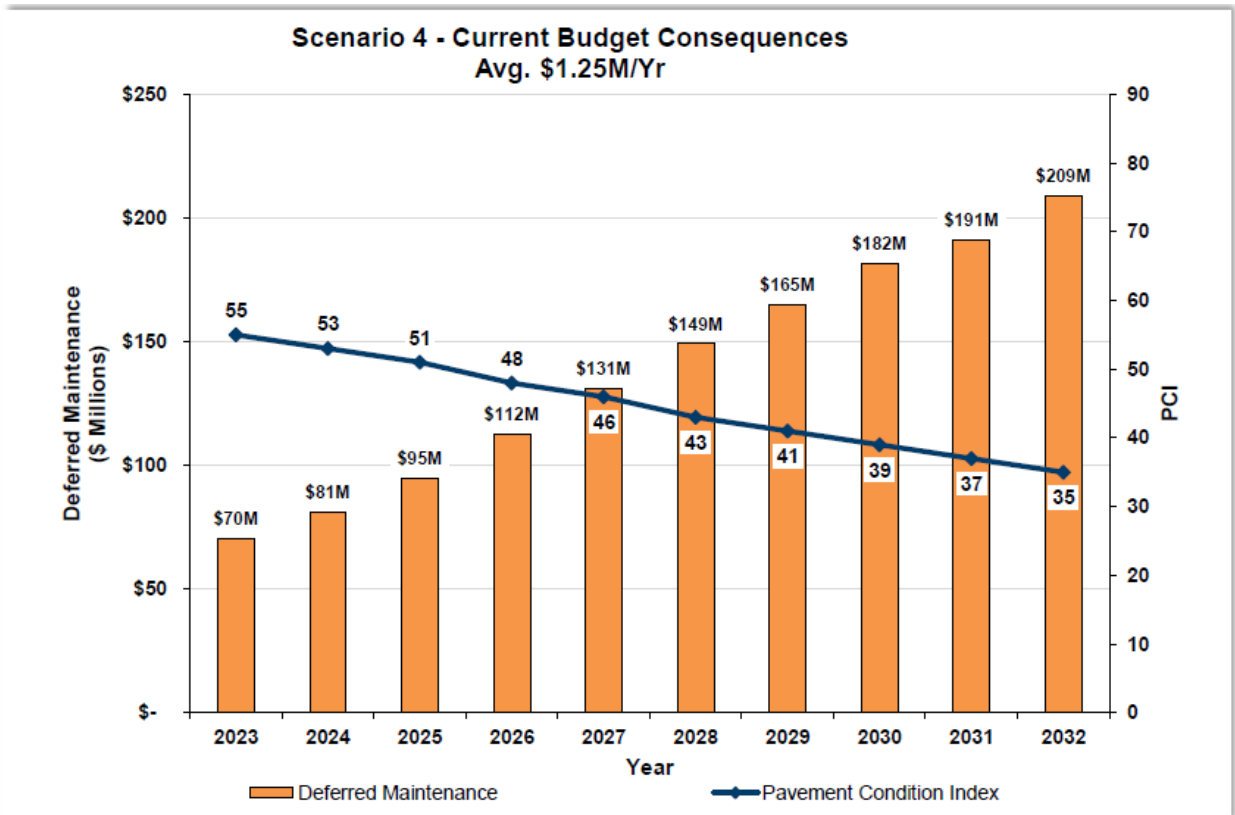
Optimum PCI refers to the highest PCI level that the overall network can achieve within the given “Budget Needs” time frame. The charts that follow illustrate the consequences to the City’s overall weighted PCI and Deferred Maintenance Amount (costs for street repairs that get delayed or rescheduled into the future due to budget limitations), based on the scenario projections.

At the current funding level of \$1.25M/Yr., it is predicted the PCI of the entire system will continue to deteriorate from 56 to 35, a 21 PCI point drop over the next 10 years, and the backlog of deferred maintenance will grow from \$70 million to \$209 million, an increase of 197%. A PCI of 35 falls within the Poor Condition category. An example of a 35 PCI is Brighton Avenue, between Courtland and North Elm Street. Streets that have fallen into

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the Poor Condition Category require more expensive repair treatments such as light to heavy rehabilitation as opposed to lower cost light to heavy maintenance treatments. In addition, when repairs are deferred, they fall into a deferred maintenance backlog that creates a vicious cycle. As necessary repairs are postponed, streets start to deteriorate requiring more expensive repair treatments.

Chart 4



Based on the identified needs and current funding sources available to the City for its pavement maintenance, there are no long-term options available that can overcome the condition and replacement cost of the City's streets without a new and significant source of income for street repair.

Financing Options - Types of Municipal Debt

General Obligation Bonds

General Obligation Bonds (GO Bonds) are municipal bonds that provide a way for local governments to raise money for projects (e.g. streets and roads) that may not generate a revenue stream directly. GO Bonds require voter approval of a new revenue source (property taxes) to pay debt service. These bonds are secured by the full faith, credit and taxing power of the municipality, which typically results in the lowest possible interest

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rates for financing a capital project, which is the primary advantage of borrowing money by issuing GO bonds. These type of bonds are approved by a 2/3rd voter approval and paid from an additional property tax levied on property owners.

Another advantage of using GO Bonds to finance capital projects is the generally lower cost of issuance, when compared to most other methods of financing capital projects. This is because the legal structure for the issuance of general obligation bonds is less complex than most other financing methods. Cities borrow funds to pay for infrastructure with a long useful life, rather than using current cash for a variety of reasons. In the case of public assets like a street, paying for it over time provides “intergenerational equity.” In other words, the current generation does not pay the entire bill for a bridge with a 50-year useful life, for example; rather, users of that long-term asset pay their share over time. The use of borrowing, paid for with a new revenue source, also allows cities to use their other resources to pay for vital services including public safety. Finally, in the case of GO bonds, property owners are asked to pay for the improvements with property taxes as property values throughout the city will benefit from the additional public investment.

Pros/Cons of GO's Bonds

Pros:

- Lowest Cost
- Does not rely on existing General Fund resources

Cons:

- Long lead time, usually 9-12 months
- High voter hurdle, requires 2/3 voter approval
- Limited flexibility of use of proceeds

Lease Revenue Bonds

Lease revenue bonds (LRBs) are another form of debt financing public agencies often use to fund capital projects, including street and road upgrades. To utilize LRBs the City would establish a separate public financing entity that would issue the bonds and collect lease payments from the City in an amount sufficient to cover the debt service payments. LRBs usually finance the construction of facilities, including office buildings, correction facilities, courthouses, and streets and are secured through an encumbrance on a City building or facility. However, unlike revenue bonds that use money generated by the project itself (e.g. a bridge toll or water system project) to make the debt service payments, facilities funded by LRBs often do not have a dedicated funding source. For this reason, the issuance of LRBs are often paired with a new funding source (e.g. new sales tax measure) sufficient to cover the debt service.

Pros/Cons of LRBs

Pros:

- City Council approval of bond issuance, although voter approval is needed for the funding source (Sales Tax Measure)

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- Quick implementation
- Very flexible/widely available

Cons:

- General Fund obligation
- Encumbrance of facility
- Requires a new funding source, such as a voter approved sales tax measure

After reviewing the two Bond options available, the LRBs appear as the logical choice with a new form of revenue like a sales tax measure to fund the payment of this obligation. City staff worked with an independent municipal advisor to provide potential terms and bonding amounts. Below is table 10 comparing a 30-year and 20-year term LRB:

Table 10
City of Arroyo Grande
2023 Lease Revenue Bonds

	30-year term	20-year term
Method of Sale	Public	Public
Reserve Requirement	N/A	N/A
Final Maturity	10/1/2052	10/1/2042
Closing Date	6/1/2023	6/1/2023
True Interest Cost (TIC)	4.80%	4.45%
Par Amount	\$38,540,000	\$31,635,000
Project Fund Amount	\$38,645,466	\$31,992,966
Total Debt Service	\$71,921,633	\$47,950,667
Max. Annual Debt Service	\$2,400,000	\$2,400,000
Avg. Annual Debt Service	\$2,451,874	\$2,480,207

Notes:

Scale from Cosumnes CSD AA- rated COPs as of 4/14/22 plus 100 bps
 Assumes COI of \$250k and UWD of \$7/bond
 Assumes AA rating, no DSRF

To move forward with this option, the City would need to place a 1% local sales tax measure on the November 2022 ballot; the proposed sales tax measure would generate an estimated \$5 million annually in additional revenue. The estimated 1% local sales tax of \$5 million is based on doubling the current Measure O-06 ½ cent sales tax totals of approximately \$2.5 million annually.

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Use of LRBs for Streets Repair

Based on the information in the table above, staff worked with PEI to review scenarios that used the 30-year term LRBs of approximately \$39 million, with a debt service payment of approximately \$2.5 million, leaving a remaining \$2.5 million for annual ongoing infrastructure maintenance. Scenarios A through D below depict costs and PCI projections for the next 15 years.

To create Scenario A, the following funds were included in the first 5 years of projections:

- \$39 million received from the issuance of LRBs +
- \$2 million in revenue per year for 5 years from the new 1% local sales tax +
- \$1 million from Measure O-06 revenue

This would bring the total spent in the first 5 years of streets repairs to \$54 million (\$39 million in LRBs funding + \$2 million/year in new 1% local sales tax for 5 years + \$1 million in Measure O-06 local sales tax for 5 years). In the years after the initial 5 year spending plan, the City would be able to allocate a total of \$3.75 million annually to pavement maintenance (\$2.5 million in new 1% local sales tax + \$1.25 million in Measure O-06 local sales tax). This scenario is depicted as Scenario A in Chart 5 below.

Scenario B depicted in Chart 5 below uses the same first 5-year projections as Scenario A, but includes an estimated \$5 million in annual maintenance after the first five years. This scenario is provided for information purposes to depict the anticipated PCI level with an additional \$1.25 million for annual maintenance. The City does not currently have an anticipated revenue source for a full \$5 million in annual maintenance.

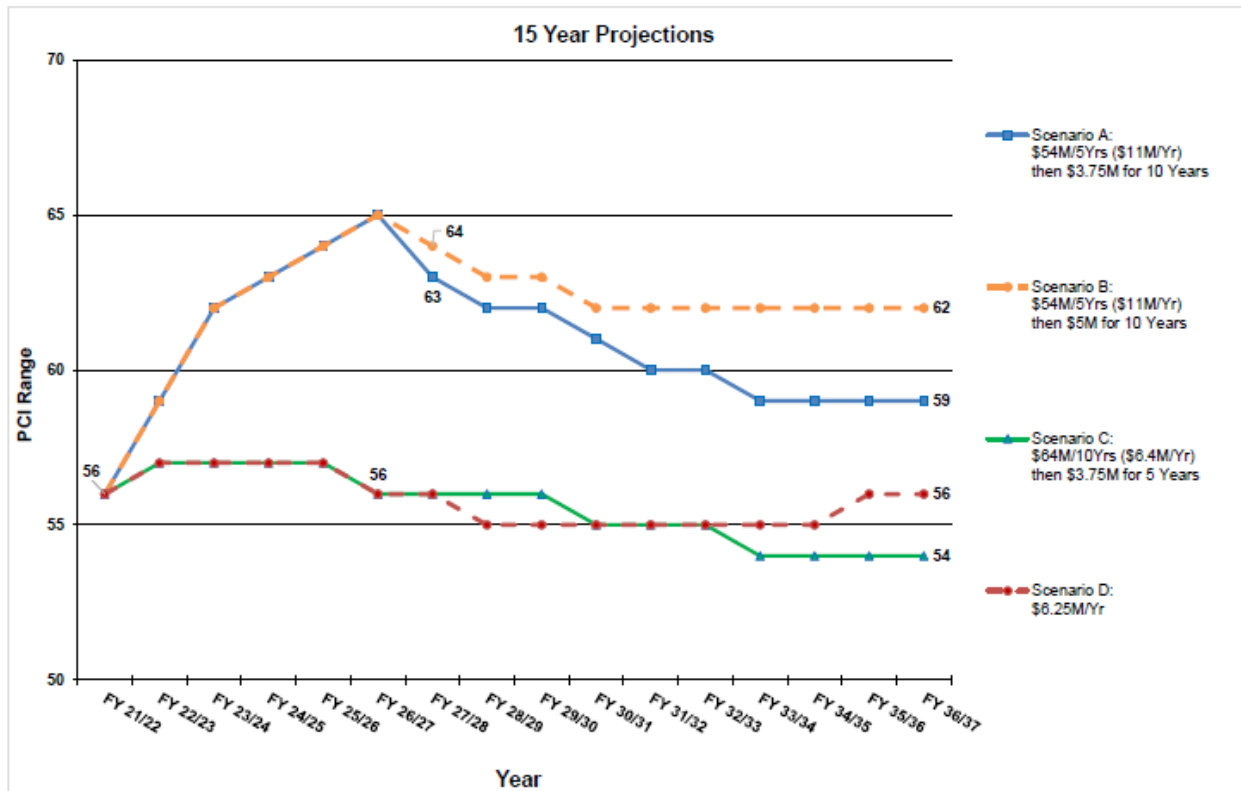
Scenario C depicted in Chart 5 below used the 30-year term LRBs of approximately \$39 million spent on street repairs over the course of 10 years rather than 5, along with a debt service payments of approximately \$2.5 million per year, leaving a remaining \$2.5 million for annual ongoing infrastructure maintenance for the last 5 years of the projection. Under this scenario, the total spent in the first 10 years of streets repairs would be \$64 million (\$39 million in LRBs funding + \$1.5 million/year in new 1% local sales tax for 10 years + \$1 million in Measure O-06 local sales tax for 10 years). In the years after the initial 10 year spending plan, the City would be able to allocate a total of \$3.75 million annually to pavement maintenance (\$2.5 million in new 1% local sales tax plus \$1.25 million in Measure O-06 local sales tax).

Scenario D depicted in Chart 5 below projects PCI levels that would result from the use of \$5 million from a new 1% sales tax measure plus \$1.25 million in revenue from Measure O-06 local sales tax. This scenario would not include revenue from LRBs or any other long term debt solution.

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Chart 5



A summary of each of the scenario projections are as follows:

- Scenario A: \$54 million ramp up over 5 years, with \$3.75 million annual maintenance after that – overall cost over the 15-year period of \$116,500,000
- Scenario B: \$54 million ramp up over 5 years, with \$5 million annual maintenance after that – overall cost over the 15-year period \$129,000,000
- Scenario C: \$64 million ramp up over 10 years, with \$3.75 million annual maintenance after that – overall cost over the 15-year period \$95,250,000
- Scenario 4: \$6.25 million over 15 years – overall cost over the 15-year period \$93,750,000

Based on this analysis, it does not appear that LRBs are the best option for the City. While the influx of revenue from LRBs would allow the City to increase the average PCI from 56 to 67 by FY 2025-26, it is estimated that the City would need to invest significantly more money than the City would have available even with a new 1% sales tax measure. As a result, the City’s average PCI would yet again degrade in the out years of the 15-year projection while at the same time requiring the City to make ongoing debt service payments for at least an additional 15 years. At this time, staff would recommend moving

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forward with placing a 1% local sales tax measure on the November 2022 ballot and using a significant portion of the increased annual revenue of approximately \$5 million dollars directly towards Streets, Sidewalks, and Stormwater Infrastructure Maintenance. This would enable the City to maintain road conditions using the Critical Point Strategy approach.

Sidewalk Repair and Stormwater Infrastructure Needs

As detailed in the 2016, deferred maintenance assessment estimated a total cost of \$1,346,250 to repair all sidewalk defects in the City. Current sidewalk repair costs are estimated at \$15/square foot. Therefore, of the average \$120,000 in annual repairs completed since 2016, the City has completed an estimated 11,400 linear feet of sidewalk repairs. Additional funding from a new sales tax measure may enable the City to complete additional sidewalk repairs and reduce continual sidewalk degradation, leading to quicker and more extensive sidewalk improvements. This in turn will minimize hazards and lower potential claims received in connection with sidewalk defects.

Similarly, the City's existing stormwater infrastructure requires constant repair, replacement, and maintenance. According to a 2016 assessment of the City's existing drainage facilities, \$238,000 is needed annually to complete necessary improvements to avoid costly failures and areas of flooding. On average, the City has been able to allocate \$100,000 to these improvements. Additionally, it is estimated that lining of the City's existing CMPs will cost approximately \$4 million. Although the City has allocated \$500,000 in ARPA funding toward CMP lining, it is anticipated that an additional \$3.5 million is needed to complete the lining. Revenue from a new sales tax measure may enable the City to better fund these needed improvements.

Sales Tax Measure

In order to make a change to any general tax rate, the change must be approved by the voters. Proposition 218, approved in 1996, now requires that all City tax election measures be placed on the same election when City Council Members are selected unless a financial emergency is declared. The next Council election is scheduled for November 8, 2022. Subsequent Council elections are held every two years. In order to place a tax measure on the November 8, 2022 ballot, 2/3rds of the City Council (at least 4 members) must approve the action to place the measure on the ballot. Once placed on the ballot, the measure must be approved by 50% +1 votes of voting residents of the City. If passed by the Council and the electorate, the tax would be effective no sooner than the first day of the first calendar quarter, commencing more than 110 days after the adoption of the ordinance. Therefore, the tax would be effective no sooner than April 1, 2023.

A Resolution ordering the submission to the qualified electors of the City a measure relating to the establishment of a local transactions and use tax and an Ordinance adding Chapter 3.23 to Title 3 of the AGMC regarding a transactions and use tax must receive a 2/3 vote of the City Council (at least 4 members) in order to place a tax measure on the

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November 8, 2022 ballot. Additional Resolutions are also required regarding the filing of written arguments.

Advantages and Disadvantages of Sales Tax Measure

As with most policy actions, enacting an increase to the sales tax has advantages and disadvantages.

Some arguments in favor include:

- Unlike property taxes, sales taxes are paid by a greater distribution of the population, including travelers, tourists, homeowners, renters, employees, and businesses in the City;
- Sales taxes are not paid on many basic necessities such as rent, groceries, medicines and services;
- Sales taxes are paid based on consumption (those who can afford to spend more pay more), and they are paid incrementally instead of in a lump sum;
- Because the tax is established by a vote of the local electorate, it cannot be taken by the State;
- The sales tax would generate additional revenue to maintain the City's Streets, Sidewalk, and Storm Drain Infrastructure, which are critical to a functioning community;
- All other jurisdictions in the Region, excluding Pismo Beach and the unincorporated County, have an additional 1% sales tax in their City; therefore:
 - There is no competitive advantage shown for having a lower sales tax rate;
 - Arroyo Grande citizens make many purchases outside of the City and may be paying a higher rate already, while none of that tax supports services in Arroyo Grande.

Some arguments against include:

- Additional taxes reduce the discretionary income of Arroyo Grande residents;
- Tax increases are not generally perceived positively by the citizenry and may erode trust in local government;
- This is a general tax and there is no guarantee on the how the additional revenue will be spent.

Options

In order to draft the measure, decisions on the following key issues will need to be made:

- Amount of Increase
Staff recommends that 1% be proposed as the local sales tax amount as the City needs the entire 1% to address deteriorating infrastructure needs.
- Local Sales Tax Allocation Report
To ensure accountability, Measure O-06 included a provision requiring the City to publish and distribute an annual report to each household on the revenues and

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expenditures from the sales tax proceeds. Staff is recommending providing a Local Sales Tax Allocation Report.

- Advisory Measure
 Advisory measures may be added to the ballot along with a sales tax measure to obtain direction from the public regarding the use of funds received from the tax. As indicated in the Background section above, Measure O-06 included a number of advisory measures that helped to identify the voters desire for the City’s spending plan. Given the clear identified need for significant additional funding for the City’s streets, sidewalks, and stormwater infrastructure repairs and maintenance, it is anticipated that all of the revenue from a new 1% sales tax would be spent on these improvements. An advisory measure could be added with the sales tax measure to confirm the public’s desire for spending the revenue to meet these needs. Alternatively, the sales tax measure itself may describe the anticipated use of funds for these purposes. For instance, the measure may be written to state: “To provide funding for general city services in Arroyo Grande, including increasing maintenance and repair of streets, sidewalks, stormwater and drainage facilities; shall an ordinance establishing a one percent sales tax be adopted?”

Next steps

In order to place the local sales tax measure on the November 8, 2022 ballot, Council will need to approve the measure prior to July 22, 2022. In order to provide staff enough time to submit the proper paperwork and related resolutions and ordinances, a decision must be made by the June 14, 2022 Council meeting.

<p>June 14, 2022</p>	<p>1) Adopt Resolution ordering the submission to the qualified electors of the city of a certain measure relating to Transaction and Use Tax at the General Municipal Election to be held on Tuesday, November 8, 2022 as called by Resolution; and 2) Introduce Ordinance – Transaction and Use Tax</p> <p>Adopt Resolution setting priorities for filing written arguments regarding measure and directing the City Attorney to prepare an impartial analysis</p> <p>Adopt Resolution providing for the filing of rebuttal arguments</p>
<p>June 28, 2022</p>	<p>Adopt Ordinance – Transaction and Use Tax (Required by State Dept of Tax & Administration, but subject to voter approval)</p>

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July 22, 2022	Last Day for Filing Arguments
July 22, 2022	Impartial Analysis for measure due from City Attorney
July 23 – August 1, 2022	10-day Public Examination Period for Arguments and Impartial Analysis
August 2, 2022	Last Day to File Rebuttal Arguments
August 3 – 12, 2022	10-day Public Examination Period for Rebuttal Arguments
By August 12, 2022 (E-88)	Last day to file final ballot measure documents (Arguments, Impartial Analysis, with County Clerk/Registrar of Voters for inclusion voter information guide)

ALTERNATIVES:

The following alternatives are provided for the Council’s consideration: Include a brief summary of each feasible alternative available for consideration. It is important to provide a complete list. Do not exclude potential alternatives simply because staff believes they will be detrimental.

1. Receive and file the 2022 Pavement Management Program Update report and direct staff to prepare a ballot measure for the November 8, 2022 consolidated election seeking a 1% local sales tax increase, to be provided at the June 14, 2022 City Council meeting;
2. Receive and file the 2022 Pavement Management Program Update report and do not direct staff to prepare a ballot measure for the November 8, 2022 consolidated election seeking a 1% local sales tax increase; or
3. Provide other direction to staff.

ADVANTAGES:

Seeking an additional 1% sales tax will enable the City to significantly increase its investment in existing streets, sidewalks, and stormwater facilities and address deferred maintenance needs. A new 1% sales tax will bring the City on par with the other cities in the County and allow the City to reinvest the increased revenue in critical infrastructure necessary to safely move goods and services throughout the City. Sales taxes are paid by all visitors to the City and not just residents, ensuring that costs are distributed to those who use the City’s facilities. Increased sales taxes paid by customers within the City will be retained and reinvested within the City, providing a greater benefit to residents and businesses.

DISADVANTAGES:

If the voters approve a new 1% sales tax measure, costs for certain goods will increase within the City. Even with the revenue from a new 1% sales tax measure, the City’s

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average PCI is anticipated to remain at current levels or increase only slightly over the course of 15 years. Additional funding sources are still needed to address the City's deferred and ongoing maintenance for existing streets, sidewalks, and stormwater infrastructure. A new 1% sales tax measure would not provide funding for other City facilities (e.g. buildings, parks, public restrooms, etc.) or infrastructure.

ENVIRONMENTAL REVIEW:

No environmental review is required for this item.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

Attachments:

1. 2022 Pavement Management Program Update
2. Measure O-06 Advisory Measures
3. Local Government Guide to California Sales, Use and Transaction Tax