Public Policy Issues and Sustainability in Southern California

Financing Infrastructure Development

University of California Riverside
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Outline

• What is Infrastructure?;
• Infrastructure Need;
• Different Funding Options for Public Infrastructure;
• Challenges facing Public Infrastructure Financing;
• Suburbs Reaching Limits;
• Managing Population Growth;
• Paradigm Shift in Infrastructure Needs; and
• TUMF.
What is Infrastructure?

- Security Service - Police, Fire, Military;
- Public Health – Hospitals, Ambulances, Clinics;
- Transportation Systems – Railway Network, Airports, harbors, roads, fuel supply;
- Electricity - Transmission and distribution;
- Water Supply - Drinking water, waste water/sewage;
- Agriculture - Food production and distribution;
- Education – Schools, community colleges, universities;
- Etc.....
How Do Pay for New Public Infrastructure?

- Fees, Bonds, Financial Districts, taxes, etc…

- Current economic slowdown and turmoil in the housing and credit markets threaten to further constrain state and local infrastructure spending;

However:

- The housing correction and consumer slowdown are creating a budgetary crisis for many state and local governments;

- Infrastructure deficit will actually get worse unless we change the way we finance infrastructure investment; and

- Local governments will need to get creative in the way public infrastructure if financed in the current economic environment.
Financing Options

• Development Impact Fee (DIF);
• Communities Facility District (CFD);
• Road & Bridge Benefit District (R&BBD);
• Mitigation Fees;
• Sales Tax Measure;
• Municipal Bonds;
• Build America Bonds (BABs); and
• State Transportation Improvement Program (STIP).
Infrastructure Need

• The Department of Finance estimates that California needs $500 billion worth of infrastructure over the next two decades; http://gov.ca.gov/issue/performance-based-infrastructure/

• Our system for financing infrastructure has become increasingly inadequate with the passage of time and has not kept up with keeping a “buck a buck”; and
  
  Schwarts, B. *Redressing America’s Public Infrastructure Deficit*

• American Society of Civil Engineers assigned an overall D grade to the nation’s infrastructure and estimated that it would take a $2.2 trillion investment from all levels of government over the next five years to bring it into a state of good repair.
  
  Cooper, M. *U.S. Infrastructure in Dire Straits*
Funding Options for Infrastructure

Development Impact Fee (DIF)

- One time charge applied to new development;

- Goal is to raise revenue for the construction or expansion of capital facilities located outside the boundaries of the new development that benefit the contributing development;

- Dedicated principally for the provision of additional water and sewer systems, roads, schools, libraries and parks and recreation facilities made necessary by the presence of new residents in the area;

- These fees are usually implemented to help reduce the economic burden on local jurisdictions that are trying to deal with population growth within the area.

- The funds collected cannot be used for operation, maintenance, repair, alteration or replacement of capital facilities.
Funding Options for Infrastructure

Communities Facility District (CFD) – Local Agency

- Prop 13 limited the ability of local public agencies to increase property taxes;
- CFD was created to provide an alternative method of financing for needed improvements and services;
- Created by a sponsoring local agency, includes all properties that will benefit from the improvements to be constructed or the services to be provided;
- Annual charge determined by formula that takes into account property characteristics;
- Special taxes will be charged until the bonds are paid in full, thereafter the CFD will charge a reduced fee for maintenance.
Funding Options for Infrastructure

Road & Bridge Benefit District (R&BBD) – Local Agency

Subdivision Map Act
- Provides for the establishment of a R&BBD.
- For bridges and major thoroughfares as identified by the circulation element to provide a network that connects with the state highway system.
- Funds will be expended solely for construction of the improvement serving the area from which the fees comprising the fund were collected.
- Established to defray the cost of road and bridge improvements to an established area of benefit.
- There are four (4) Road & Bridge Benefit Districts in Riverside County administered by the Transportation Department and they are: Southwest; Mira Loma; Menifee Valley; and Scott Road.
Funding Options for Infrastructure

Mitigation Fees

- Used to offset specific impacts attributable to new growth to a variety of issues so that developments pay for their “fair share” of impacts;
- Focuses on the environmental effects of an area;
- Requires majority vote from Board/Council;
- Not a Tax;
- Funds can be used for:
  - Improving or saving wetlands;
  - Transportation infrastructure;
  - Service infrastructure;
  - Police and fire services; and
  - Other impacts brought upon the public through increased development.

Funding Options for Infrastructure

Sales Tax Measure

- Voter Approved – requires 2/3 majority to pass
- Additional Sales tax measure is dedicated to a specific purpose;
  E.g.,
  - Measure A Transportation funds in the County of Riverside
    - $1 billion raised by Measure A from 1989 to 2009
- Prop 13, has made sales tax measures a crucial funding source for public infrastructure financing.
Funding Options for Infrastructure

Municipal Bonds

- A majority of infrastructure is funded through the municipal bond market as well as through state and local budgets;
- A fear of inability to pay back, social spending, balanced-budget requirements, debt limitations, and increased competition among states to keep taxes low have restrained state and local borrowing as well as spending.
- Bonds are issued by governmental agencies as a method of issuing debt through public investments;
- The issuer of bonds promises to repay the principal plus a fixed or variable amount of interest
- Allows government agencies to fund public interest projects for which they do not have immediate funds at their disposal.
Funding Options for Infrastructure

Build America Bonds (BABs)

- Created under the American Recovery and Reinvestment Act;
- Designed to stabilize the bond market and help create jobs;
- Traditionally, tax-exempt bonds provided a critical source of capital for state and local governments, but the recession reduced their ability to finance new projects;
- Assists in financing capital projects at a lower cost; and
- Taxable bonds issued by state and local governments.

Requirements
- To be used for NEW governmental capital expenditures.
Funding Options for Infrastructure

State Transportation Improvement Program (STIP)

- Multi-year capital improvement program of transportation projects on and off the State Highway System;
- Funded with revenues from the Transportation Investment Fund;
- STIP programming generally occurs every two years;
- Local agencies work through their County Transportation Commission to nominate projects for inclusion in the STIP;
- Regional agencies prepare Regional Transportation Improvement Plans (RTIPs);
- STIP is adopted by the California Transportation Commission.
Challenges facing Public Infrastructure Financing Options

- Depending political support for new funding mechanisms;
- Garnering public support;
- Misinformation;
- Special Interest Opposition;
- Keeping jurisdictions and private sector stakeholders on schedule and focused;
- Aging Population;
- Younger adults living at home longer; and
- Legal scrutiny and challenges.
Suburbs Reaching Limits

• “People are beginning to come back to the central cities.”; Shaun Donovan, Secretary of Housing and Urban Development

• Infrastructure resources that was needed to support suburban growth will need to be refocused on Urban Growth as a number of people are moving back to more urban environments.

• Improved public transportation has encouraged people to give up their commute and live closer to work instead of work closer from home.
Managing Population Growth

- Local governments will need to find the financial wherewithal to furnish the services and public facilities needed to serve future population growth whether it be in the suburbs or central cities;

- County of Riverside is expected to grow by nearly 900,000 between now and 2035; and

- Vacant, developable land is growing more scarce, homes will increasingly be built on more compact sites in redevelopment areas and urban neighborhoods that are within walking distance of trolley stations, bus stops and shopping.

Paradigm Shift in Infrastructure Needs

- **Transit Oriented Development (TOD):**
  - Designed to maximize access to public transport;
  - Located within a radius of one-quarter to one-half mile (400 to 800 m) from a transit stop; and
  - High-density development.

- **Walkable Communities:**
  - Gives residents ability to walk to work or walk to the train;
  - Demographic shifts point to younger people moving to downtown communities; and
  - Will heal first from this crisis.
What is the purpose of the TUMF?

• To provide a *supplemental* revenue stream to augment the shortfall from traditional funding sources for regional transportation facilities;

• To mitigate the traffic impacts from new development on the regional system of highways and arterials;

• To ensure that new development pays its fair share towards providing the needed infrastructure improvements;

• Capital facilities costs only – no operation and maintenance; and

• Complements Measure A revenues.
Why create a regional traffic fee?

• Local jurisdictions mitigate traffic impacts within their boundaries but have limited input and no control of their neighbors;
• Congestion from new growth transcends jurisdictional boundaries;
• Need to see the “Big Picture” of new growth on the transportation system as a whole; and
• Maintains “level playing field.” A uniform fee on all jurisdictions advantages / disadvantages equally.
Why did we end up with a fee program?

Our choices:

- Benefit /Assessment Districts requires 2/3 vote
- Special Taxes (Mello-Roos) Community Facilities Districts requires 2/3 vote
- Sales Tax requires 2/3 currently in place
- Mitigation Impact Fee subject to AB 1600
- Transfer Tax subject to County approval
What process did we use to establish the TUMF?

- Established a series of committees to guide the TUMF development (Public Works, Elected officials & City Managers);
- Developed the Regional System of Highways & Arterials (RSHA) with two tiers: backbone” and “Zonal”;
- Prepared the RSHA cost and used 20-year population and employment baseline forecast from SCAG;
- Prepared a Nexus Study;
- Held over 100 public meetings, press reports and workshops;
- Each jurisdiction adopted the TUMF Ordinance and Nexus Study and designated WRCOG as the Administrator.
"Nuts and Bolts"

Simplified TUMF Formula

\[ \text{Cost Assumptions} \times \text{Network Improvements} = \text{TUMF} \]

Future Growth
The Program was designed to benefit local, regional and transit needs.

For each TUMF dollar collected:

- 48.7% goes to the Backbone network and is programmed by the Riverside County Transportation Commission.

- 48.7% goes to the Zone in which it was collected for network improvements and is programmed by the jurisdictions in the Zone.

- 2.6% goes to regional transit and is programmed by Riverside Transit Agency.

- WRCOG and the Multi-Species Habitat Conservation Plan receive 1% and 1.38% respectively, off the top.
TUMF At Work......

Revenue Collected to Date - $518.7 million

- 143 projects programmed since inception;
- 31 projects completed;
- 13 projects under construction;
- 51 projects are in engineering and right-of-way acquisition;
- 41 projects are in planning and environmental; and
- The remaining balance is in preliminary design and planning phases.
Why Was Implementation Successful?

• Strong political leadership (local and subregional);

• Included the local jurisdiction technical and management staff throughout the process;

• Included some form of “return to source”;

• OUTREACH, OUTREACH, OUTREACH;

• Include local builders, commercial builders, chambers, etc.;

• Kept it uniform; and

• Project identification and prioritization occurs by member jurisdictions and partner agencies; WRCOG only administers the Program.
Communicating with us is as easy as...

1. ecommunicator
2. etumt
3. facebook
4. www.wrcog.cog.ca.us

Western Riverside Council of Governments
UCR, March 3, 2010