City of Clearlake Road Strategy Discussion

City Of Clearlake

April 13, 2022

Agenda:

Staff Overview of Strategy Options

Staff Recommendations

Financial Consultant NHA Follow Up Discussion

Discussion of Projects

Questions and Discussion

Road Projects:

- $15 Million- $18 Million
- Large Projects in Concentrated Areas
- High Density of Homes
- Public Streets
- Combination of Chip Seal, Full Depth Reclamation (FDR), and Maintenance
- Neighborhood Transformative Projects

Benefits of this Project:

Adding paved roads to over 2,000 residents

Adds investment interest to new businesses and developers

Improves overall reputation of the City

Provides better access to existing businesses

Increases road safety

Two Strategies to Complete Road Projects using Measure V funds:

Pay – Go

(Pay as you go)

Bond Program-
Debt Financing

Pay-Go:

- Average of $1.5 Million in projects per year
- Smaller Projects
- Piecemeal larger projects
- Completed over 13 to 15 years
- Harder to complete maintenance projects

Debt Financing:

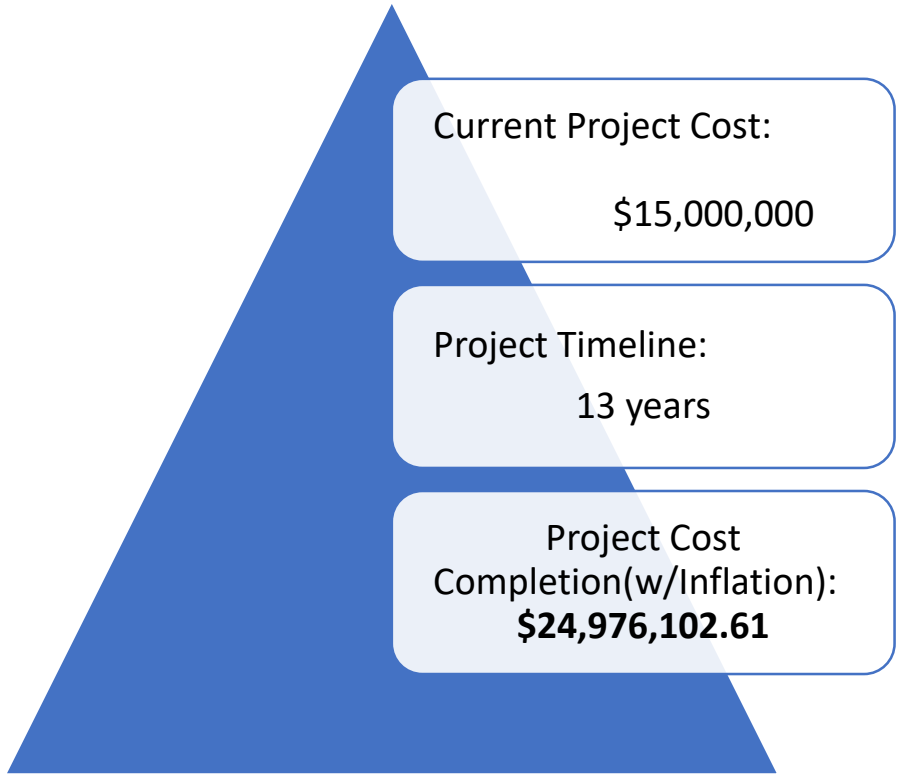
- Street Projects completed in 1-3 years
- Repayment over 10-15 years
- Use of Measure V resources tied to debt financing
- Current annual revenue: $2.5 mil
- Annual debt service: $1.5 mil

Assumptions:

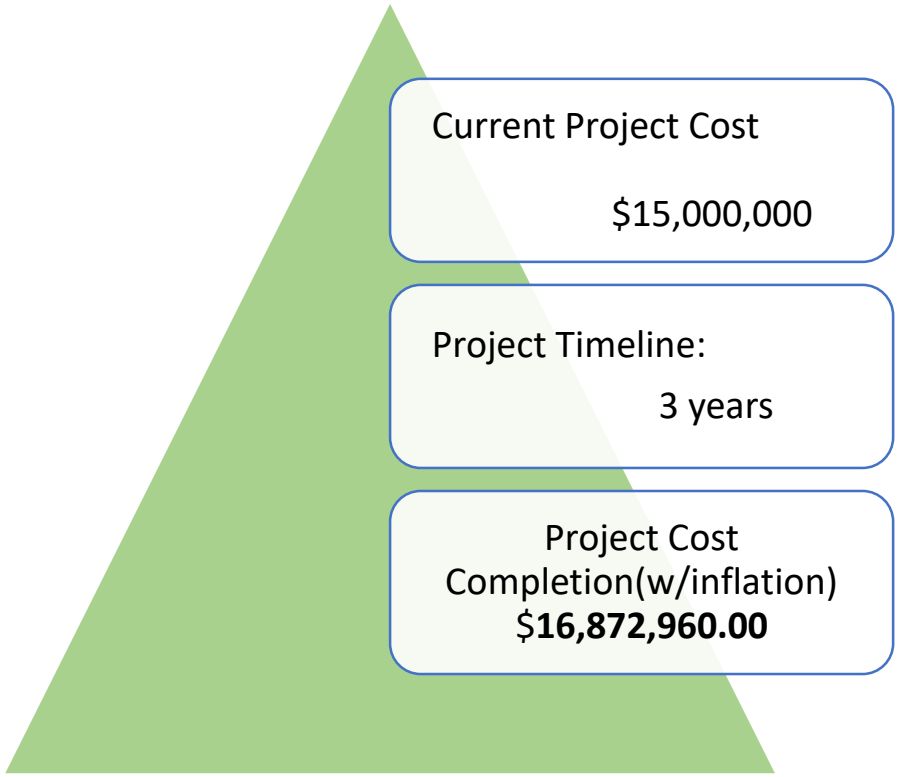
Project Cost (Current price):	$15 Million
Annual debt service (per year):	$1.5 Million
Bond amortization:	13 years
Bond rate:	2.75%
Inflation Rate	4.00%

Cost Comparison

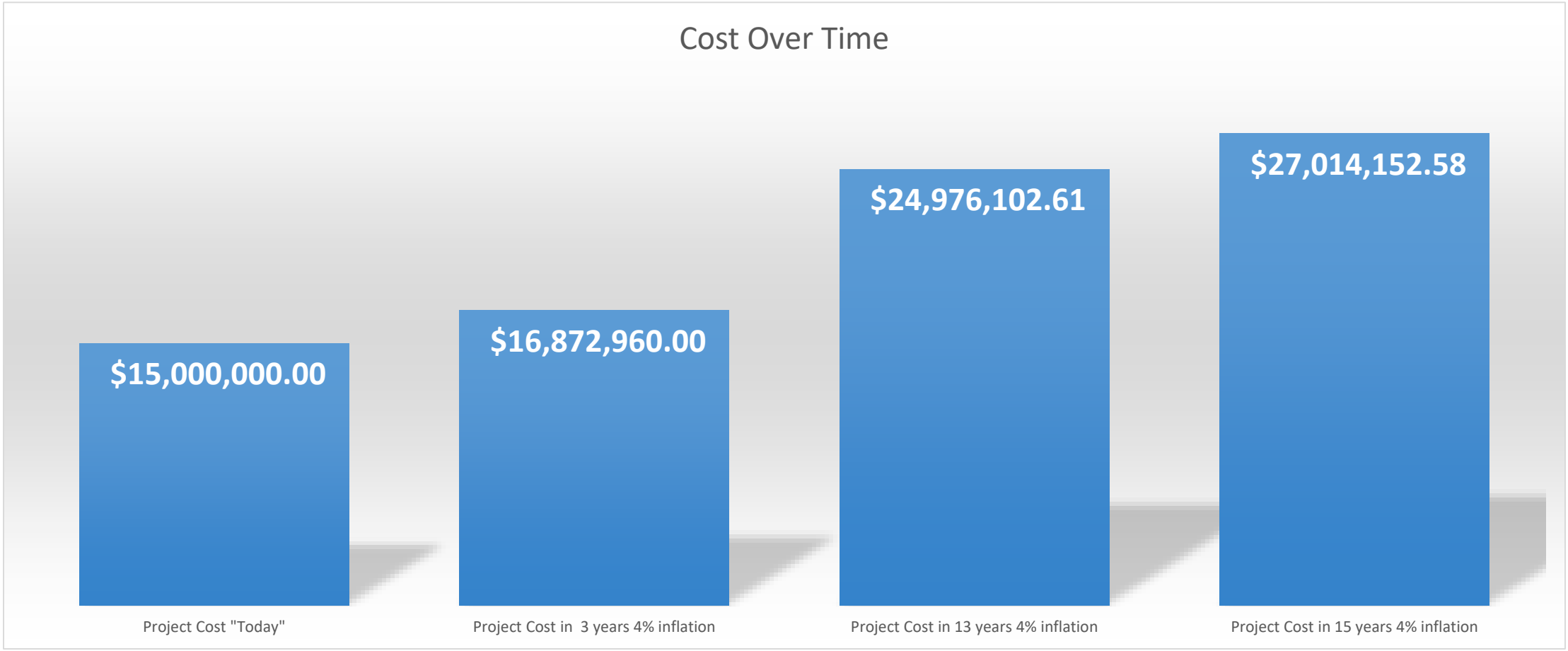
Pay - Go



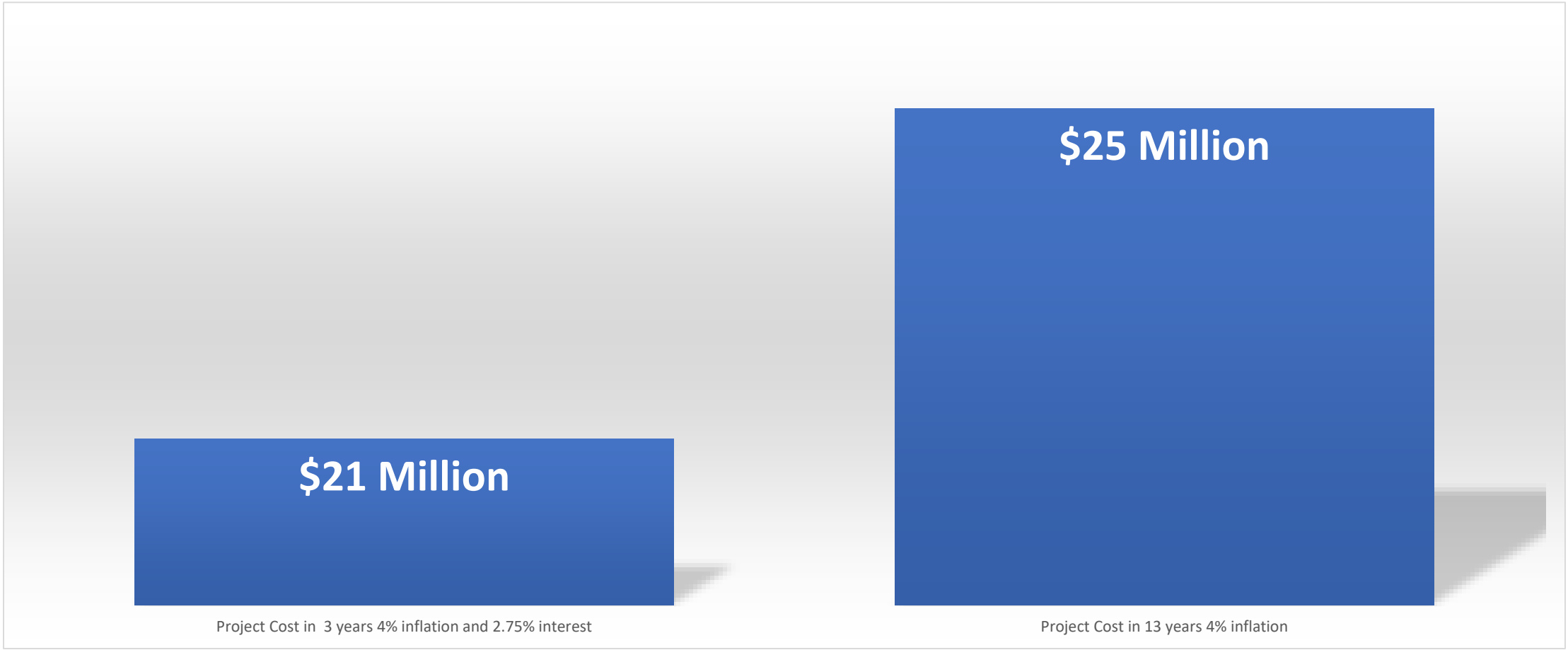
Financing:



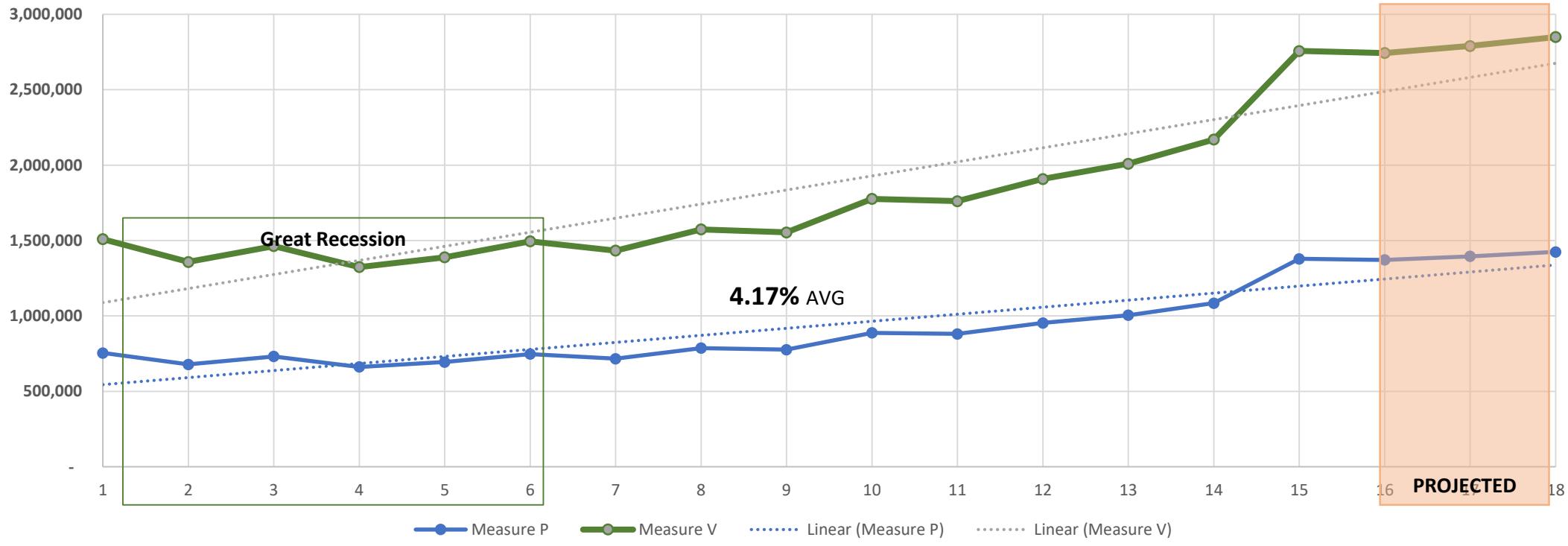
Project Cost Increase from Inflation



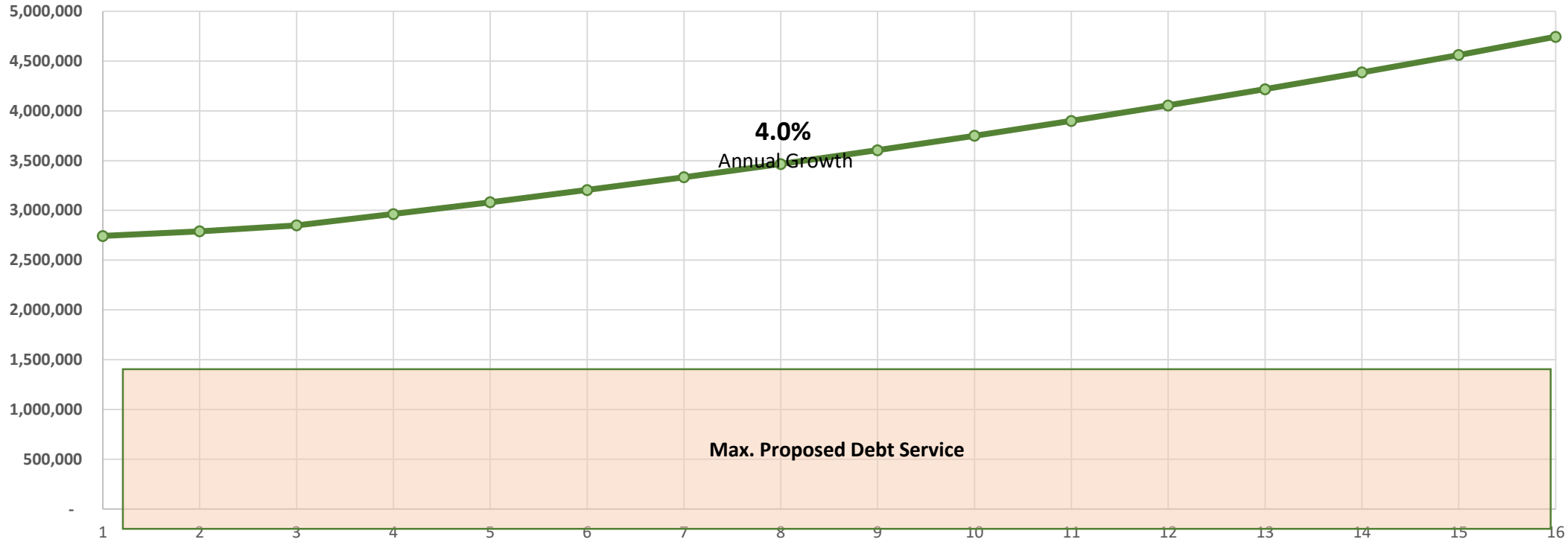
Financing Cost vs Pay – Go Cost



Measure P and Measure V
FY 06-07 through FY 23-24



Projected Annual Growth through FY 36-37



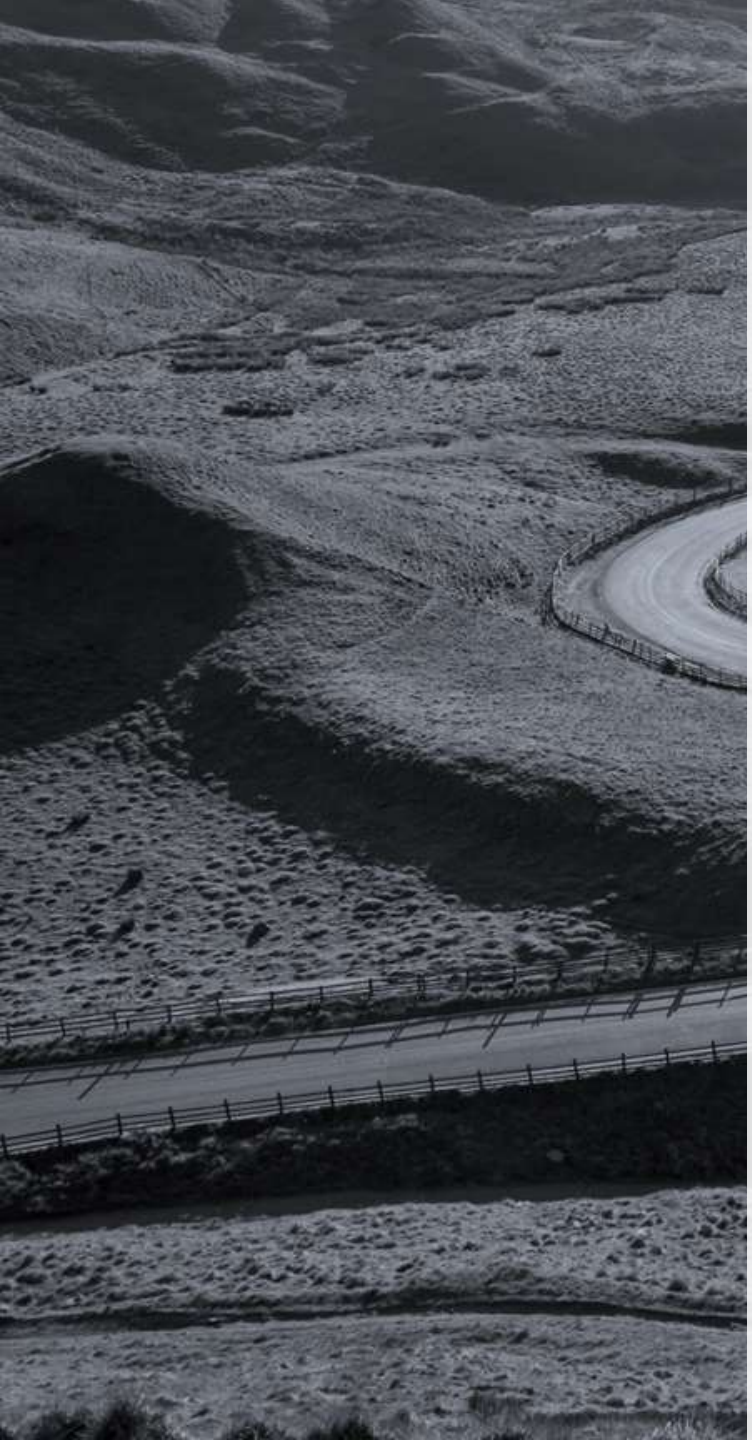
Maintenance Estimate Assumptions:

- Average cost to maintain roads equals 10% of road rehab cost
- Optimal maintenance is every 5 - 7 years
- Consistent maintenance increases road life expectancy by 10-15 years

Maintenance

- Saves money by protecting the asphalt and base course materials from water infiltration and solar radiation
- Extends road life and maintains safety and ride quality

Maintenance Options & Costs		
Treatment	**Cost per Block**	**RSL Increase**
High-density Mineral Bond (HA5)	$5,280	7.5 yrs
Micro Surfacing	$5,940	5 yrs
Chip Seal	$7,260	7.5 yrs
Cape Seal	$21,120	7.5 yrs
Thin Overlay	$22,968	10 yrs
Thick Overlay	$28,512	13 yrs
Reconstruct (for comparison only)	**$145,200**	**20 yrs**



Cost of Maintenance

- 10% of $15 million
- $1.5 million every 5 years
- $4.5 million total over 15 years
- With no maintenance road would need to be rehabilitated every 15 years
- Completion of road projects quickly with ongoing maintenance, $19.5 million investment would last approximately 30 years

Staff Time for 1 construction contract per year

Average	Average Bid – 30 days
Contract	Contract Negotiation and Process- 20 Days
Staff	Staff time- 64 hours on average per solicitation/contract

Combining 13 contracts into 1 equates to savings of:

- 768 hours (over 19 weeks) in staff time
- 600 (Just under 2 years) days in contract delays
- This results in more efficiency and more opportunity for staff to work on other items

Contract Consolidation

- Provides Economies of Scale
- Less Mobilization Costs
- Bulk Material Pricing
- Attractive to larger construction companies
- More bidding competition which leads to lower pricing

Draft Reserve Policy

Would recommend a reserve of Measure V be held for the first three years:		
10% first year	7.5% second year	5% third year

Required reserve period can be extended after if desired

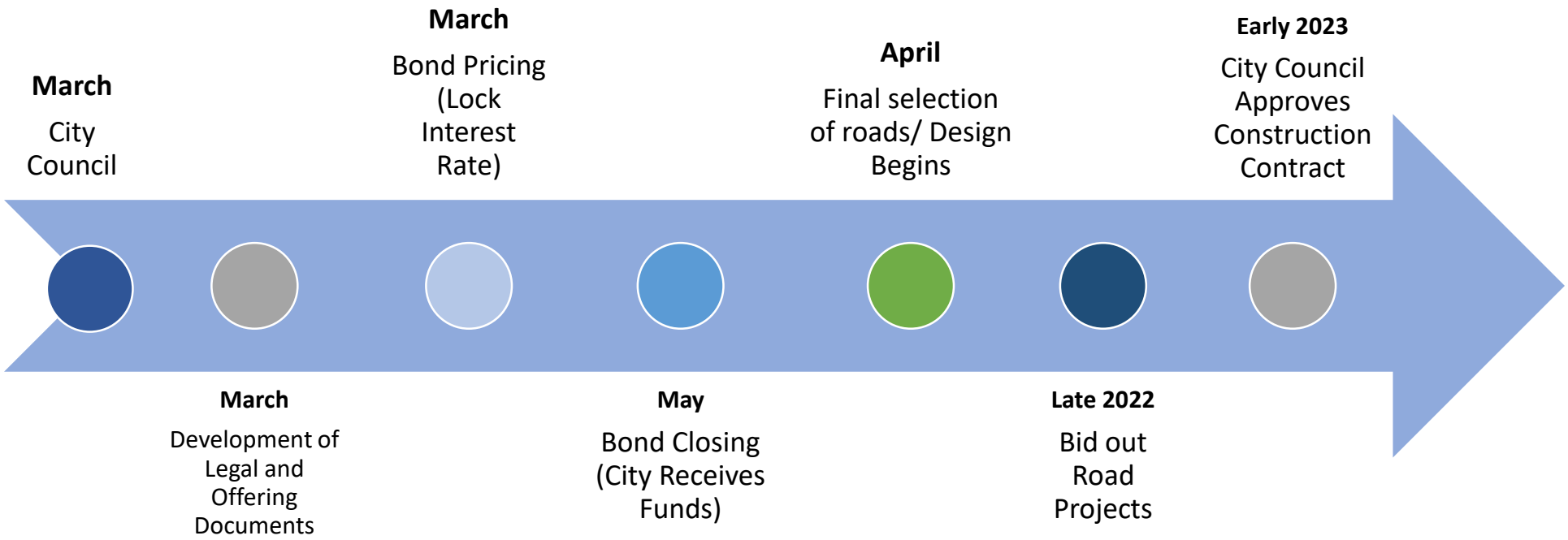
Recommended Strategy: Financing

- **Risks**:
  - Sacrifice budgetary flexibility
  - Economic downturn
    - Loss of revenues
    - Debt payments

Recommended Strategy: Financing

- **Potential Benefits:**
  - Lower cost
    - Historically low borrowing costs
  - Hedge against inflationary pressure
    - Using, not chasing, inflation to our benefit
  - Known budgetary costs
  - Complete significant projects now

Financing Estimated Timeline:



CITY OF CLEARLAKE

STREETS FUNDING DISCUSSION – FOLLOW UP

NHA | ADVISORS
Financial & Policy Strategies.
Delivered.

March 17, 2022

Cost / Benefit Analysis of Bonding vs. Pay-Go

Interest Costs on 15-Year Bond vs. Cost of Inflation

- Interest and financing costs on bond projected between $3.0M and $4.4M depending on bond sizing option
- Cost of Inflation (less projects funded using Pay-Go) is significantly higher
  - 4% Inflation
    - $3.9M to $5.8M
  - 6% Inflation
    - $5.3M to $7.9M
  - 8% Inflation
    - $6.4M to $9.6M

Proceeds Generated[1] with Funding Options	$1 Million Annual Debt Service	$1.25 Million Annual Debt Service	$1.5 Million Annual Debt Service
15 Year Term; 2.75% Rate			
Financing Project Funding	$11,975,000	$15,010,000	$18,050,000
Total Payments for Financing	$14,961,350	$18,706,125	$22,457,550
Financing Interest+COI	**$2,986,350**	**$3,696,125**	**$4,407,550**
Projects Pay-Go (Inflation @ 4%)	$11,089,233	$13,865,061	$16,645,242
Total Payments for Pay-Go	$14,961,350	$18,706,125	$22,457,550
Inflation Reduction of Proceeds	**$3,872,117**	**$4,841,064**	**$5,812,308**
Net Benefit / (Cost) of Pay-Go	($885,767)	($1,144,939)	($1,404,758)
Projects Pay-Go (Inflation @ 6%)	$9,686,551	$12,111,413	$14,539,713
Total Payments for Pay-Go	$14,961,350	$18,706,125	$22,457,550
Inflation Reduction of Proceeds	**$5,274,799**	**$6,594,712**	**$7,917,837**
Net Benefit / (Cost) of Pay-Go	($2,288,449)	($2,898,587)	($3,510,287)
Projects Pay-Go (Inflation @ 8%)	$8,536,626	$10,673,779	$12,813,589
Total Payments for Pay-Go	$14,961,350	$18,706,125	$22,457,550
Inflation Reduction of Proceeds	**$6,424,724**	**$8,032,346**	**$9,643,961**
Net Benefit / (Cost) of Pay-Go	($3,438,374)	($4,336,221)	($5,236,411)

Interest Costs on Bond

Cost of Inflation

Cost / Benefit Analysis of Bonding vs. Pay-Go

Interest Costs on 10-Year Bond vs. Cost of Inflation

- Interest and financing costs on bond projected between $1.4M and $2.0M depending on bond sizing option
- Cost of Inflation (less projects funded using Pay-Go) is significantly higher
  - 4% Inflation
    - $1.9M to $2.8M
  - 6% Inflation
    - $2.6M to $4.0M
  - 8% Inflation
    - $3.3M to $4.9M

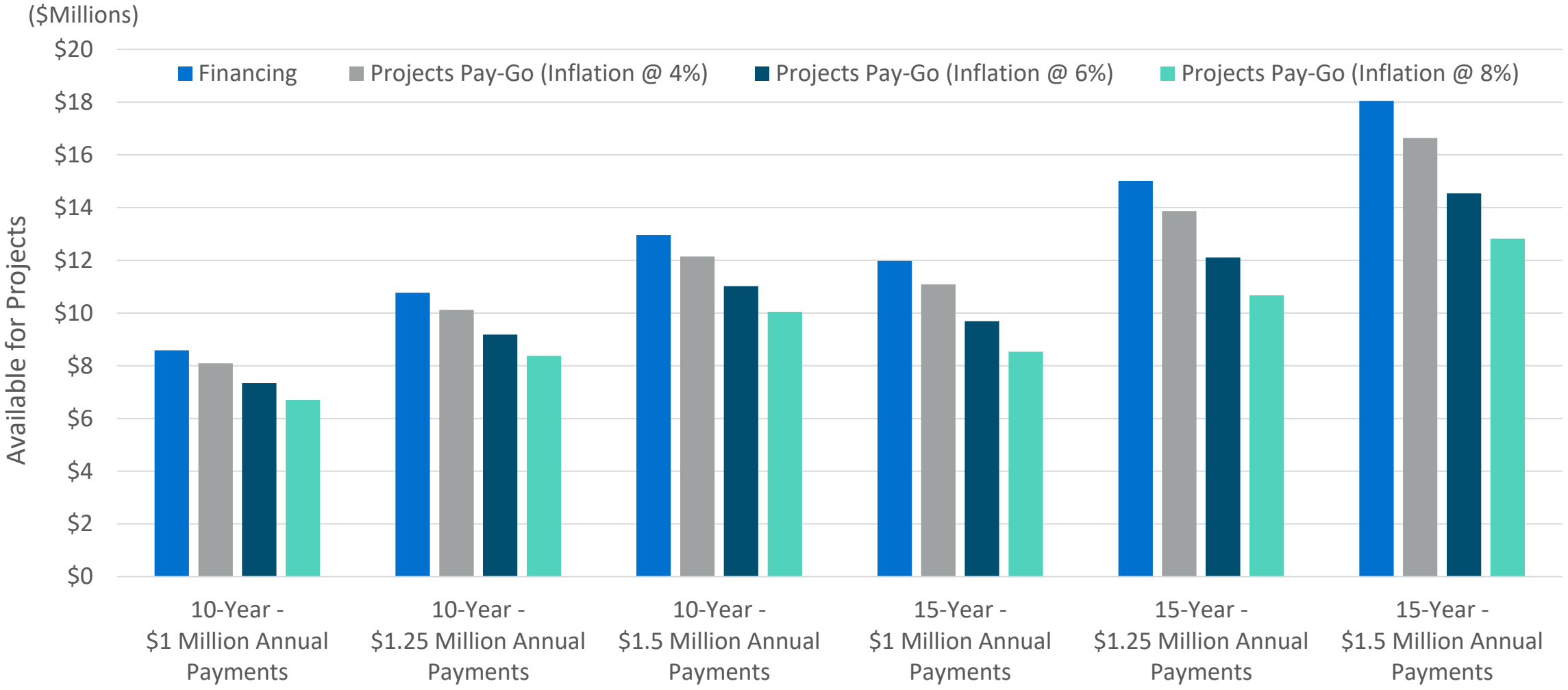
Proceeds Generated[1] with Funding Options	$1 Million Annual Debt Service	$1.25 Million Annual Debt Service	$1.5 Million Annual Debt Service
10 Year Term; 2.50% Rate			
Financing Project Funding	$8,585,000	$10,770,000	$12,955,000
Total Payments for Financing	$9,980,375	$12,476,500	$14,973,250
Financing Interest+COI	**$1,395,375**	**$1,706,500**	**$2,018,250**
Projects Pay-Go (Inflation @ 4%)	$8,095,152	$10,120,265	$12,145,111
Total Payments for Pay-Go	$9,980,375	$12,476,500	$14,973,250
Inflation Reduction of Proceeds	**$1,885,223**	**$2,356,235**	**$2,828,139**
Net Benefit / (Cost) of Pay-Go	($489,848)	($649,735)	($809,889)
Projects Pay-Go (Inflation @ 6%)	$7,345,892	$9,183,745	$11,021,066
Total Payments for Pay-Go	$9,980,375	$12,476,500	$14,973,250
Inflation Reduction of Proceeds	**$2,634,483**	**$3,292,755**	**$3,952,184**
Net Benefit / (Cost) of Pay-Go	($1,239,108)	($1,586,255)	($1,933,934)
Projects Pay-Go (Inflation @ 8%)	$6,697,229	$8,372,930	$10,047,920
Total Payments for Pay-Go	$9,980,375	$12,476,500	$14,973,250
Inflation Reduction of Proceeds	**$3,283,146**	**$4,103,570**	**$4,925,330**
Net Benefit / (Cost) of Pay-Go	($1,887,771)	($2,397,070)	($2,907,080)

Interest Costs on Bond

Cost of Inflation

Cost / Benefit Analysis of Bonding vs. Pay-Go

Comparison of Funds Available for Projects with Financing vs. Inflation Costs

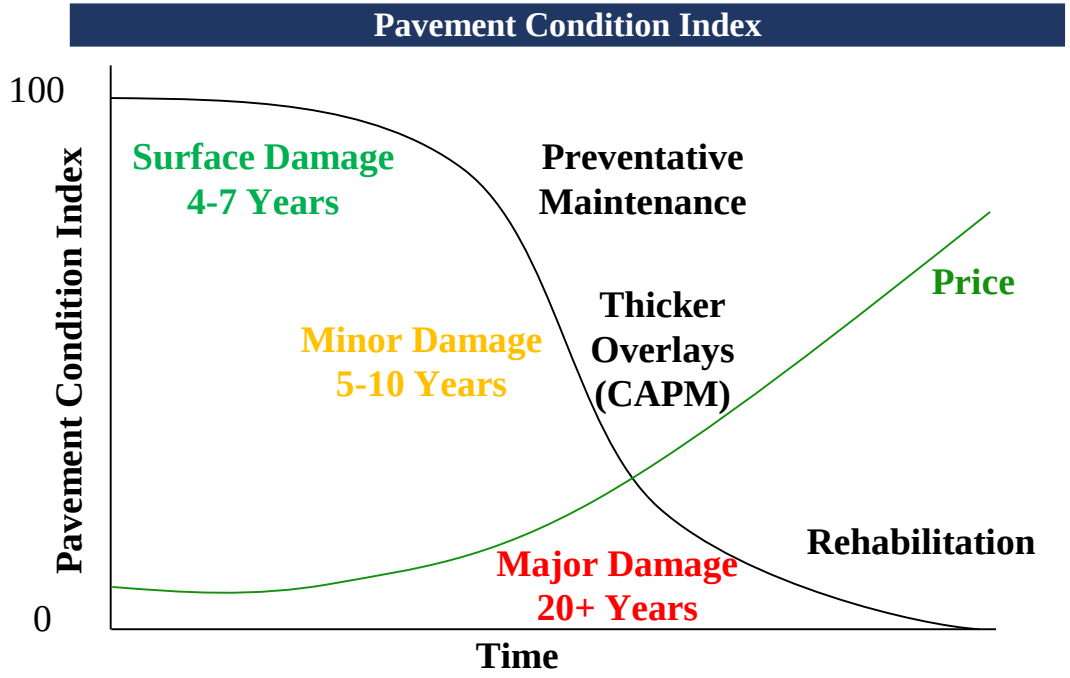


Summary of Considerations for Bonding vs. Pay-Go

- Inflation
  - The cost of waiting (inflation) is projected to be significantly higher than the cost of borrowing (bond interest costs) for projects today
- Rising Interest Rate Environment
  - Rates have been on the rise and projected to continue rising; locking in low rates in an inflationary environment is financially beneficial
- Economies of Scale
  - Aggregating projects will produce lower costs in a highly competitive construction environment
- Cost of Street Repair Exponentially Increases the Longer you Wait
  - Once streets fall below certain PCI, it becomes exponentially more expensive to repair them (reconstruction vs. maintenance/repair)

How Streets Deteriorate and Repair Costs Increase…

- Pavement Condition Index (PCI) = “Health of a Street Network”
  - Target PCI Score = 65-75
  - Avg. Street Life = 20 years
- Street Repair Methods Vary Depending on PCI Score
  - High PCI scores
    Less Expensive to Repair
  - Low PCI Scores
    More Expensive to Repair



Fixing streets before the PCI score falls below “fair condition” saves money

Review of Projects

And

Questions and Discussion