BOARD OF SUPERVISORS AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Names:	County Executive Office (CEO)
Department No:	012
For Agenda Of:	March 14, 2023
Placement:	Departmental
Estimated Tme:	30 min
Continued Item:	N
If Yes, date from:	N/A
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Directors	Mona Miyasato, County Executive Officer
	Contact Info:	Paul Clementi, Budget Director

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SUBJECT: Roads Fiscal Review and Long-term Funding Options

County Counsel Concurrence	**Auditor-Controller Concurrence**
As to form: Yes	As to form: Yes

Recommended Actions:

It is recommended that the Board of Supervisors:

a) Receive and file a report on the fiscal status of Roads Operations Fund 0015; and

b) Approve three staff-recommended long-term funding measures, including establishing a budget policy related to Measure A funding, increasing general fund contribution in the FY 2023-24 Recommended Budget to cover liability insurance rate increases, and returning to the Board for consideration of permit fee increases; and

c) Provide other direction as appropriate; and

d) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA), because pursuant to sections 15378(b)(4) and 15378(b)(5) the recommended actions consist of organizational, administrative or fiscal activities of government that will not result in direct or indirect physical changes in the environment.

Summary Text:

Over the past several budget cycles, the Public Works Department has indicated an ongoing budgetary gap in the Roads Operations Fund (Fund 00015) related to revenues not keeping pace with rising costs to maintain the existing level of services that is also resulting in the gradual depletion of fund balance. This situation has been monitored closely, and over the past year the CEO's Office has been working with

Public Works to identify the underlying issues and develop recommendations to address them. In short, this report recommends that the ongoing shortfall be funded by both 1) growth in Measure A funding, which currently has unrecognized growth available that would not harm existing programs, and 2) additional General Fund Contribution for insurance increases beyond the department's control, which is consistent with how other special revenue departments are treated if their own funds are insufficient. Permit fee increases are also recommended.

The review identified that most of the budgetary gap was the result of: the department attempting to balance the spending of Measure A revenue between both operations/corrective maintenance and deferred maintenance by keeping recommended allocations to Fund 0015 flat over the past five years; insurance premiums and other charges that have increased significantly without similar funding increases; and permitting fees collected by the department not covering all costs of the permit function. Staff is recommending three funding measures that, if implemented, would help mitigate the Fund's budgetary gap without cost reductions that would result in service level impacts. These include:

1. Establishing a budget policy that Measure A funding should be budgeted at fully anticipated amounts, primarily in Fund 0015, in an effort to ensure Maintenance operations are balanced and to eliminate the structural imbalance while still maintaining programs, grant funding and capital project matches.
2. Increasing General Fund Contribution to cover liability insurance rate increases driven by market factors outside department control from recent years. These rate increases had to be absorbed in the Fund over time by reducing other operating expenditures or drawing from fund balance, an unsustainable practice.
3. Returning to the Board for consideration of permit fee increases this spring, which are projected to increase Fund 0015 revenues by $450,000.

These recommendations maintain the current level of service for the Road Operations Fund. The Board may want to consider policy direction related to the level of road maintenance that should be maintained relative to the need for additional General Fund support.

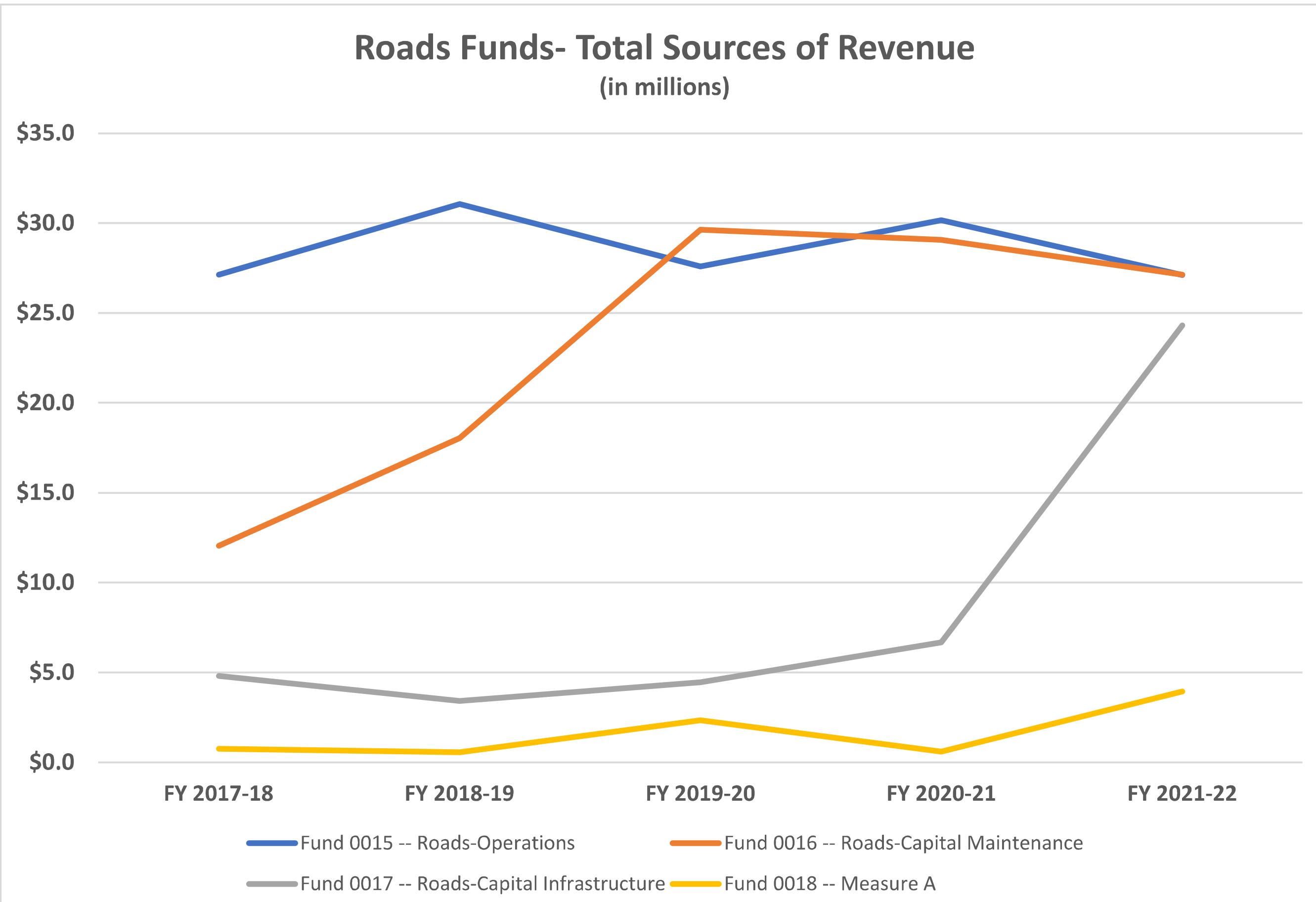
Background: There are three major Funds in the Transportation Division of Public Works. Fund 0015 is the operating fund. It includes funding for salaries and benefits, administrative and overhead costs, equipment purchases, and fleet management. In addition to ongoing maintenance of roads, drainages, sidewalks, trees, and bridges, services include traffic operations, transportation planning, service request responses, constituent issues, traffic studies, utility coordination, encroachment enforcement, grant writing, building maintenance and operation costs, legal and litigation costs, finance, and administration.

Fund 0016 is the Capital Maintenance Fund. Projects in this fund include in-house work and contracted construction projects to address deferred maintenance on the transportation network. These include pavement preservation and rehabilitation projects, drainage and bridge repairs, hardscape projects, and traffic safety improvements. Projects in Fund 0016 are programmed and implemented through the Road Maintenance Annual Plan (RdMAP) process.

Fund 0017 is the Capital Infrastructure Fund. Projects in this fund improve or expand the transportation network. Projects include bridge replacement, major asset repair and replacement, new active transportation facilities, ADA-compliance plan implementation, and other new facilities. Projects in Fund 0017 are programmed and implemented through the County's Capital Improvement Plan (CIP).

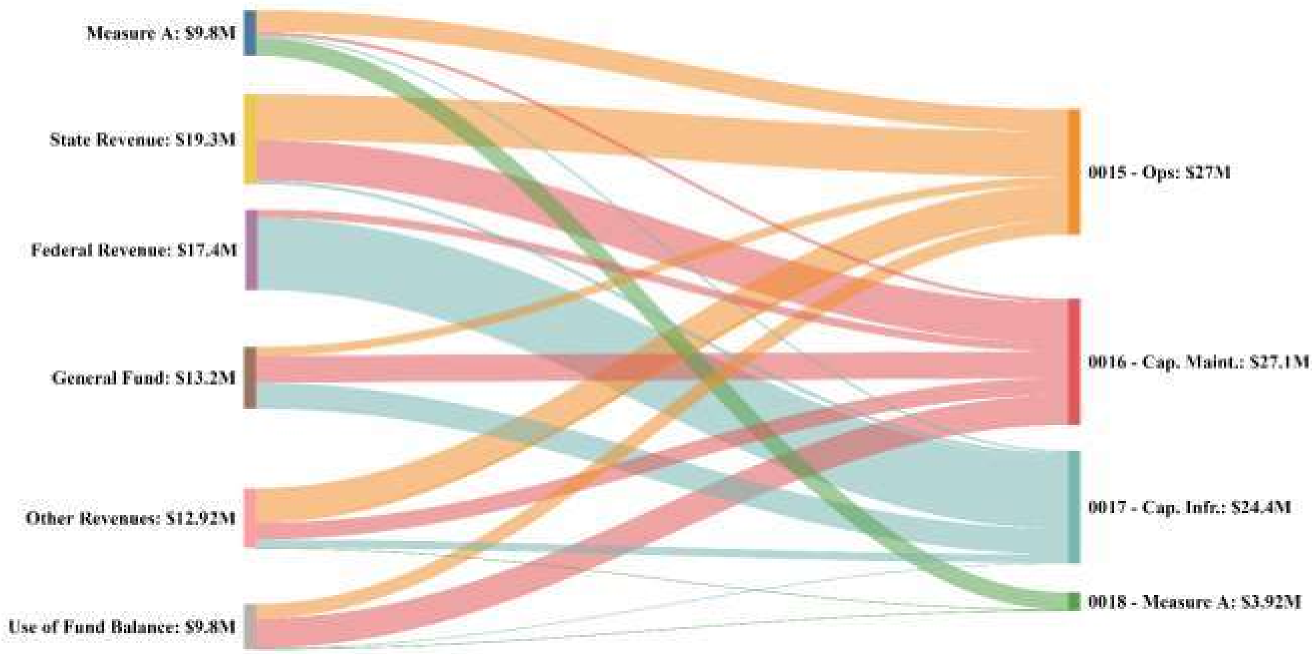
Fund 0018 is a minor holding fund that passes Measure A dollars through to the other three Funds and retains unspent Measure A dollars in fund balance for future use. Various other small Funds with specific purposes, like County Service Areas and AB1600 Mitigation Fee areas, are also held within the Transportation Division but were not within the scope of this review.

The trend chart below shows the total sources of revenue, including use of fund balance, in Funds 0015, 0016, 0017, and 0018 over the past five years. It shows relatively flat sources in Fund 0015, with significant gains in recent years in Fund 0016 due to new gas tax dollars from Senate Bill 1 and the growth in 18% maintenance funds, as well as the recent inflow of federal bridge dollars in Fund 0017.



The next chart shows the flow of various funding sources to the same four Funds for FY 2021-22. The variety of sources that go to both Funds 0015 and 0016 are evident, as well as the bulk of federal dollars going to Fund 0017. The General Fund dollars going to Fund 0016 are mostly from the 18% maintenance funding policy, while those going to Fund 0017 are loans for the high cost bridges that will eventually be reimbursed. Measure A is a flexible source of revenue with eligible uses in all Funds.

FY 2021-22 Sources and Destination



With this context provided, the next section will discuss the drivers of the budgetary issues in Fund 0015 in more detail.

Fund 0015 – Roads Operations

<u>Significant Cost Increases</u>

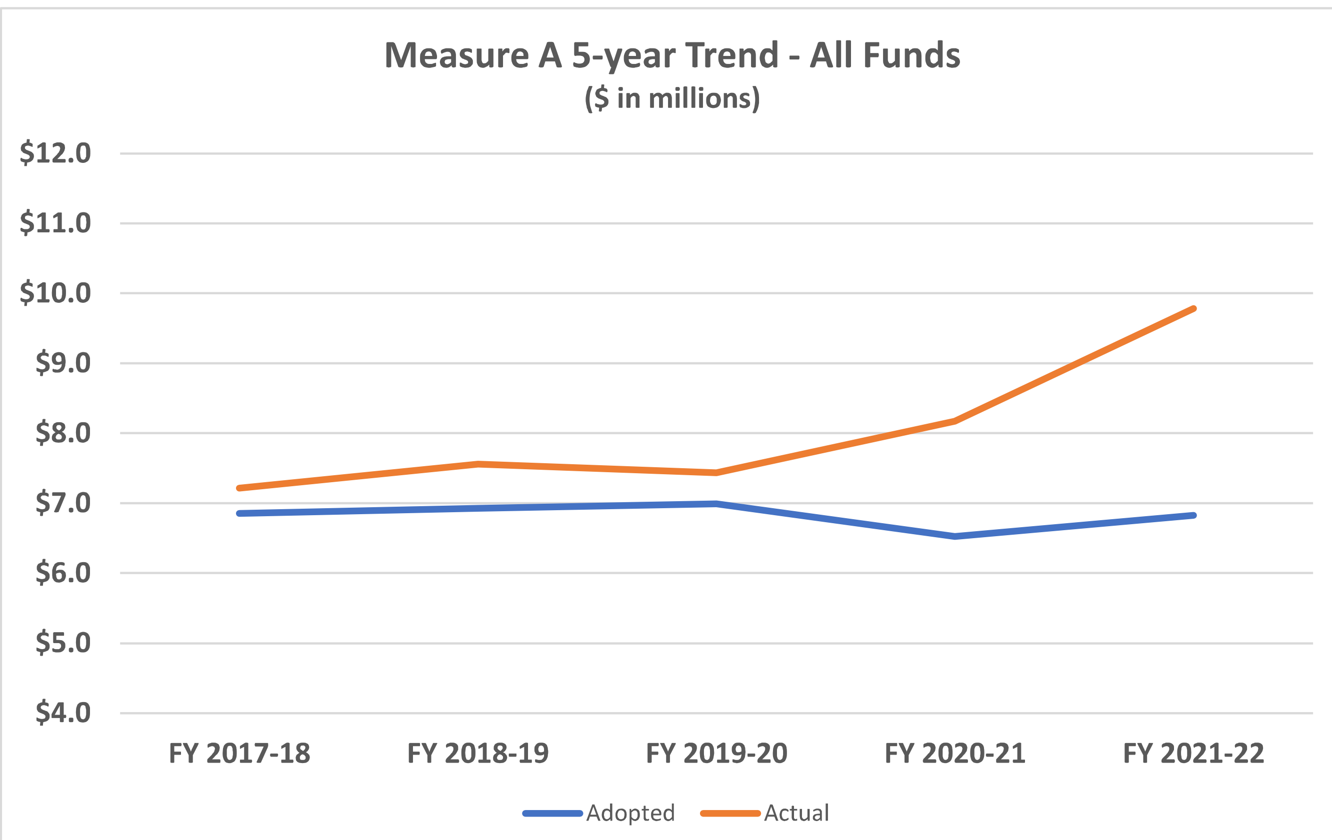
Actual expenditures in ongoing corrective maintenance have increased $2.8 million, or 15%, between FY 2017-18 and FY 2021-22. Liability insurance alone doubled in that same period, from $700,000 to $1.4 million, and increased another $500,000 in the FY 2022-23 budget. Risk Management has determined that most of those rate increases were due to factors outside the department's control. Other significant expenditure drivers over this period include increases in salaries and benefits ($1.1 million) and overhead charges to the Fund for department and countywide administration ($500,000). The major funding sources that pay for operations, which have remained relatively flat over the same period, are described below.

<u>Operation Funding Sources</u>

Measure A is a local ½ percent sales tax for regional transportation in effect from 2010 until 2040. It is split among regional agencies by the Santa Barbara County Association of Governments (SBCAG), and the County's share is split between North and South County. 10% must be used towards alternative transportation. Eligible uses include: maintaining, improving, and constructing roadways, bridges, and bicycle and pedestrian facilities; storm damage repair to transportation facilities; landscaping maintenance and highway improvements, and; matching funds for state and regional programs and projects. Every spring, the Public Works department brings the Measure A Program of Projects to the Board, approving the planned allocations for the upcoming fiscal year. The department typically recommends around $6 million of Measure A be allocated to Fund 0015, with the 5-year average (including alternative transportation) being $6.3 million. The remainder is allocated to Fund 0016 (Roads-Capital Maintenance) and Fund 0017 (Roads-Capital Infrastructure).

It was noted that, when Measure A revenues come in during the year higher than anticipated in the adopted budget, it is the department's practice to add those excess revenues to fund balance in Fund 0018 for future use on capital projects in Funds 0016 and 0017. The fund balance of excess funds collected over the past five years currently totals $6.3 million, up from $700,000 at the start of FY 2017-18, that has not yet been approved for allocation by the Board.

Fund 0015 started experiencing structural issues partly as a result of the department balancing the spending of Measure A revenue on both corrective and deferred maintenance by keeping recommended allocations to Fund 0015 flat at about $6 million, while overall Measure A funding has increased 35%, to almost $9.8 million in FY 2021-22. The growth has either been budgeted in Funds 0016 and 0017, or, as mentioned above, fund balanced for future use in those Funds. This is an important source of revenue for ongoing operational costs, as State Highway User Tax Account (HUTA) dollars, the other significant source of revenue in the fund, have been relatively flat over the same period. The chart below compares budgeted and actual Measure A revenue across all Roads Funds between FY 2017-18 and FY 2021-22.

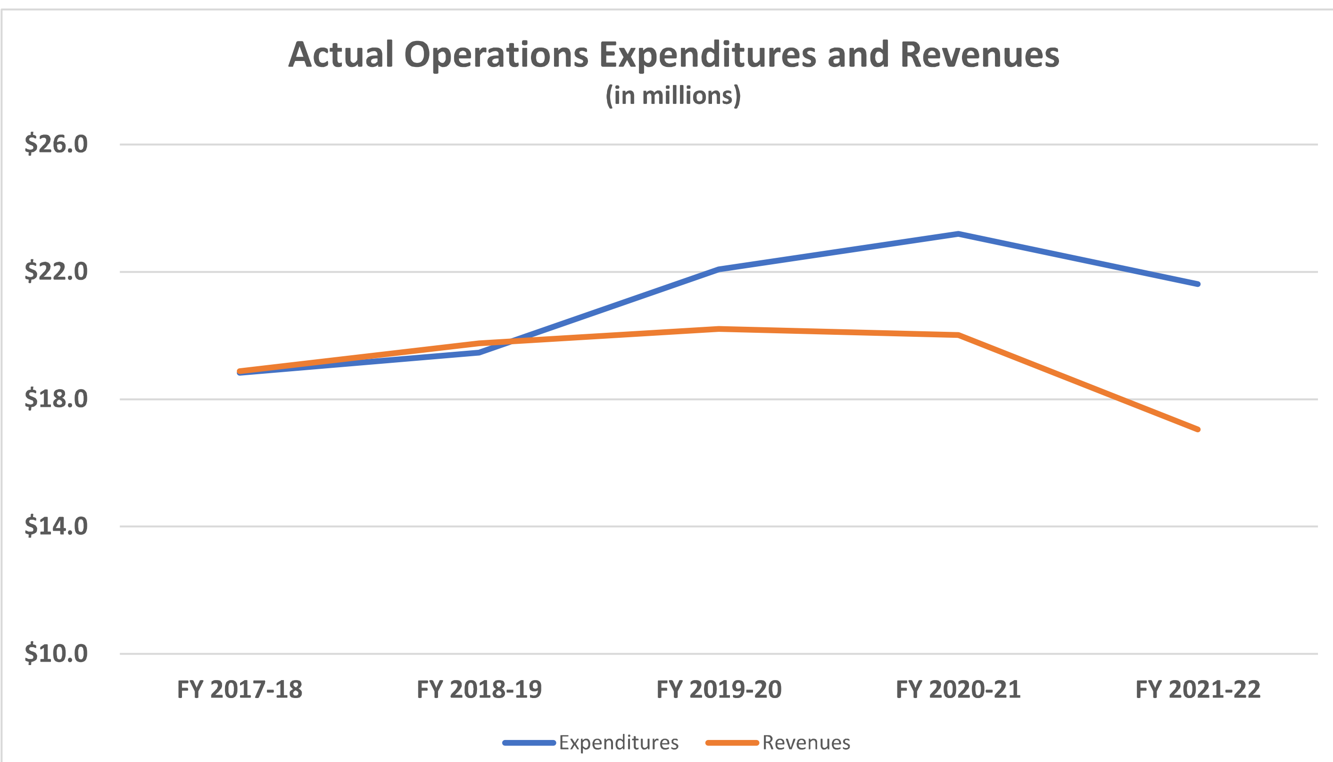


The second major source of revenue in Fund 0015 are allocations from State HUTA funds, which are derived from motor vehicle fuel taxes. Allowable uses include the research, planning, construction, improvement, maintenance, and operation of public streets and highways, as well as administrative costs necessarily incurred for those uses. Actual HUTA receipts in Fund 0015 have risen only modestly, 5.9%, over the past five years, from $8.3 million in FY 2017-18 to $8.9 million in FY 2021-22.

The third major piece of funding that goes towards operating expenses in Fund 0015 is the General Fund Contribution (GFC), which has only grown by $100,000 over the past five years, from $1.8 million to $1.9 million. The methodology by which GFC growth is allocated to departments is a formula based on anticipated growth in salaries and benefits, and the percentage of a Fund's total sources made up of GFC. In Fund 0015, GFC is less than 10% of the total sources, so typically only grows by tens of thousands each year when salaries and benefits grow by hundreds of thousands. The other funding sources would be expected to cover the majority of the increases, but as discussed above, have been mostly flat over the past five years.

A fourth, more minor source of funds, but important to understanding the structural imbalance, are the Fund's permit revenues. Road encroachment permits are issued for a variety of purposes, and the department is able to charge for staff time to process the permits, perform plan checks, and conduct inspections. These permits range from simple driveway improvements or landscaping in the public road right of way to major development frontage improvements and utility work in the roadway. While utility construction work in the road right of way is covered by permit fees, much of the utility coordination work required is linked to franchise agreements, and thus not recoverable by permit fees. Similarly, some of the development review work is not recovered through fees and neither are some of the safety related work that is for the good of the traveling public. For the work the department does charge for, current rates, which were last updated in 2011, cause a shortfall of about $450,000 between the revenues coming in and the cost to provide the service. The department plans to bring a fee update in April to correct this issue.

The ongoing corrective maintenance expenditures and revenues discussed above (as well as minor miscellaneous revenues) are shown on the chart below. In years where expenditures have exceeded revenues, the difference has been made up with one-time sources, such as transfers from the General Fund or use of Fund 0015 fund balance.



Board Policy Considerations

The Board is annually tasked with determining the budgetary priorities in the allocation of limited General Fund resources. Ultimately, the level of road maintenance and critical projects initiated are incorporated into that decision making. To mitigate the ongoing budgetary gap related to the Roads Operations Fund the department would need to do one or more of the following:

1) reduce costs
2) increase resources, such as tax revenue, State funding, permit fees, etc.
3) seek additional funding from the General Fund

The department has made concerted efforts to improve and maintain roads, drainages, sidewalks, trees, and bridges while also undertaking larger transportation projects that are critical throughout the County. Staff have identified recommendations in this report that provide a long-term fiscal plan for the Roads Operations Fund that avoids service level impacts as the result of cost reductions. Specifically, a more accurately reflected revenue estimate for Measure A revenues is required, with at least a portion of the previously unallocated growth going to the Roads Operations Fund, along with an increased level of General Fund support.

As noted previously, the department has not increased the Measure A revenue in the Roads Operations Fund, in order to set aside growth for capital projects. Requiring the department to budget a portion of this growth for operations would limit the amount of excess revenue the department will be setting aside in the future for these projects, but will not reduce existing levels of Measure A allocations to Funds 0016 and 0017, nor does it propose using any of the $6.3 million Measure A fund balance in the Operations Fund.

An alternative to the recommendations provided below would include the reduction of costs in the Roads Operations Fund. The Board could consider policy direction related to the level of road maintenance the department should be pursuing which could have the following potential impacts noted from the department, depending on the level of reductions: elimination of tree maintenance contracts, elimination of programmatic replacements of traffic signals, culverts, guard rails, and equipment (only responding/replacing in the event of failures), reduce materials purchased for maintenance, and more.

Recommendations

Given the background and observations discussed above, staff has three recommendations to move the Roads Operations Fund towards a sustainable fiscal path going forward. The Fund will continue to be closely monitored in the years ahead.

1) Measure A Budget Development Policy

The first recommendation is to adopt the following budget development policy:

"During annual budget development, Measure A revenue shall be budgeted at fully anticipated amounts, primarily in Fund 0015, in an effort to ensure Maintenance operations are balanced and to eliminate the structural imbalance, while still maintaining programs, grant funding and critical capital project matches. Budgeting in Roads-Capital Maintenance Fund 0016 and Roads-Capital Infrastructure Fund 0017 will follow existing practice. All unanticipated Measure A revenue that comes in above budgeted numbers during the fiscal year will be recognized and allocated with a budget revision, which may go towards Fund

0015 if issues arose during the year that require additional funding, or towards new or existing deferred maintenance and capital improvement projects and programs."

This policy will help Fund 0015 stay in balance, while still following requirements of Measure A, such as the split of funds between North county and South county, and the 10% carveout for alternative transportation projects. It will allow for increasing the annual allocation to Fund 0015 to keep up with rising costs using growth in the funding source, instead of holding flat at $6 million, while potentially allowing for growth in the other capital project Funds as well, as Measure A continues to grow over time. The department will continue to include funding for ongoing programs and projects such as the Americans with Disabilities Act (ADA) needs, safety programs, transit for seniors and people with mobility challenges, and matching funds for grants and other community benefit projects, to the extent funding is available. Funding already allocated entirely to deferred maintenance in Fund 0016, such as SB1 and General Fund dollars from the 18% funding plan, will also grow annually to continue to support deferred maintenance needs.

2) GFC Allocation for Rising Rates

The Board adopted budget development policy 3.h. on December 13, 2022, allowing the CEO to build additional GFC into the Recommended Budget for rate increases outside department control that are causing a significant impact on service delivery. As discussed above, general liability rate increases in this Fund have gone up about $1.2 million since FY 2017-18, driven mostly by market factors, which has necessitated reductions to other operating expenses and more recently, use of fund balance to maintain status quo operations. Staff is recommending that, per the policy, GFC be increased to Fund 0015 by $1.0 million in the FY 2023-24 Recommended Budget to help cover these substantial rate increases. This will help stabilize the fund, and prevent service impacts.

3) Return to the Board for Consideration of Permit Fee Increases for Full Cost Recovery

This spring, Public Works plans to bring recommendations on increasing permit fees for program 2280 (encroachment permits) to achieve fuller cost recovery, in line with budget development policy 3.d. This increase is expected to net the department an additional $450,000 in permit revenue for encroachment permit services it performs. These fees should have an annual increase factored in, as well as a study performed from time to time to adjust as needed and ensure the department stays as close as possible to full cost recovery for these services in the future. Otherwise funding for these required services will come at the expense of other corrective maintenance operations.

Fiscal Analysis

The fiscal analysis was described in the section above. If directed, staff will develop the FY 2023-24 budget incorporating these recommendations.

Authored by:

Paul Clementi, Budget Director