

TO: BOARD OF DIRECTORS
FROM: BRUCE BUEL *BB*
DATE: FEB. 20, 2009

**AGENDA ITEM
E-4
FEB. 25, 2009**

WILLOW ROAD FUNDING OPTIONS

ITEM

Authorize submittal of comments to SLO County on Willow Road Funding Options [PROVIDE POLICY GUIDANCE].

BACKGROUND

The SLO County Board of Supervisors discussed funding for the Willow Road Extension Project at their August 26, 2008 Meeting (See attached presentation); indicated that an Ad Valorem Property tax was their top choice for funding the \$12 million deficit; and directed County Staff to conduct a series of outreach activities on the Nipomo Mesa to secure feedback from the community. County Staff completed their outreach on 2/19/09. This item on this agenda so that the NCSD Board can formulate comments back to the County prior to Board of Supervisor consideration of the options.

As detailed in the attached presentation, County staff evaluated six funding options and recommended Option 4 because it did not need General Fund debt support and it was less dependent on new development. None of the six options proposed the use of County General Fund Reserves to pay for any portion of the project. Although Option 4 envisions the continued collection of the \$10,337 per EDU Road Impact Fee (RIF), none of these fees would actually be used to pay for Willow Road debt service. Option 4 also assumes that the value of property correlates to the usage of County Roads.

Staff believes that some General Fund contribution is necessary to fund the project. Staff further believes that some increase in the RIF should be included to pay for a portion of the project's debt service. Finally, staff believes that a parcel tax or an assessment would more equitably spread the cost of the project amongst the road users and potentially credit those who have contributed Capacity Charges historically.

The only fiscal impact to the District regarding this item is the dedication of staff time, which is budgeted in the FY08-09 Budget.

RECOMMENDATION

Staff recommends that your Honorable Board discuss these issues, develop a position and authorize the President to forward a letter to the Board of Supervisors articulating that position.

ATTACHMENTS

- Slides from 8/26/08 Presentation
- Slides from 2009 Presentations

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Planning and Building Public Works		(2) MEETING DATE August 26, 2008	(3) CONTACT/PHONE Dana Lilley, Supervising Planner (805) 781-5715	
(4) SUBJECT Financing the Willow Road Interchange Project				
(5) SUMMARY OF REQUEST The Planning and Building and Public Works Departments are presenting options for financing the Willow Road Interchange Project and asking the Board of Supervisors.				
(6) RECOMMENDED ACTION That your Board: <ol style="list-style-type: none"> 1. Direct staff to conduct community workshops and a survey to introduce the funding mechanisms and obtain feedback; and 2. Report back in February 2009 to obtain final direction on project funding. 				
(7) FUNDING SOURCE(S) Planning and Building – FC 142		(8) CURRENT YEAR COST \$88,570	(9) ANNUAL COST NA	(10) BUDGETED? <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes <input type="checkbox"/> N/A
(11) OTHER AGENCY/ADVISORY GROUP INVOLVEMENT (LIST): South County Advisory Council, Home Builders Association of the Central Coast				
(12) WILL REQUEST REQUIRE ADDITIONAL STAFF? <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes, How Many? _____ <input type="checkbox"/> Permanent _____ <input type="checkbox"/> Limited Term _____ <input type="checkbox"/> Contract _____ <input type="checkbox"/> Temporary Help _____				
(13) SUPERVISOR DISTRICT(S) <input type="checkbox"/> 1st, <input type="checkbox"/> 2nd, <input type="checkbox"/> 3rd, <input checked="" type="checkbox"/> 4th, <input type="checkbox"/> 5th, <input type="checkbox"/> All		(14) LOCATION MAP <input checked="" type="checkbox"/> Attached <input type="checkbox"/> N/A		(15) Maddy Act Appointments Signed-off by Clerk of the Board
(16) AGENDA PLACEMENT <input type="checkbox"/> Consent <input type="checkbox"/> Hearing (Time Est. _____) <input type="checkbox"/> Presentation <input checked="" type="checkbox"/> Board Business (Time Est. <u>40 min</u>)		(17) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions (Orig + 4 copies) <input type="checkbox"/> Contracts (Orig + 4 copies) <input type="checkbox"/> Ordinances (Orig + 4 copies) <input checked="" type="checkbox"/> N/A		
(18) NEED EXTRA EXECUTED COPIES? <input type="checkbox"/> Number: _____ <input type="checkbox"/> Attached <input checked="" type="checkbox"/> N/A		(19) APPROPRIATION TRANSFER REQUIRED? <input type="checkbox"/> Submitted <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A		
(20) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) _____		(21) W-9 <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		(22) Agenda Item History <input type="checkbox"/> N/A Dates <u>11/09/05 (D-2), 04/04/06 (B-11), 06/13/06 (F-1), 09/19/06 (G-1), 02/27/07 (F-1), 10/16/07 (B-22)</u>
(23) ADMINISTRATIVE OFFICE REVIEW <i>cc [signature]</i>				



SAN LUIS OBISPO COUNTY
DEPARTMENT OF PLANNING AND BUILDING

VICTOR HOLANDA, AICP
DIRECTOR

TO: BOARD OF SUPERVISORS

FROM: DANA LILLEY, SUPERVISING PLANNER
WILL CLEMENS, PUBLIC WORKS DEPARTMENT ADMINISTRATOR

VIA: VICTOR HOLANDA, DIRECTOR, PLANNING AND BUILDING DEPARTMENT
PAAVO OGREN, DIRECTOR, PUBLIC WORKS DEPARTMENT

DATE: AUGUST 26, 2008

SUBJECT: FINANCING THE WILLOW ROAD INTERCHANGE PROJECT

Recommendation

That your Board:

1. Direct staff to conduct community workshops and a survey to introduce the funding mechanisms and obtain feedback; and
2. Report back in February 2009 to obtain final direction on project funding.

Discussion

Background

Over the past couple years, staff has presented issues involving the financing and construction of infrastructure projects that are needed for new development consistent with the General Plan. The Willow Road Interchange project is one such project and has been a focus of your Board's prior discussions. More than thirteen different financing techniques were evaluated for potential application to the Willow Road Interchange Project. The most promising financing techniques were then narrowed down to include all or some of the following:

Revenues

- Road Improvement Fees (RIF)
- The Woodlands development contribution (Woodlands)
- State Transportation Improvement Program grants (STIP)
- Property taxes or assessments
- Parcel taxes

Municipal Debt

- Community Facilities District (CFD)
- Certificates of Participation (COP)
- General Obligation bonds

976 OSOS STREET, ROOM 300 • SAN LUIS OBISPO • CALIFORNIA 93408 • (805) 781-5600

EMAIL: planning@co.slo.ca.us • FAX: (805) 781-1242 • WEBSITE: <http://www.sloplanning.org> **1-2**

A sales tax increase might also have contributed toward the Willow Road Interchange Project, but the timing for this now appears incompatible with the schedule for this project.

Project Need

Willow Road is proposed to be extended eastward from Pomeroy to Thompson Road, including an interchange at Highway 101 and a frontage road from Sandydale to Willow. Until the Willow Road project is constructed, Tefft Street will continue to be the only road crossing Highway 101 within Nipomo. Traffic congestion along Tefft Street and South Frontage Road during morning and evening peak hours is constrained due to high traffic volumes and operational limitations at the Tefft Street/Highway 101 interchange. The measured Level of Service (LOS) at peak periods reaches LOS E and LOS F, whereas the County strives to meet LOS D or better at all times.

Project History and Cost

The Willow Road Interchange Project Road has been included in the Circulation Plan for the South County Planning Area since the 1980's. The Road Improvement Fee (RIF) program was established in 1990 to collect impact fees to support road system improvements needed based on the existing General Plan. Thus, Road Improvement Fees are being collected to fund the Willow Road Interchange Project and other needed road system improvements in the area, but the fees are not accumulating fast enough to fully finance the project until more twenty to thirty years in the future.

During the past fifteen years, the estimated cost of the Willow Road Interchange Project has risen from approximately \$12 million to \$42 million. The components of the project cost include the following:

Project Component	Cost (millions)
Project Design	\$ 5
Right of Way	\$ 3
Roadway	\$ 8
Interchange	\$ 24
Tree Mitigation	\$ 2
Total	\$ 42

Assumptions Regarding Residential Development Trends

Market forces and water supply limitations influence the rate of residential development, which in turn influences public financing capacity for large infrastructure projects. Commercial development also plays a role in financing infrastructure, but it is more difficult to predict and may not be able to support as much of the financing burden and residential development. Staff reviewed recent permitting data to prepare conservative assumptions about the number of new dwellings for which permits will be issued over time. It is still uncertain whether water supply will limit the rate of residential

development below that supported by market conditions. Staff proposes to use the following assumption about the number of dwellings permitted each year as follows:

Assumed Residential Development in RIF Area 1	
Time Period	Permits Issued (Dwellings)
2009	30
2010	60
2011	90
2012	120
2013 & beyond	130 per year

Funding Gap

Much of the needed funding for the Willow Road Interchange Project has been identified with varying levels of certainty. The following table shows these funding sources in order of decreasing certainty (i.e. "1" = most certain):

Level of Certainty	Funding Source	Amount (millions)
1	Cash on hand	\$ 11
2	Woodlands	\$ 7
3	STIP	\$ 10
4	Expected RIF	\$ 2
Total		\$ 30

The likely funding gap can be estimated by subtracting the cost from the available funding as shown below:

$$\$ 42 \text{ million cost} - \$ 30 \text{ million available funding} = \$ 12 \text{ million gap}$$

Potential \$6 million County loan

During budget hearings in June 2008, your Board set aside \$6 million in reserves which could be used to fund part of this gap as a loan.

Municipal Debt

The County may wish to provide interim financing for the \$12 million gap by issuing some form of municipal debt. Most forms of municipal debt would require annual payments of principal and interest from the General Fund if other repayment sources are insufficient. The County employed Certificates of Participation (COP) debt in order to initiate construction of the Vineyard Road Interchange Project.

Options for Repaying the \$12 Million Debt

Of all the financing mechanisms reviewed to-date, staff has identified six options for securing the \$12 million needed for debt repayment. Each option is comprised of one or two of the following: RIF, CFD, ad valorem property tax, parcel tax, and assessment. The following table shows the options and estimated costs:

Options for Repaying \$12 Million Debt					
Option	RIF (set amount per dwelling)	CFD (annual special tax per home)	Ad Valorem Property Tax (based on assessed value)	Parcel Tax (annual amount per parcel)	Assessment (lien based on benefit)
1	\$15,000				
2		\$1,200			
3	\$7,500	\$600			
4	\$10,337		0.000533 tax rate increase		
5	\$10,337			\$178/year for each parcel	
6	\$10,337				\$2,000 lien or \$178/year

RIF

The amount of fees that developers must pay for each new dwelling in the Nipomo area, including County, NCS D and schools, has grown significantly in recent years and may be reaching a point at which developers cannot easily afford the up-front cash payments all of these fees comprise. Consequently, increasing the RIF from the current level to \$15,000 might slow the rate of development, which would lengthen the repayment period for any debt incurred for the project.

CFD

The County could establish a CFD generally covering the area comprised of the existing South County Road Improvement Program Area No. 1. A location map showing this area is shown in the attached Exhibit A. The properties joining the CFD would include those whose owners wish to obtain permits to build homes or commercial developments. Properties previously developed with homes or businesses would not be included, so their tax bills would not be changed by the CFD. The annual property tax bill for an average price home built within the CFD would increase by approximately \$1,200 for a period of up to 30 years. Reducing the amount of the RIF that developers must pay might reduce the dampening effect on the rate of development from other required up-front fees. However, the CFD special tax may affect the price that each new home subject to this tax can be sold for, so the developer is still contributing financially to the project.

Ad Valorem Property Tax Increase

If approved by at least two thirds of registered voters, a slight increase in property taxes within Road Improvement Area 1 could support sufficient debt to fill the \$12 million gap. Increasing the effective tax rate by an estimated 0.000533 within RIF Area No. 1 could support \$12 million in debt. For each \$100,000 in assessed value, property owners

would see their annual property tax bill rise by \$53.30. This may be considered acceptable to voters if it helps resolve much of the traffic congestion problems in Nipomo and if developers are still contributing to the project.

Flat Parcel Tax

Again, if approved by two thirds of the voters, a flat amount of \$178 could be added to the tax bill for each of the approximate 6,000 parcels in RIF 1 in order to support \$12 million in debt. This type of tax would be less progressive than an ad valorem tax, since a flat parcel tax would not vary with property value.

Assessment District

If approved by 50 percent plus one of property owners, an average assessment lien of \$2,000 would be placed on each property, with \$178 annual payments due if the lien is not paid off in full. Obtaining just over half of the property owners to approve an assessment would be more likely than the two thirds voter approval needed for the two previous taxes. However, an assessment would need to meet the "special benefit" requirement of the State Constitution.

Staff Preferred Option

Staff currently favors Option 4 shown in the table above because it facilitates cost sharing among property owners and developers. It appears to be the most feasible mechanism to finance the Willow Road Interchange Project, particularly since it is less affected by water supply limitations than the other options.

None of the Options Depend on Changes to the General Plan

None of the options discussed above would require any changes to the General Plan to be feasible. In other words, the County would not need to rezone any properties to allow more development under these options. Based on the rate of residential development assumed in this report, buildout would be reached in about 25.

Next Steps

Since one of the financing techniques being considered would require voter approval, staff proposes to present information about the options at one or more meetings in Nipomo and survey affected voters to determine the whether sufficient support exists for a local revenue increase. Staff could then bring back the results of the survey with more details regarding the financing mechanisms and community preferences for consideration by the Board of Supervisors during its strategic planning meeting in February 2009.

Other Agency Involvement:

The Public Works and Planning and Building Departments jointly prepared this report. Comments from the South County Advisory Council and the Home Builders Association of the Central Coast were considered.

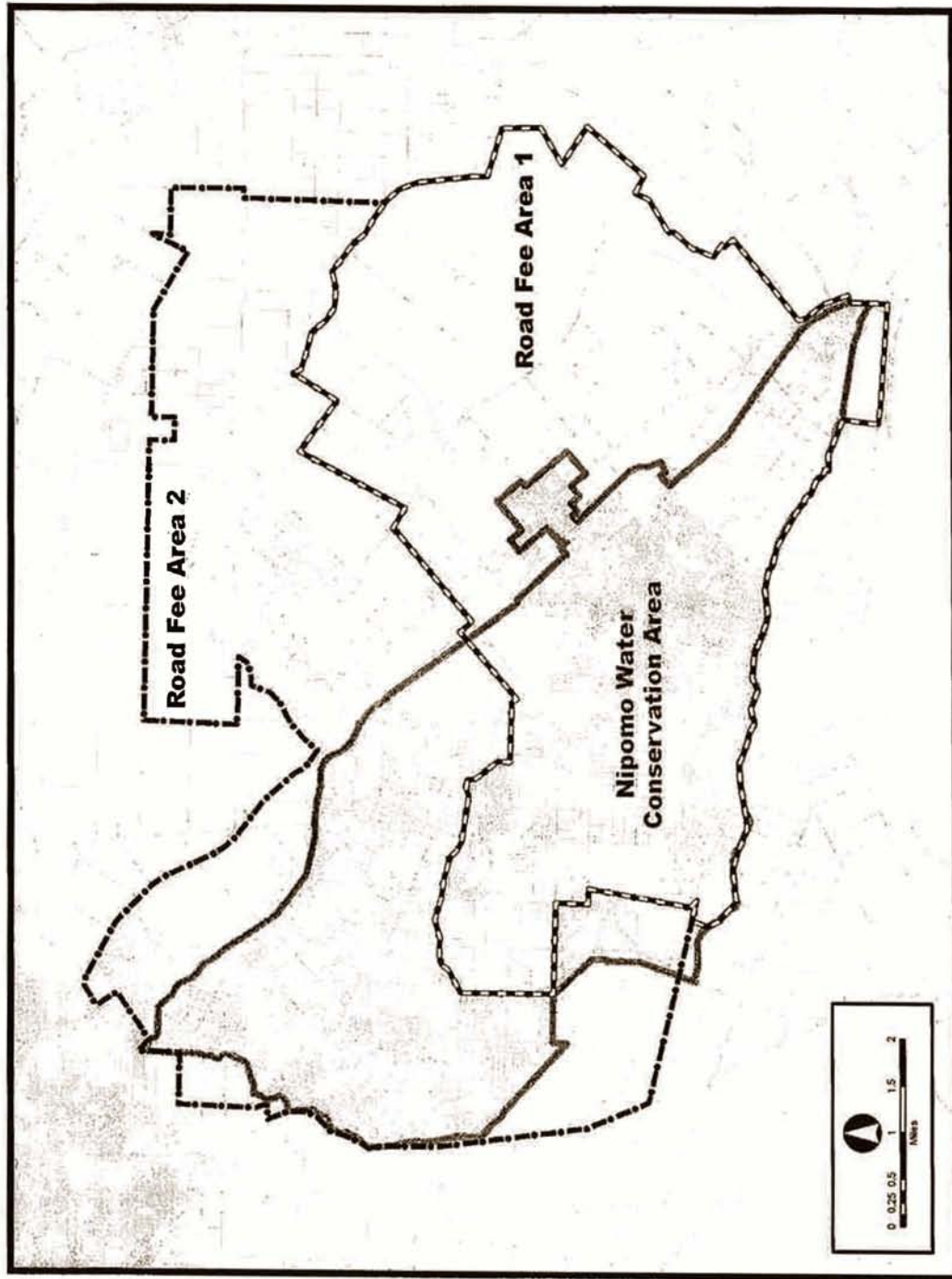
Financial Considerations:

David Taussig and Associates is the consultant firm providing special services related to a potential Community Facilities District formation and administration. Of the \$93,000 approved for this contract last year, \$88,570 remains unspent.

Results:

The goal of this effort is to enable completion of the Willow Road Project sooner than would otherwise be possible and therefore contributes to a more livable community.

Exhibit A: Location Map

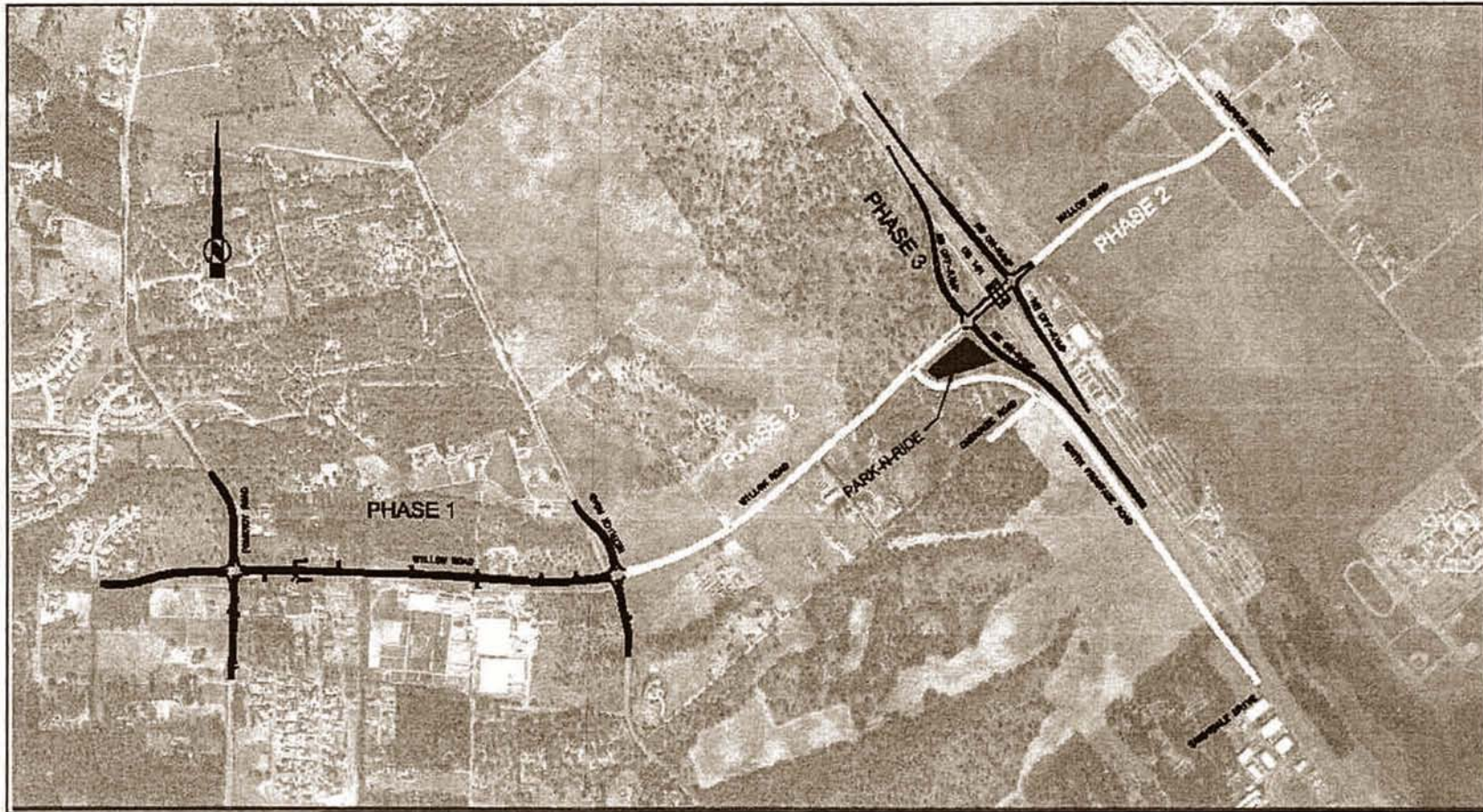


Willow Road Interchange

Project Funding Alternatives

Department of Public Works
Department of Planning and Building

WILLOW ROAD EXTENSION/US 101 INTERCHANGE PROJECT

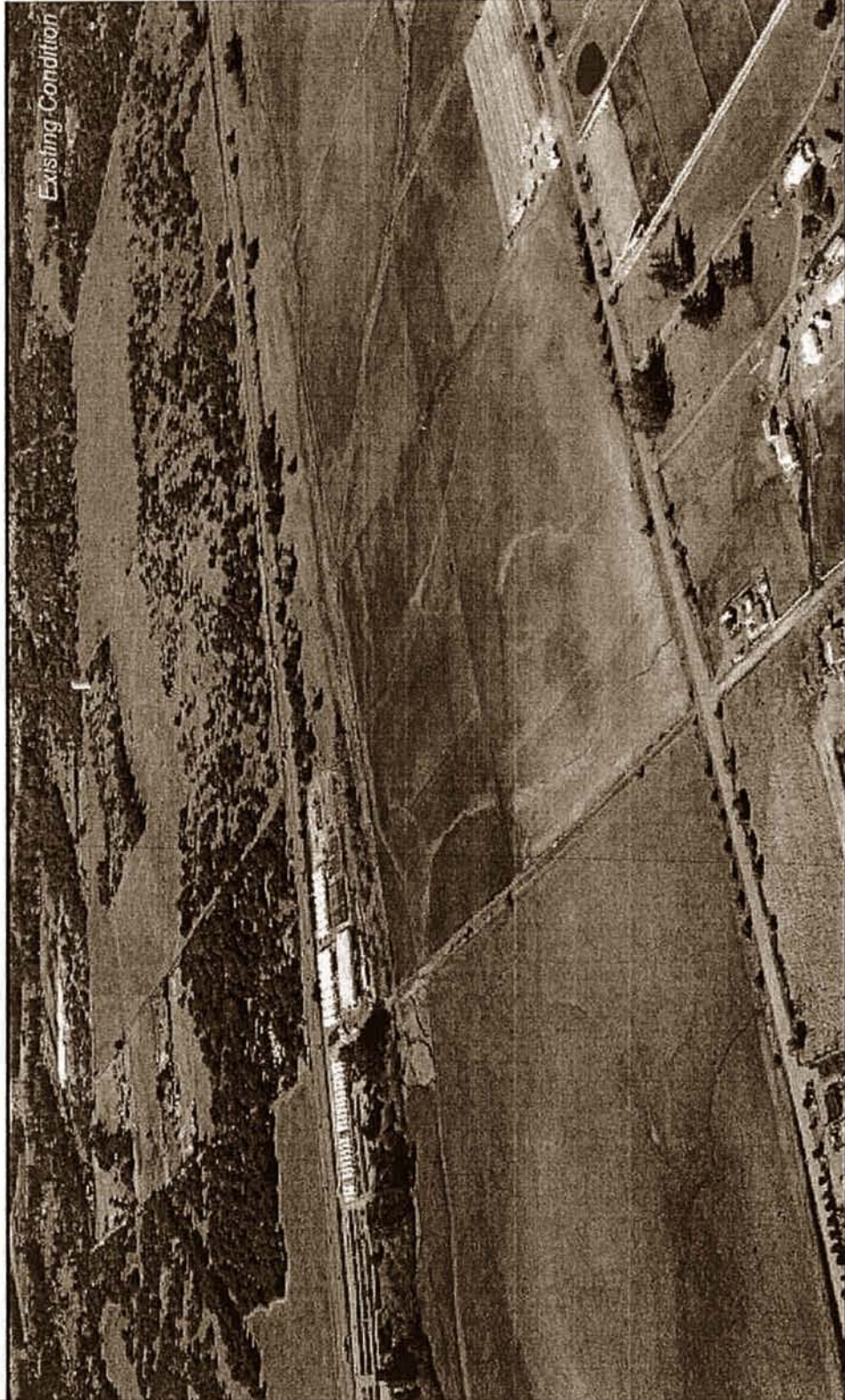


August 26, 2008

Willow Road Funding Options

2

New Highway 101 Interchange
at Willow Road Extension



In the Community of Nipomo
San Luis Obispo County

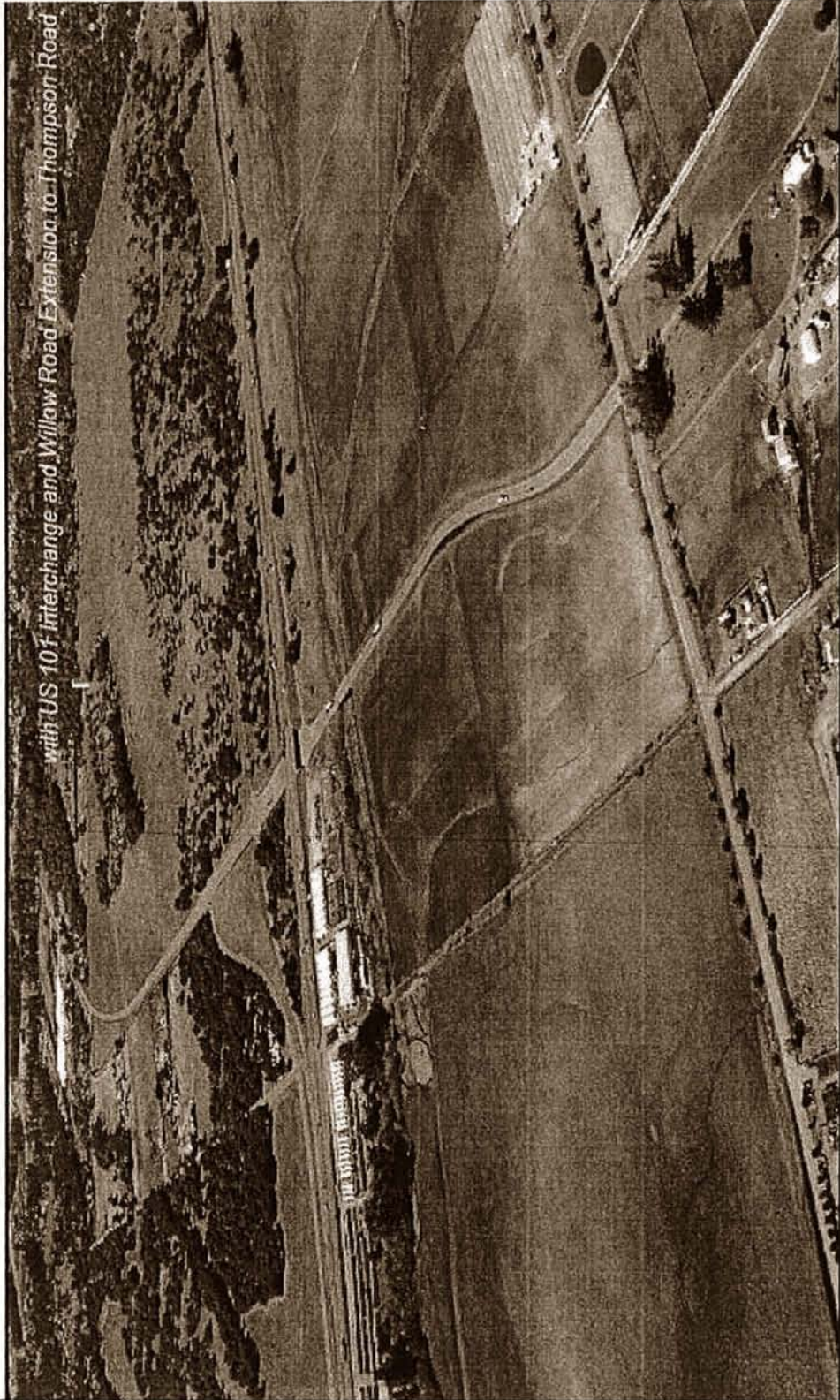
101 Visual Simulation Looking Northwest

August 26, 2008

Willow Road Funding Options



New Highway 101 Interchange at Willow Road Extension



with US 101 Interchange and Willow Road Extension to Thompson Road



Visual Simulation Looking Northwest

In the Community of Nipomo
San Luis Obispo County

August 26, 2008

Willow Road Funding Options

History of Project

- ◆ Included in Area Plan Circulation since 1980's; funding established under Road Improvement Fee since 1990
- ◆ The Project is needed to support existing and future development based on the existing General Plan
- ◆ Until the Project is built, traffic congestion at Tefft Street and 101 will continue to worsen

History of Project

- ◆ Project costs rose from \$12 million to \$42 million over the past 15 years
- ◆ Estimated funding gap is \$12 million
- ◆ Your Board previously discussed more than 13 alternative financing techniques to fill the funding gap

Project Costs versus Funding

◆ Project Costs:

\$ 5 m	Design
\$ 3 m	Right of Way
\$ 8 m	Roadway
\$24 m	Interchange
<u>\$ 2 m</u>	Tree mitigation
\$ 42 m	TOTAL

Project Costs versus Funding

◆ Available Funding

\$11 m Cash on hand

\$ 7 m Woodlands
(remaining)

\$10 m STIP

\$ 2 m Expected RIF

\$ 30 m Identified

Project Costs versus Funding

◆ **Shortfall (or GAP)**

Project Costs – Available
Funding

= \$42 million - \$30 million

= \$ 12 million shortfall

Tools in the Toolbox

- ◆ Increase Road Improvement Fees (RIF)
- ◆ Create Community Facility District (CFD)
- ◆ Property Tax (parcel or ad valorem)
- ◆ Assessment District
- ◆ Some combination of above

Implementation

- ◆ RIF: Public Hearing Action by Board
- ◆ CFD: District Formation by Board, condition of approval for development
- ◆ Parcel Tax: 2/3rds vote of residents
- ◆ Assessment District: 50% approval by property owners

Risk Assessment

- ◆ Water availability
- ◆ Housing market
- ◆ STIP funds must be secured with local funding by June 30, 2010
- ◆ Construction cost inflation
- ◆ RIF and CFD depend on development or General Fund, whereas
- ◆ Special taxes are not

Option 1: 100% funding from RIF

- ◆ Fees would be expected to increase 50% from \$10,000 per residential unit to \$ 15,000 per residential unit
- ◆ Not a viable source to secure bonding
- ◆ General Fund debt support would be required under current schedule

Option 2: 100% CFD Funded

- ◆ Development would enter into CFD instead of paying RIF
- ◆ CFD special tax on an average home would be \$1,200 per year
- ◆ Would replace RIF as development contribution to transportation mitigation projects
- ◆ General Fund debt support would be required under current schedule

Option 3: RIF + CFD

- ◆ RIF could be reduced to \$7,500 per dwelling
- ◆ CFD special tax could be held down to \$600 per year for an average home
- ◆ General Fund debt support would be required under current schedule
- ◆ All RIF and CFD capacity needed for Willow only

Option 4: RIF + Ad Valorem Tax

- ◆ RIF would remain at \$10,337
- ◆ Annual Ad Valorem Tax of \$53.33/\$100,000 assessed value would support debt to cover \$12 million gap
- ◆ RIF would be used primarily for other road improvement projects
- ◆ No General Fund debt support needed

Option 5: RIF + Parcel Tax

- ◆ RIF would remain at \$10,337 per dwelling
- ◆ Parcel Tax of \$178 per year for each parcel would support debt to cover \$12 million gap
- ◆ RIF would be used primarily for other road improvement projects
- ◆ No General Fund debt support needed

Option 6: RIF + Assessment District

- ◆ RIF would remain at \$10,337 per dwelling
- ◆ RIF would be used primarily for other road improvement projects
- ◆ Assessment of \$178 per year for each parcel would support debt to cover \$12 million gap
- ◆ Recent Supreme Court case creates new challenges for this option

Staff Preference: Option 4

1. RIF would continue to provide cash for smaller projects without cost of debt
2. Existing and future property owners would share the cost burden
3. An Ad Valorem Tax best matches ability to pay: (higher-value properties are subject to higher tax increases)

Staff Preference: Option 4

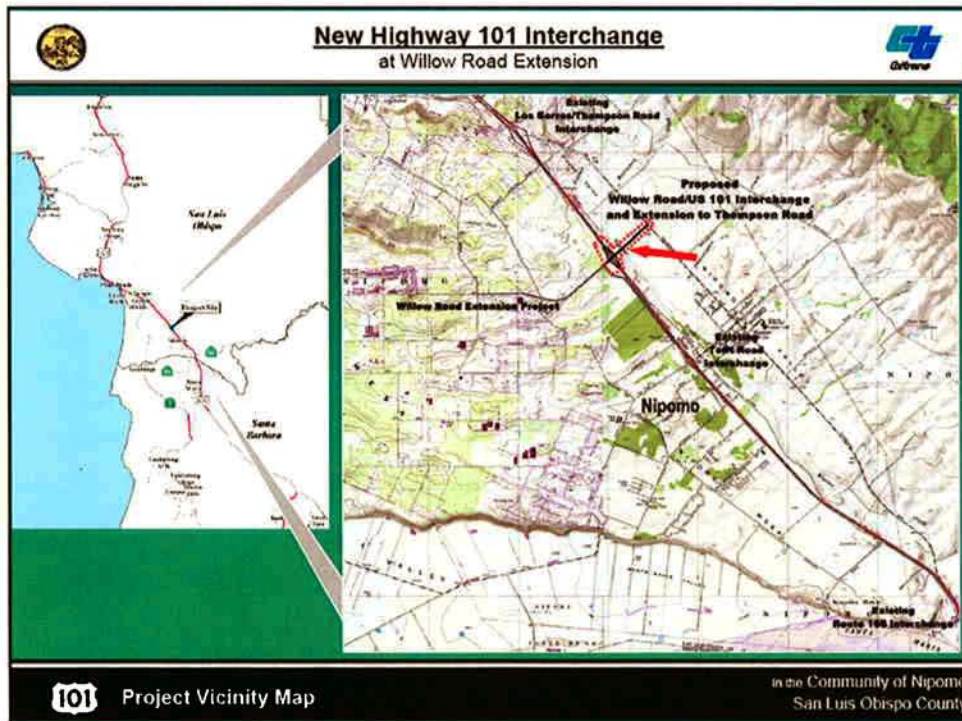
4. No General Fund debt support needed
5. Option 4 is the less dependent upon new development

Action Items

- ◆ Direct staff to conduct community workshop and survey to introduce these funding mechanisms and obtain feedback
- ◆ Report back in February 2009 to obtain final direction on project funding

Willow Road Interchange

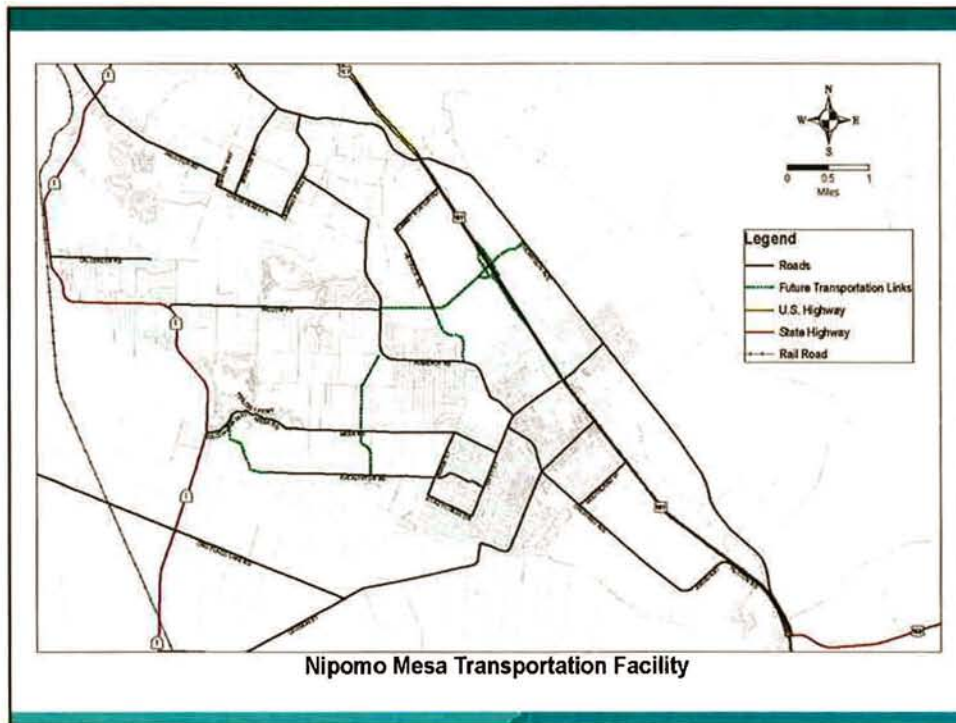
Project Funding
Alternatives
Department of Public Works
January 2009





History of Project

- ◆ Included in Area Plan Circulation since 1980's; Funding established under Road Improvement Fee since 1990.
- ◆ Based on existing General Plan
- ◆ Project costs are Approx \$ 42 million.
- ◆ State Transportation Improvement Program funding secured in the amount of \$ 10 million
- ◆ Road Improvement Fee account is providing about \$ 20 million to fund project



Project Need

- ◆ Relieve congestion at Tefft Street
- ◆ Support traffic demand under the existing General Plan build out.
- ◆ Reduce overall Vehicle Miles Travelled on Mesa
- ◆ Provide adequate truck route between Route 1 and Route 101

Project Costs versus Funding

◆ Project Expenses

- \$5 m Project Design
- \$3 m Right of Way
- \$8 m Roadway
- \$24m Interchange
- \$ 2 m Tree mitigation
- \$ 42 m TOTAL

◆ Project Revenue

- \$10 m RIF collected
- \$ 8 m Woodlands
- \$ 2 m Expected RIF
- \$10 m STIP
- \$ 30 m Identified

- Shortfall

- \$42 m-\$30m =**\$12 m**

Project Risks

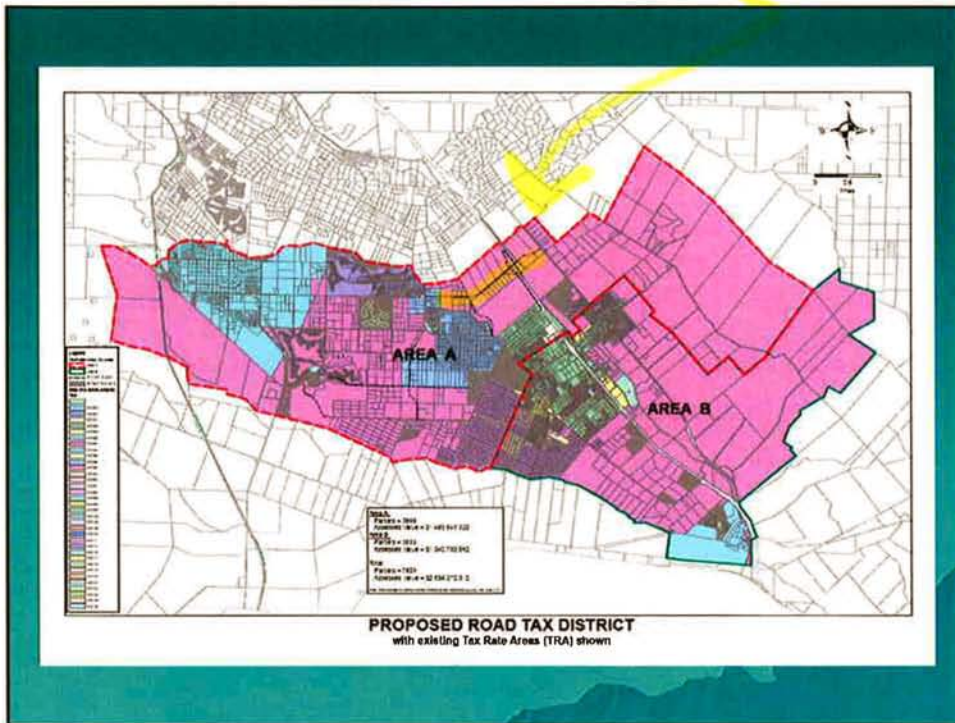
- ◆ Costs continue to increase over time
- ◆ STIP funding is limited to \$ 10 million and must be allocated to this project by June 30, 2010
- ◆ We must advertise the Project by June 30, 2010.
- ◆ Not being able to advertise project by above date risks loss of \$ 10 million to other projects

Board of Supervisors

- ◆ Public Works has presented potential funding options to the Board
- ◆ Board of Supervisors direction to seek local source of funding gap
- ◆ The Board also approved a \$6 M loan to help resolve the funding gap.
- ◆ This loan will need to be repaid.

Potential Local Funding Options

- ◆ Assessment District
- ◆ Ad Valorem Tax
- ◆ Parcel Tax



Assessment District

- ◆ Define by special benefit of property for Willow Road Project
- ◆ Requires engineers report to establish benefit and assessment formula.
- ◆ Requires 50% approval vote of "Property Owners"
- ◆ Expected 30 year term on bond payback
- ◆ Example: Los Osos WWTP

Ad Valorem Tax

- ◆ Increase existing property tax rate by 0.038%
- ◆ Requires 2/3 vote under Prop 218
- ◆ Expected for 30 year term.
- ◆ Example: The method used to fund 50% of the Lopez Dam seismic retrofit.

0.05%

Parcel Tax

- ◆ Creates same rate for each parcel based on land use.
- ◆ Require 2/3 vote under Prop 218.
- ◆ Expect to be for 30 year term for bond payback.
- ◆ Example: Drainage projects and cooperative roads projects.

\$ 130/parcel

Community Input

- ◆ Educate groups on options
- ◆ Seek specific comments/input through the workshop
- ◆ Test levels of interest through survey
- ◆ Get policy recommendation from Advisory Council

2/19/09

Return to Board of Supervisors

- ◆ Return in Summer of 2009 with report on community input results
- ◆ Provide analysis of options
- ◆ Seek direction on moving ahead with project funding
- ◆ If option mandates vote, move forward to conduct mail in ballot in Fall 2009

Summary

- ◆ Board expects some level of local financing to advance project
- ◆ County reserves/ General Fund are only available for a partial loan.
- ◆ Some type of taxing mechanism needed

Questions ??