



County of El Dorado

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TO: Members, Board of Supervisors

FROM: Don Ashton, Chief Administrative Officer

SUBJECT: ROAD MAINTENANCE REPORT; MC&FP FUNDING ANALYSIS

BACKGROUND

During the FY 2016/17 budget hearings, in September, the Board directed staff to schedule a workshop pertaining to funding for county roads, initially targeted for November or December 2016. At that time, staff had recommended using sales and property tax revenue currently diverted to the Missouri Flat Master Circulation and Financing Plan (MC&FP) Phase II to fund road maintenance activities in the FY 2016/17 Budget. This recommendation was based on the assumption that Measure E, which prohibits the use of local tax payer dollars to fund new roads without voter approval, would prohibit tax revenues diverted to MC&FP Phase I from being used for the type of work contemplated by MC&FP "Phase II." However, based on a legal analysis of Measure E, MC&FP and Measure J which was passed in November 2000, the Board has the discretion to continue using MC&FP funding as currently designated or to discontinue MC&FP and instead use the tax revenue designated for MC&FP Phase II for any discretionary purpose, including countywide road maintenance.

While the Governor's FY 2017/18 proposed budget includes additional funding for roads and the State Legislature is considering proposed legislation to increase funding, it is unknown whether these alternatives will be approved. As a result, and until a permanent funding solution is approved, local governments will continue to be forced to decide between using existing General Fund resources, attempting to pass a sales tax measure, or finding other, sometimes less desirable, funding sources.

To assist the Board in making these decisions, this report will address the following:

- I. Summary of 2016 ‘*California Statewide Local Streets and Roads Needs Assessment*’¹
- II. Condition of El Dorado County roads
- III. Current Road Maintenance Plan
- IV. Feasibility of using MC&FP funding

I. 2016 ‘California Statewide Local Streets and Roads Needs Assessment’

An October 2016 report titled “*California Statewide Local Streets and Roads Needs Assessment*” issued by NCE; a consulting engineering, planning, environmental, and construction services firm; concluded the following:

- The State Gas Tax, the single largest funding source for cities and counties, is projected to realize approximately \$910 million/year statewide, far short of the amount required to maintain roads at existing conditions.
- In order to achieve Best Management Practices relative to essential component needs², (e.g., PCI of 70) El Dorado County (including cities within the County) would need approximately \$500 million to \$1 billion³ in funding over the next 10 years.
- Given the existing funding levels available to cities and counties, California’s local street and roads will continue to deteriorate over the next 10 years. Currently, local streets and roads have decayed to the point that funding will need to almost double simply to maintain current conditions.
- To bring the local system back to a cost-effective condition, statewide \$7.3 billion annually in new funds are needed – equivalent to a 49 cent-per-gallon gas tax increase.
- The Statewide average PCI for major roads in rural areas is 65, and the rural local roads is 55, which are both considered ‘*At Risk*’. El Dorado County’s average weighted PCI is 64.
- A PCI of 65 should be viewed with caution – it indicates our local streets and roads are “*poised on the edge of a cliff*”.
- Nine counties have an average PCI in the ‘*Good*’ range, 37 counties, including El Dorado, are ‘*At Risk*’, and 12 counties are ‘*Poor*’.
- In FY 2008/09, funding sources for road improvements were distributed at 10% Federal, 62% State and 28% Local. In FY 2015/16, funding distributions were 11% Federal, 40% State and 49% Local.

¹ The Pavement Condition Index (PCI) scores for counties, in the “California Statewide Local Streets and Roads Needs Assessment” report, are combined with cities that are located in the county (e.g. Placerville’s road PCI scores would be included in El Dorado County’s PCI). To identify the PCI for all 58 California counties, without cities influencing the PCI, El Dorado County contacted the authors of the report and received the PCI for just county roads. Thus, the PCI for counties in the “California Statewide Local Streets and Roads Needs Assessment” report does not match the PCI in this staff report or in the corresponding presentation.

² Essential component needs does not refer to bridges, drainage, roadside maintenance, etc. If these are included, it is estimated El Dorado County will need an additional \$500 million over the next 10 years.

³ The dollar figures include the needs of El Dorado County’s two cities

- There is an increased reliance on local sales tax measures, from 10% in FY 2008/09 to 19% in FY 2015/16 in total pavement revenues.
- State based gasoline excise tax, the static portion that is 18 cents, has not increased in over 20 years and yet it remains the single most important funding source for transportation. As a result, cities and counties are relying on a diminishing revenue source for a transportation system that is aging and deteriorating rapidly, and which continues to show additional demands from the public.
- Reduction in gas tax revenue due to stagnated tax rates, improving vehicle fuel economy, and low fuel prices, paint a sobering picture for transportation funding.

II. Condition of El Dorado County Roads

El Dorado County's current average Pavement Condition Index (PCI) is 64. Nationwide, communities target a PCI of 70 as a Best Management Practice and ideal condition level, from both a customer standpoint and the cost to repair and maintain. The average PCI among rural counties throughout the State is currently 57.⁴

The following is the PCI trend in El Dorado County and among rural counties, since 2008:⁵

	<u>El Dorado County</u>	<u>Rural County Average</u>
2008:	62	63
2010:	58	61
2012:	61	60
2014:	63	59
2016:	64	57

III. Current Road Maintenance Plan

El Dorado County's 1,080 centerline miles of roadway are maintained by the Transportation Division (Transportation) of the Community Development Agency. The system of paved roadways is inspected every two to three years. Each inspection measures the severity and extent of 19 different roadway conditions (potholes, alligator cracking, block cracking, etc.). This information is maintained in the County's Pavement Management System, Street Saver, which uses the data to calculate the Pavement Condition Index (PCI). PCIs can range from a score of 100 (Very Good) to 0 (Failed). Street Saver can also forecast the condition of the County's infrastructure, as well as estimate the cost to bring the County's infrastructure to a certain PCI and to maintain it at that level.

Prior to the adoption of the FY 2016/17 budget, the Community Development Agency's Transportation Division presented information to the Board regarding the County's road maintenance program and associated funding (May 17, 2016, Item 43). As staff reported, the decline in overall State revenue dedicated to the Road Fund has required significant reductions in

⁴ The rural counties included belong to the Rural County Representatives of California (RCRC), which are 35 counties.

⁵ The rural county PCI average from 2008 to 2014 includes cities/town roads within the counties. 2016 only includes county roads.

road maintenance activities for FY 2016/17. Current dedicated revenue is approximately \$1.1 million less than required to meet what staff calls minimal road maintenance requirements. To address the funding shortfall, Transportation has planned to use existing staff to perform drainage maintenance work within the Zones of Benefit, using Zone of Benefit funds, and to perform lower level maintenance work within the Local Tribe boundary area, using Local Tribe funds for staff costs. This adjustment in work programming is a temporary measure to avoid significant operational reductions while the State Legislature attempts to address the gasoline tax shortfall. Therefore, Transportation has indicated that staff work will focus on projects that have minimal cost, such as ditching, brushing, striping, and other types of work that do not require extensive material expense. Expenditures for surface treatments, which require extensive material expense (slurry seal, chip seal, asphalt, etc.), have been reduced to minimal levels, meaning Transportation will be performing relatively less preventive maintenance work during this fiscal year.

The following work is planned to be completed in FY 2016/17:

- 1) Planned Road Maintenance Projects (Road Fund)
 - a) Brushing and ditching projects
 - b) Minor and major rehabilitation
 - c) Centerline striping on major roadways such as Sly Park Road, Lotus Road, and Salmon Falls Road (200 miles)
- 2) Planned Road Maintenance Projects (Non-Road Fund)
 - a) Capital Improvement Program Project - Happy Valley Cutoff Road at Camp Creek - Bridge Maintenance
 - b) Zones of Benefit drainage and surface treatment projects
 - c) Allocated Local Tribe funding
 - i) Major Rehabilitation
 - 1) Marshall Road (within Tribe Boundary)
 - 2) Diamond Springs Business Park
 - 3) Country Club Drive (Cambridge Road to Cameron Park Drive)
 - ii) Brushing
 - 1) Cold Springs Road
 - iii) Striping (within Tribe Boundary)
 - iv) Rubberized Cape Seal
 - 1) Marshall Road (within Tribe Boundary)
 - 2) Diamond Springs Business Park
 - 3) Country Club Drive (Cambridge Road to Cameron Park Drive)
 - 4) Pleasant Valley Road from Oriental Street to Mother Lode Drive

During the September Budget Hearing, staff and the Board discussed the proposal to use \$2 million of tax revenue, currently diverted to the Missouri Flat Master Circulation and Funding Plan (MC&FP), to augment the Road Maintenance budget, in light of on-going state funding shortfalls. At that time, Transportation indicated that the following road maintenance functions

would tentatively be scheduled to be completed with the additional \$2 million, should this funding be approved for use:

- 1) Major Rehabilitation
 - a) Marshall Road (outside the Tribe Boundary)
 - b) Mountain Meadow Drive
 - c) Angora Creek Drive
- 2) Rubberized Cape Seal
 - a) Marshall Road (outside the Tribe Boundary)
 - b) El Dorado Hills Business Park
- 3) Slurry Seal
 - a) Camino Hills Subdivision
- 4) Microsurfacing
 - a) Washoan Subdivision

Additionally, if the Board were to approve adding an additional \$1 million in funding for road maintenance, the following projects would be recommended by Transportation:

- 1) Major Rehabilitation
 - a) Mount Aukum Road (Bucks Bar Road to Fairplay Road)
 - b) Grizzly Park Section 1
- 2) Rubberized Cape Seal
 - a) Grizzly Park Section 1

IV. Feasibility of Using MC&FP Funding

Much has been written about the MC&FP over the years, but the following excerpt from a November 22, 2000 memorandum from DOT to the Board provides a concise summary of the history and purpose of the MC&FP:

In 1998, the Missouri Flat Master Circulation & Funding Plan (MC&FP) was developed to provide a policy and action framework for El Dorado County to fund major improvements to the Highway 50 / Missouri Flat Road Interchange and adjacent arterial and collector roads. Under the MC&FP, which was developed in a cooperative effort with major property owners and developers, funds for the roadway improvements would come from a combination of Traffic Impact Mitigation (TIM) Fees and the new sales and property taxes generated from new development within the MC&FP area. The TIM Fees would cover development's share of the project costs, and the new tax revenues would pay the cost of the roadway projects associated with existing deficiencies. In order to effectively capitalize on the new tax revenue, it was proposed to form a Community Facilities District (CFD) with developing properties in the area. The CFD would then sell bonds (bonds were never sold for the MC&FP projects); with the debt paid from the incremental tax revenue but secured by the private properties (through the CFD special

tax) should the incremental tax revenue not cover the debt payments. Developers have been willing to provide this security as they recognize their projects cannot go forward without solving the funding needs associated with existing deficiencies.

On December 15, 1998, the Board of Supervisors approved the MC&FP as well as the project applications for Wal-Mart, the El Dorado Villages Shopping Center and Sundance Plaza. The approval incorporated only Phase I of what was originally proposed as a two-phase circulation and funding plan. The approved MC&FP provided for roadway improvements necessary to correct existing deficiencies and allow for what was then referred to as Phase I development, which included Wal-Mart, the El Dorado Villages Shopping Center and Sundance Plaza. It should be noted that, although these three projects were anticipated to fund the roadway improvements since they were prepared to move forward, the MC&FP is not project-specific. Any development scenario which generates sufficient revenue can be used to accomplish the funding of the plan. Because the three projects were in advanced planning stages and each had shown its commitment to proceeding by contributing substantial funds to development of the MC&FP, it was initially assumed that the projects could move forward so that the roadway improvements could be completed on schedule.

Also relevant to the issues at hand is an understanding of the reasons why the MC&FP was approved only as to Phase I. Shortly before the Board was scheduled to take action on the MC&FP, Measure Y was adopted by the voters. As you are well-aware, Measure Y added a number of policies to the General Plan concerning traffic levels of service. One such policy (former policy 3.2.2.5) stated, "County tax revenues shall not be used in any way to pay for building road capacity improvements to offset traffic impacts from new development projects. Exceptions are allowed if County voters first give their approval." County Counsel concluded at that time that the tax increment funds to be used in the MC&FP were "County tax revenues" as that term was used in Measure Y. Because the Phase I improvements, with the exception of the Headington Road extension and improvements to the El Dorado Road Interchange, were designed to address existing roadway deficiencies, it was determined that Measure Y did not preclude the use of up to \$14,913,188⁶ in tax increment to support Phase I projects. Phase II, however, was intended to provide capacity for future development, so it was decided to defer consideration of Phase II until further analysis of Measure Y could take place and voter approval could be obtained. Ultimately, the Board adopted the MC&FP as to Phase I only and removed the Headington Road extension and the El Dorado Road Interchange improvements from that phase.

In summary:

- 1) Because MC&FP Phase II is intended to address road impacts created by new development, Measure E requires voter approval before using such county tax revenue for that purpose. However, Measure J, which was passed by El Dorado County voters in 2000, constitutes the voter approval needed to proceed with MC&FP Phase II.

⁶ This figure was derived by determining the total MC&FP Phase I costs and allocating those costs based on traffic counts to determine the portion attributable to existing deficiencies.

- 2) The County's obligation to set aside 85% of the tax increment in the MC&FP area ends when all MC&FP Phase I improvements have been completed or fully funded.
- 3) Assuming completion or funding of the MC&FP Phase I improvements and satisfaction of other obligations (e.g., repayment of TIM Fee advances), the County is under no obligation to pursue MC&FP Phase II and the Board can choose to unwind the MC&FP. Doing so would likely require multiple steps, including rescinding the authorization to levy a special tax and dissolving the Community Facilities District.

In order to consider unwinding MC&FP, the County must meet the requirement that all MC&FP Phase I improvements have been either completed or that sufficient funding to complete those projects is on-hand and set aside in a separate reserve account. Staff has determined that in order to meet this requirement, a total of \$24,968,000 must be on-hand and set-aside. This cost estimate reflects the remaining projects and the estimated funding required to complete the projects, as listed below.

It should be noted that these projects have been determined to be required under Phase I due to their inclusion in the original Phase I plan, their inclusion in related Development Agreements, and/or the inclusion in the approved Community Facility District list of projects.

- Missouri Flat Interchange, Phase 1B.2 (Bike Path) – in progress; approved and funded
- Missouri Flat Interchange, Phase 1C (Riparian Restoration) – in progress; \$768,000 remaining to be funded
- Diamond Springs Parkway, Phase 1A (Hwy 49 improvements) - \$8.9 million to be funded
- Diamond Springs Parkway, Phase 1B (4 lane) - \$13.3 million to be funded
- Missouri Flat/Headington Road Intersection Improvements - \$2 million to be funded

Should the Board desire to move forward with considering ending the MC&FP, staff will return to the Board with an analysis and options for fully funding the remaining projects.

BOARD PRIORITIES AND FUTURE CONSIDERATIONS

As the Board considers options relative to road maintenance, including the overall Pavement Condition Index (PCI) goal, it is important to put this in the context of overall needs and priorities. This information is important to keep in mind simply to demonstrate the enormity of the challenges related to road maintenance. Regardless of how much money the Board chooses to dedicate to road maintenance from existing General Fund resources, it will have a minimal impact on the overall, long term condition of our roads, but could significantly impact other Board priorities.

Consistent with the *'Road Fund – Maintenance and Operations White Paper'* prepared for the Board during the FY 2016/17 Budget Hearings, the *California Statewide Local Streets and Roads Needs Assessment* report identified that in El Dorado County gas tax revenue has decreased by 39% since FY 2011/12, from approximately \$9.1 million to a projected \$6.5 million in FY 2016/17.

Placer and Sacramento counties attempted to pass special tax measures to increase the sales tax for transportation funding during the November 2016 elections but both failed. Sacramento County fell short by .29% and Placer County by 2.2%. As a result, any attempt for a measure in El Dorado County would have to be studied closely.

Understanding road maintenance has been a Board priority and was also identified as a priority in the Citizen Engagement Survey, please keep in mind the following examples of other priorities, noting that we simply do not have sufficient funding to cover the costs associated with all of these priorities while continuing the same service levels for our existing discretionary programs (e.g., senior programs, veterans programs, libraries, etc.):

- On December 16, 2016, the USDA approved the County's loan application for the public safety facility, contingent upon the receipt of federal appropriations. This will result in annual expenditures totaling approximately \$2.3 million.
- The County is currently unable to fund our capital/deferred maintenance costs or OPEB costs in accordance with Board policy.
- The County has other facilities, such as the El Dorado Center and the District Attorney's Office, which need to be replaced and there is insufficient funding to cover replacement costs. In addition, the County currently leases space for general fund programs, such as for Probation and the Public Defender.
- On December 6, 2016, the Board approved a recommendation to pursue grant funding to expand jail services. Considering the legal settlement agreements taking place in other counties, this will likely be seen as a mandated requirement, with or without grant funding. However, it will also likely result in additional staffing costs that are currently unfunded.
- As a result of the recent decision by CalPERS to lower their anticipated rate of return from 7.5% to 7% over the next three years, the County will be required to pay a larger share of the retirement costs, but the actual impact is unknown at this time.
- The rural fire districts are not fiscally sustainable at their current service levels and are regularly asking the Board for supplemental funding. In addition, lack of funding for ambulance services continues to present challenges nationwide.
- At this time, the fiscal impact relative to medical marijuana enforcement is unknown, but it is likely there will be additional costs. For comparison purposes, Placer County anticipates a Net County Cost increase totaling approximately \$600,000, based on their current ordinance.
- Tree mortality continues to worsen, with recent counts identifying more than 102 million dead trees statewide. The County approved \$250,000 in the current year budget for tree mortality, but based on the recent tree counts, additional funding will be needed.
- In FY 2015/16 funding was reduced in Human Resources and County IT. These two departments are critical to the ongoing success of the County and if possible, consideration should be given to, at a minimum, restoring these departments to their pre-2015/16 funding levels.
- Section 504 of the County Charter identifies how the salaries of sworn law enforcement staff are identified. As a result of Charter 504, the salary increases for sworn law enforcement staff resulted in an additional General Fund cost totaling approximately \$717,000/year beginning in January 2017.

CONCLUSION

In conclusion, it should be emphasized that with our current service levels and programs, it is not seen as necessary to immediately begin the process of implementing drastic cuts to the budget. In addition, while we are in the process of identifying and implementing efficiencies, it needs to be also emphasized that this is an ongoing process and some efficiencies will occur over several years, in part through attrition, unless the Board choose a more immediate path that could impact existing employees. Regardless of when efficiencies are implemented, those efficiencies will not be sufficient to fund all of the priorities identified above while maintaining existing discretionary program service levels.

As a result, and understanding this puts the Board in a position of having to make very difficult decisions relative to the importance of programs or services receiving discretionary funding, I recommend the Board proceed with caution and in a very conservative manner. Specifically, outside of the Public Safety Facility which staff have been working on for the past two years and is now fully funded through the USDA loan, I recommend the Board refrain from increasing any discretionary spending, including discretionary spending for road maintenance, without first identifying corresponding savings/reductions in other discretionary programs.

RECOMMENDATION AND NEXT STEPS

Specific to the discussion of the MC&FP option for funding road maintenance work, I am recommending the Board provide direction to staff to not begin 'unwinding' MC&FP and, rather, to begin formal discussions with the Shingle Springs Band of Miwok Indians to expand the boundary within which Local Tribe funds may be used. I believe that this option will provide the Board with additional countywide resources in the near-term to help offset the loss of other road maintenance revenues, while preserving the County's opportunity, through the MC&FP, to fund necessary infrastructure improvements.

With Board direction, staff will explore other options for addressing County funding needs, especially regarding on-going road maintenance funding, including:

- 1) Feasibility of increasing Transient Occupancy Tax.
- 2) Feasibility of increasing solid waste franchise fee.
- 3) Feasibility, benefits, and necessary timeline for placing a special sales tax measure on the ballot for voter approval.

Please let me know if you have any questions or require additional information.