COUNTY OF HUMBOLDT

Legislation Text

File #: 23-624, **Version:** 1

To: Board of Supervisors

From: Public Works

Agenda Section: Departmental

Vote Requirement: 4/5th

SUBJECT:
2022 Pavement Management Program Update and Future Maintenance Funding Options and Supplemental Budget for CAO-Management & Budget Team, Budget Unit 1100-103 (4/5 Vote Required)

RECOMMENDATION(S):
That the Board of Supervisors:
1. Receive and discuss the 2022 Pavement Management Program;
2. Review and discuss possible future funding sources;
3. Approve the formation of a Roads Ad Hoc Committee and appoint two members of the Board of Supervisors to the Roads Ad Hoc Committee to review and recommend actions related to a local revenue measure in 2024;
4. Authorize the County Administrative Office (CAO) to execute a professional services agreement, and any amendments, with Lew Edwards Group (LEG) to conduct public opinion research on the public's priorities and needs, engage the community, and advise on potential update and reform measures in 2024, and perform other services as required, up to $336,250; and
5. Approve the attached supplemental budget request for CAO-Management & Budget Team Budget Unit 1100-103 in the amount of $336,250 for fiscal year (FY) 2022-23 (4/5 Vote Required).

SOURCE OF FUNDING:
Humboldt County Association of Governments (HCAOG), General Fund Contingencies (1100-990).

DISCUSSION:
PAVEMENT MANAGEMENT PROGRAM (PMP):
Every 4 years the county, in coordination with all the cities through HCAOG, update their PMPs. As part of the process for developing the PMP, roads are broken into segments and reviewed for their Pavement Condition Index (PCI). The PCI is a rating for each section of road from 0 to 100, with 0

being the worst and 100 being the best. At this time, based on the results of the analyses performed, the PCI for county roads is 49. In contrast, the PCI in 2017 for county roads was 54.
In general, the PCI breaks down the condition of the road into 4 categories reflecting the condition of the road as follows:

Good Condition - PCI from 70-100
Fair Condition - PCI from 50-69
Poor Condition - PCI from 25-49
Failed Condition - PCI under 25

The current update shows that the county needs an additional $571.6 million over the next 10 years to bring the road system up from its current pavement condition index of 49, to an index of 70, which would indicate an overall good system. In order to maintain the existing PCI of 49 the county would need an additional $343.8 million over the next 10 years. If the funding remains the same, the overall PCI is projected to fall to 25 in 10 years.

STRATEGIC GOALS:
The Board adopted a slate of Strategic Framework policies. Improving the County Maintained Road System helps achieve several goals identified in the Strategic Framework:

- providing for and maintaining infrastructure
- providing community-appropriate levels of service. Improving the County Maintained Road System reduces vehicle repair expenses associated with using roads in poor condition.
- creating opportunities for improved health and safety by decreasing response times for first responders; and decreasing the time to emergency evacuate an area
- supporting business, workforce development and creation of private-sector jobs by providing a roadway network for the businesses to use
- protecting vulnerable populations by providing a transportation network that all residents can use
- facilitating the establishment of local revenue sources to address local needs

In addition, the Board on July 19, 2022, directed staff to return with recommendations of short- and long-term funding sources, and a recommendation to consider forming an ad hoc committee.

FUNDING:
The largest barrier to improving the County Maintained Road System is lack of funding. In addition to existing funding sources, which are not adequate, there are multiple potential local sources of funding that can be used for maintaining the County Maintained Road System. These funding sources are not all created equal. Each has its pros and cons. Funding can be made up of a combination of sources; not just one source. Some impacts to consider when looking at funding sources are:

1. ***Revenue generation:*** How much revenue will the tax or fee raise, and how stable and predictable will the revenue stream be over time?

2. ***Ease of implementation:*** What is the cost and complexity of implementing the tax or fee? For example, can existing systems be easily modified; or will entirely new processes be required.

3. ***Political feasibility:*** To what extent will elected officials, stakeholder groups, and the general public support the tax or the fee?

4. ***Equity:*** Who will directly and indirectly bear the cost of paying the tax or fee, and who will receive the benefits of the expenditures?

5. ***Transportation system performance:*** Does the tax or fee change the way people use the transportation system in a way that improves or worsens performance?

6. ***Flexibility:*** Can the funds be used for basic maintenance?

7. ***Impact on larger policy goals:*** Will the payment of the tax or fee, as well as expenditure of the revenue, impact public policy goals beyond the transportation system, such as reducing the threat of climate change or improving social equity, public health, or economic strength?

These impacts have been briefly analyzed by Public Works. The discussion provided by Public Works is meant to be a starting point for a larger conversation regarding impacts.

Public Works has evaluated the following funding sources:

A. **Sales Tax - general:** A general sales tax, such as the existing Measure Z ½ cent sales tax requires a simple majority of the voters to pass (50% + 1). A general sales tax provides the most flexibility in terms of allowable expenditures. Measure Z includes a citizen advisory committee, and this approach would be included in the public opinion research if your Board chooses to authorize staff to continuing pursuing a local revenue measure. A ½ cent sales tax generates approximately $12 million per year currently in Humboldt County. This is a tax worth exploring through public research as it can provide long-term funding for the County Road System. As with other funding sources, the amount of revenue generated is based upon the economy: when times are good, revenue is up; when times are tougher, revenue is down.

    Revenue Generation: Variable; subject to fluctuation based upon local economic conditions.
    Ease of implementation: Moderate. The state Board of Equalization (BOE) administers the implementation of local district taxes, and automatically deducts an administrative assessment ranging between $100,000 to $150,000 annually. The county would likely need to create and maintain new budget mechanisms to ensure maximum transparency, similar to Measure Z, and factor in local costs to administer any new funding. Sales tax is collected by retailers. For retailers located within the county, it is easy to reprogram the sales tax rate into the cash registers. It is also easy for mail order retailers who are already equipped to handle multiple sales tax rates.

Political feasibility: Moderate; requires simple majority approval of the voters.
Equity: Those who buy more, or purchase more expensive items, pay more tax than others. The purchasing power of those with limited means is further decreased.
Transportation system performance: Neutral.
Flexibility: Funds can be used for basic maintenance.
Impact on larger policy goals: Achieves the strategic goals discussed above.

B. Sales Tax - dedicated: A dedicated tax for a specific purpose, such as funding road maintenance, requires a two-thirds (2/3) majority vote of the citizenry. While this may be a high bar, it provides better protection to the voters as the funds can only be spent on what is in the ballot measure. Similar to a general tax, a ½ cent sales tax would generate approximately $12 million a year currently. This is a tax worth exploring through a professional polling company as it can provide long-term funding for improved County Road Maintenance.

A dedicated road tax also qualifies the county for the approximately $200,000,000 annual allocation from SB-1 to self-help agencies. This funding is split with a formulaic allocation (60%) and a competitive allocation (40%) to qualifying agencies.

Revenue Generation: Variable; subject to fluctuation based upon the economic conditions.
Ease of implementation: Moderate. The state Board of Equalization (BOE) administers the implementation of local district taxes, and automatically deducts an administrative assessment ranging between $100,000 to $150,000 annually. The county would likely need to create and maintain new budget mechanisms to ensure maximum transparency, similar to Measure Z, and factor in local costs to administer any new funding. Sales tax is collected by retailers. For retailers located within the county, it is easy to reprogram the sales tax rate into the cash registers. It is also easy for mail order retailers who are already equipped to handle multiple sales tax rates.
Political feasibility: Challenging; requires 2/3 majority approval of the voters.
Equity: Those that buy more; or purchase more expensive items pay more tax than others. The purchasing power of those with limited means is further decreased.
Transportation system performance: Neutral.
Flexibility: Funds can be used for basic maintenance.
Impact on larger policy goals: Achieves the strategic goals discussed above.

C. Parcel Tax: Parcel taxes are not normally used for roads; most often they are used for schools. If proposed and put on the ballot by the county it would need a two-thirds majority vote of the electorate. Parcel taxes can be seen as regressive as all parcels are charged equally with no basis on the value of the parcel. This approach is worth looking further into with a professional consultant as it could provide long-term funding for improved County Road Maintenance.

Parcel taxes could be limited to only those parcels that are developed. Alternatively, one tax rate could apply to developed parcels and a different applied to vacant parcels.

Around 2002, the Board of Supervisors in response to limited funding for the County Maintained Road System decided that new local roads could only be added to the County Maintained Road System if they were self-funded through a Permanent Road Division. The Permanent Road Division, which is an assessment district, collects revenue through per parcel charges on the property tax bill. This revenue can only be spent on the roads within the division and for the specific maintenance uses set forth in the division. There are approximately 348 parcels associated with Permanent Road Divisions. Property owners with Permanent Road Division per parcel charges may be concerned about double taxation. However, the existing per parcel charges only cover the subdivision roads and not the entire County Maintained Road System. In addition, the Permanent Road Divisions may be funding road maintenance to a high level than what a county-wide per parcel charge would fund.

The county also has a parcel tax in the Janes Creek area that is levied on parcels in both the county and the City of Arcata to fund drainage improvements along Janes Creek.

Another type of parcel tax is a Community Facilities Districts (CFDs), more commonly known as Mello-Roos, are special districts established by local governments as a means of obtaining additional public funding. These districts can be used to pay for ongoing services (such as enhanced landscaping within a community), or, if approved by voters, the special tax may be used as the security on which to issue land-secured municipal bonds (debt). If debt is approved, the special tax will repay the bond principal and interest each year. Developers have looked into establishing small CFDs to fund new backbone infrastructure; however, the growth rate in the county is not sufficient to support bond payments.

Revenue Generation: Extremely stable when combined with an annual CPI.
Ease of implementation: Easy. The County Tax Collector system is setup for per parcel charges. Updating assessment rolls each year is a simple process.
Political feasibility: Challenging; requires 2/3 majority approval of the voters. A 2/3 majority landowner vote may be allowed if there are insufficient voters within the proposed district boundaries.
Equity: Landowners pay an equal amount, regardless of how much or how little they use the County Maintained Road System. Renters pay indirectly through the rent collected by landowners. Properties attributed to more miles driven per year achieve a greater benefit than properties attributed with less miles driven per year. The purchasing power of those with limited means is further decreased indirectly through higher rents required to offset an increase in property taxes.
Transportation system performance: Neutral.
Flexibility: Funds can be used for basic maintenance.
Impact on larger policy goals: Achieves the strategic goals discussed above.

D. General Fund: An annual allocation to the Roads Fund from the General Fund could support improved maintenance. Establishing an annual allocation of General Fund monies for road maintenance results in diverting funding that would otherwise go towards other county programs and needs. In addition, the amount of General Fund revenue that the county has varies each year. This is not recommended as a long-term funding source for improved county road maintenance.

> ***Revenue Generation:*** Variable; subject to fluctuation based upon the economic conditions.
> ***Ease of implementation:*** Easy. Allocation is made at the discretion of the majority of the Board of Supervisors.
> ***Political feasibility:*** Challenging. The demand for general fund allocations exceeds available funding.
> ***Equity:*** Shifts funding away from other programs, which could negatively affect vulnerable populations and important programs.
> ***Transportation system performance:*** Neutral.
> ***Flexibility:*** Funds can be used for basic maintenance.
> ***Impact on larger policy goals:*** Achieves the strategic goals discussed above.

E. Measure Z: While the Department of Public Works competes well within this existing sales tax, it is insufficient to plan on long-term County Road Maintenance as it requires an annual application and competition for the funding that may or may not be approved. Additionally, the funding typically allocated to Public Works is not sufficient to provide for proper long-term maintenance of the County Road System. If a dedicated amount or percentage of the funds could be set for roads, it would be part of the solution of our long-term funding issues.

Measure Z is also facing challenges with the majority of the revenue for a given year being previously allocated to fund positions. This means that each time that a new position is funded by Measure Z, the available pool of money for allocation shrinks. The Measure Z Committee, which makes funding allocation recommendations to your Board is concerned with the long-term viability of the fund.

> ***Revenue Generation:*** Variable; subject to fluctuation based upon the economic conditions.
> ***Ease of implementation:*** Easy. Allocation is made at the discretion of the majority of the Board of Supervisors after considering input from the Measure Z Committee.
> ***Political feasibility:*** Challenging. The demand for Measure Z funding allocations exceeds available funding.
> ***Equity:*** Shifts funding away from other programs, which could negatively affect vulnerable populations and important programs.
> ***Transportation system performance:*** Neutral.
> ***Flexibility:*** Funds can be used for basic maintenance.
> ***Impact on larger policy goals:*** Achieves the strategic goals discussed above.

F. Development Impact Fees: Development impact fees are for capital projects needed to offset the impact of development. The fees are tied to specific projects and cannot be used for other projects. Fees are paid to the county as development occurs, as the rate of construction fluctuates over time, so does the revenue from stream of fees. Development impact fees are not recommended as a long-term solution to funding county road maintenance. In addition, impact fees are a one-time boost in revenue and do not provide an ongoing funding source.

The county currently has two impact fees, both of which are in McKinleyville. This impact fee funds a list of drainage improvements to the watersheds in the impact fee area. The second is traffic signal reimbursement impact fee for the Mill Creek Shopping Center. This impact fee reimburses the developer for construction of the traffic signal at Central Avenue and Anna Sparks Way. As development occurs in the Mill Creek Shopping center, fees collected by the county are then distributed to the developer. There is only one (1) vacant parcel left in the shopping center where fees may be collected.

Revenue Generation: One-time.
Ease of implementation: Easy. Collected by the Planning & Building Department prior to issuance of an occupancy permit.
Political feasibility: Challenging. Impact fees incrementally raise the cost of housing; but at the same time offer funding to mitigate the impacts of development.
Equity: New development pays proportional share to mitigate off-site impacts; county is on the hook for the balance of the cost of the improvement. Provides funding that can only be used on a specific slate of projects that are tied to the impact fee. Renters and buyers of properties subject to development impact fees are affected by incrementally higher housing costs.
Transportation system performance: Provides funding that can only be used on a specific slate of projects that are tied to the impact fee.
Flexibility: Funds cannot be used for basic maintenance.
Impact on larger policy goals: Achieves the strategic goals discussed above however limited to only areas with development impact projects, not entire County Maintained Road System.

G. **Reduce the mileage of County Maintained Roads**: While not technically a funding source, reducing the number of roads maintained would allow for the current funding to have more impact on what remains. If the Board considers this option, an Ad-Hoc committee is recommended to work with Public Works and the community on developing criteria for removing roads from the County Maintained Road System.

Revenue Generation: Reduces revenue to County Roads by approximately $431/mile, however this is significantly less than it costs to maintain a mile of road. Additional funds that would be necessary to maintain the mile of road could then be used on other roads remaining within the County Road System.
Ease of implementation: Easy. Action taken by the majority of the Board of Supervisors to terminate maintenance on a road or a segment of a road.
Political feasibility: Challenging. Residents and others who use a road (or road segment) will object to terminating maintenance.
Equity: Termination of maintenance will affect all populations that use a road or a segment of a road that is planned to be terminated. Broad policies can ensure that one

population is not overly burdened; and that all populations are burdened similarly.
Transportation system performance: Reduces the number of miles in the County Maintained Road System.
Flexibility: Neutral.
Impact on larger policy goals: Achieves the strategic goals discussed above.

PUBLIC EXPECTATION:
The expectation of the public is tied to the amount funding needed for road maintenance. The County Maintained Road System is failing and will continue to fail unless appropriate revenue is allocated to maintain the roads. The questions then become: what PCI level does the public expect the roads to be maintained to? Is this level something that the residents are willing to fund?

Deciding on what PCI the roads should be maintained to is similar to decisions used in making a major purchase: A person sees an item that catches their eye. Once the person is informed of the price, the person then decides if they can afford it. If the item is within their budget, the person buys it. If the item is too expensive, then the person must lower their expectation and settle on an item that they can afford.

PROFESSIONAL SERVICES AGREEMENT:
The attached supplemental budget and the professional services agreement it would fund are related to a series of ballot measures your Board previously directed staff to pursue, including funding for a roads measure, updates to Measure S, the local cannabis cultivation tax, and the Department of Finance.

FINANCIAL IMPACT:

Expenditures (1100,103)	**FY22-23 Adopted**	**FY23-24 Projected**	**FY24-25 Projected**
Additional Appropriation Requested	58,750	208,000	69,500
Total Expenditures	**58,750**	**208,000**	**69,500**

Funding Sources (Fund, Budget Unit)	**FY22-23 Adopted**	**FY23-24 Projected***	**FY24-25 Projected***
General Fund	58,750	208,000	69,500
Total Funding Sources	**58,750**	**208,000**	**69,500**

Narrative Explanation of Financial Impact:
Funding for a professional services agreement to conduct public opinion research, resident engagement, and outreach is available in General Fund Contingencies (1100-990). Expenditures associated with this type of agreement are estimated at $336,250 through Fiscal Year 2024-25. The attached supplemental budget will increase the CAO-Management & Budget Team Budget Unit (1100-103) by $336,250 for fiscal year 2022-2023, and unspent funding would be carried forward to future fiscal years.

STAFFING IMPACT:

Narrative Explanation of Staffing Impact:

Should your Board choose to pursue a local revenue measure in 2024, there will be a significant workload associated. Staff will need to engage in increased and sustained community outreach around the measures.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework priority of providing for and maintaining infrastructure; providing community appropriate levels of service; creating opportunities for improved health and safety; supporting business, workforce development and creation of private-sector jobs; protecting vulnerable populations; and facilitating the establishment of local revenue sources to address local needs.

OTHER AGENCY INVOLVEMENT:

If a county wide tax is placed before the voters all cities in the county would be affected.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

The Board could choose one of the non-recommended options as short term assistance or choose to not move forward with a tax measure. This would continue the deterioration of the County Maintained Road System and is not recommended.

ATTACHMENTS:

1. 2021-2022 Pavement Management Program
2. Supplemental Budget

PREVIOUS ACTION/REFERRAL:

Board Order No.: G-1
Meeting of: 7/19/22
File No.: 22-946