



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 03/08/2021

ITEM NO: 6

DATE: February 28, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review Capital Improvement Plan and Funding

RECOMMENDATION:

Review Capital Improvement Plan (CIP) and funding

BACKGROUND:

As the Finance Commission prepares to engage in the Town's budget development process per Measure A, staff and the Commission Chair thought an introduction to the Town's CIP program and funding would help facilitate that engagement.

CIP Approach

The CIP is a comprehensive five-year capital improvement plan designed to identify projects to develop and maintain the Town's infrastructure, consistent with the Town Council Core Goals of high quality infrastructure, community character, public safety, fiscal stability, good governance, and civic enrichment. Guidance for determining capital improvement projects is also derived from key plans, including the General Plan, Bicycle and Pedestrian Master Plan, and the Council's Strategic Priorities. Specifically, in January 2021, the Town Council established the 2020-22 Strategic Priorities (Attachment 1).

The Core Goals and Strategic Priorities guide the preparation of both the Capital and Operating Budgets. In terms of capital projects, the Town Council stated its priorities to continue implementation of the Comprehensive Parking Study, continue mobility improvements for all transportation modes, manage the vegetation on Town lands and roadways to protect against wildfire, and advance other needed improvements. All of these efforts support improving and enhancing traffic/transportation, public safety, and quality of life within the context of prudent fiscal management.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, Parks and Public Works Director, and Finance Director

BACKGROUND (continued):

CIP Purpose

In particular, the CIP is designed to identify projects and funds required to adequately develop and maintain the Town's infrastructure, which is consistent with the Town Council strategic goal of maintaining the condition and availability of public facilities. In addition, project prioritization criteria such as health and safety issues, infrastructure or system condition, short term versus long term impacts, and availability of external funding sources are assessed as part of the process that staff uses to rank projects from high to low in preparing the proposed CIP. The Town's Parks Commission and Complete Streets Commission meetings provide a public forum to discuss potential CIP projects and advice on priorities.

As it develops and matures in its application, the Town's Infrastructure Assessment Program will further support the Town's long-range Capital Improvement Program, focusing attention on the current and future infrastructure needs of the community and balancing these needs with funding requirements and financial resources. Other technology tools used in CIP development include the use of the geographic information system, the traffic monitoring system, electronic files for tracking unfunded projects and replacement schedules, and an asset management program to track work requests.

The Town's capital projects are categorized as follows:

The Streets Program provides funding for maintaining a functional street and pedestrian system. Proposed projects are consistent with the General Plan, provide for a safe and efficient traffic flow through intersections while minimizing unnecessary traffic movement and noise through residential neighborhoods, and provide street lighting for traffic safety at intersections and on public streets. Also included are sidewalk and bicycle lane improvements.

Street maintenance remains high Council priority to improve/maintain the Town's Pavement Condition Index (PCI), a standard rating of street conditions. The PCI reached a recent high rating of 74 in 2008 due to concentrated investments and is now at the level of 70 (2019 survey data). PCI ratings above 70 may provide expanded access to grant funds.

The Public Facilities Program includes projects for constructing and repairing public buildings and purchasing equipment. Town buildings include the Civic Center, the Library, Adult Recreation Center, Tait Avenue and Forbes Mill properties, and other assets. Although the Town owns the two of the three fire stations within Town limits, the Santa Clara County Fire District maintains them under contract.

The Parks Program includes projects for parks, park buildings, urban forestry, trails, and urban beautification.

BACKGROUND (continued):

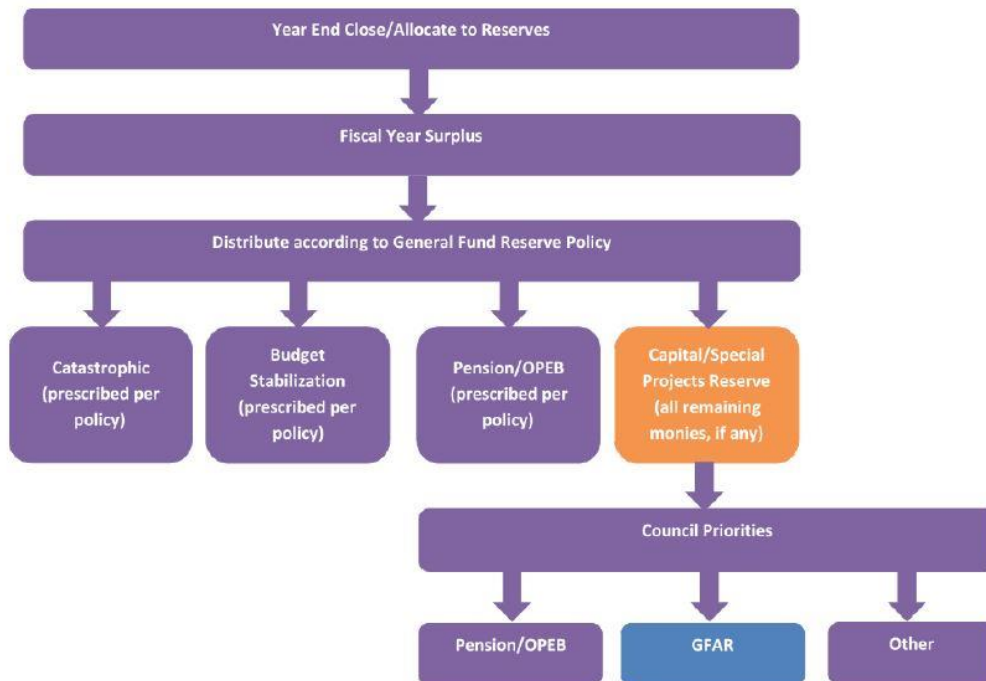
Attachment 2 contains a high-level overview of the status of the Town’s current CIP program.

DISCUSSION:

CIP Financial Summary and Funding Sources

As in the past, the Town continues to be challenged in its attempts to secure a reliable ongoing source of revenue for the Capital Improvements Program. The primary source of funding for the Town’s capital program has been the Town’s General Fund Appropriated Reserve (GFAR). As illustrated below per Council direction, this fund receives transfers from the General Fund’s designated Reserve Capital/Special Projects, which receives most of the Town’s annual revenues above operating expenditures (surpluses) after funding all legally restricted reserves at their required levels, including receipt of one-time funds from grants, property sales, and other reserves.

FISCAL YEAR SURPLUS FLOW OF FUNDS



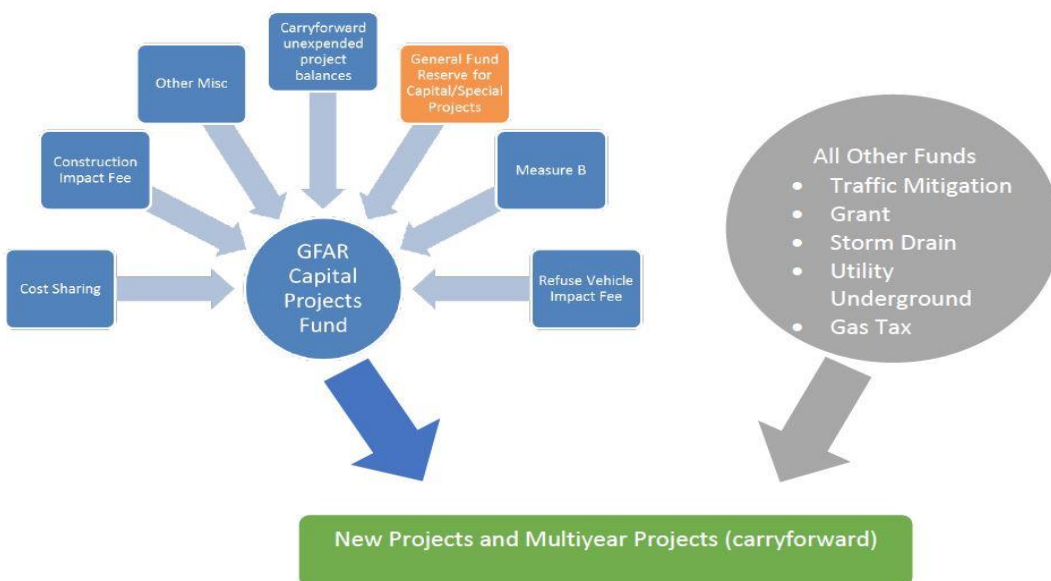
DISCUSSION (continued):

In recent years, the Council approved General Fund transfers to the GFAR fund in the amount of \$2.7 million for FY 2013/14, an additional “one-time” source allocation of \$6.6 million for FY 2014/15, and additional funding of \$6.9 million for the Almond Grove Street Rehabilitation project in FY 2016/17, \$2.8 million funding in FY 2017/18, \$2.4 million transfer in FY 2018/19, and \$5.8 million transfer in FY 2019/20. For FY 2020/21, the transfer to GFAR in the Adopted Budget is \$3.4 million.

It should be noted that annual salary savings often contributed to the available surpluses for the CIP. Since FY 2009/10 through FY 2019/20 (eleven fiscal years) the Town has averaged approximately \$2.8 million in annual year-end replenishments to the Town’s General Fund Capital/Special Projects Reserve. The replenishments were sourced primarily from available year-end budget savings. However, FY 2020/21 reflected the first year wherein staff had implemented a change in budget practice for non-safety positions changing top step budget allocations to current step plus one step increase in the following fiscal year. Staff anticipates that the change in budget practice is expected to decrease the potential for annual budget savings. Lower budget savings will likely result in decreased annual replenishments to the General Fund Capital/Special Projects Reserve in future years available for capital investment purposes.

In addition to the funding provided to GFAR by budgetary surpluses, the CIP receives funding from multiple other sources as illustrated below.

CAPITAL IMPROVEMENT PROGRAM



DISCUSSION (continued):

State Gasoline Tax revenue is distributed to the Town from the State of California and recorded in the Gas Tax Fund. This tax is also known as the “Highway Users Tax” or the “Motor Vehicle Fuel License Tax.” The gasoline tax is an 18-cent per gallon tax on fuel used to propel a motor vehicle or aircraft. Gas Tax revenue is allocated to the Town based on a per gallon of gas purchased within the Town limits and based on population. These funds can only be used for new construction and reconstruction of Town streets.

As part of voter-approved measures from 2010 and the 2016 Measure B, the Town receives funding restricted for use in street maintenance through a vehicle registration surcharge and local sales tax. This funding source will be used for street rehabilitation Town-wide.

Additional revenue sources for GFAR include the Construction Impact Fee and a Refuse Vehicle Road Impact Fee. This Construction impact fee is assessed on construction projects based on the square foot size of the project at a rate of \$1.14 per square foot. These fees are intended to recover the damage caused to Town streets by construction traffic.

The Utility Undergrounding Fund serves as a funding source for activities generally undertaken in conjunction with street improvement projects. The Town receives Utility Undergrounding funding which is derived from a Town construction tax of 18 cents charged for each square foot of building addition or alteration within the Town.

The traffic impact mitigation fee assures that each new development or expansion of use pays its fair share of the transportation improvements needed to accommodate the cumulative traffic impacts. The fee is paid in full prior to issuance of the building permit for new development or expansion of use. This fee continues to play an important role in the Town’s ability to fund roadway improvements. Traffic Mitigation Funds must be used solely for construction of identified traffic and transportation improvement projects.

The Town receives grant funds from various sources that help address some of the maintenance and improvement costs associated with Town infrastructure. Grants include federally funded Surface Transportation Program (STP) funds which pay for general roadway capital improvements, and a combination of Federal Innovative Deployment to Enhance Arterials (IDEA) grant funds and State Vehicle Registration Fee (VRF) grant funds are contributing to the Traffic Signal Modernization project.

In addition, the Town utilizes Community Development Block Grant funds for specific qualifying projects, usually focused on accessibility.

The Town also receives funding from its Storm Drain Fund, which relies on an established charge of \$0.75 per square foot of impervious surface created by new development. This fee has not been adjusted for several years and should be evaluated in the future as part of the

DISCUSSION (continued):

Non-Point Discharge Elimination System storm water permit process and as part of a continuous review of development related fees. The following table illustrates the identified funding sources for FY 2020/21 – 2024/25 CIP:

Funding Sources for the FY 2020/21 - 2024/25 CIP		
Ongoing	Gas Tax	\$ 6,050,270
One-Time	GFAR	16,067,108
	Utility Underground Funds	4,436,000
	Traffic Mitigation Funds	415,027
	Grant Funds	11,114,483
	Storm Drain Funds	240,000
Total Funding Available		\$ 38,322,888

CIP Unmet Needs

In addition to the ongoing street and infrastructure maintenance requirements of the Town, staff has long identified a backlog of unmet infrastructure needs. During discussions of the necessity for the Measure G Sales Tax initiative, staff provided the following table of existing unmet needs at that time.

Item	Cost	Document
Parking Garage	\$12,500,000 to \$25,000,000 (total debt service)	March 20, 2018 Staff Report "Review Of Downtown Parking"
Traffic Mitigation Improvements	\$34,300,000 (the original \$48.0M total has been adjusted downward to reflect \$10.5M in Pavement Management, \$2.0M Blossom Hill Road widening over 17, and \$1.2M of projected North 40 improvements)	Attachment 1 of Amended 2014 Traffic Impact Policy Page C-35 of the 2018/19 Operating & Capital Summary Budget
Pavement Condition Index - Pavement Management	\$28,000,000 (5 years)	2016 Pavement Management Program/Budget Options Report (page-7 Budget Needs)
Hwy 17 Bicycle and Pedestrian Bridge	\$5,000,000 to \$10,000,000	Adopted 2018/19 Capital Improvement Program (page C-82)
TOTAL	\$79,800,000 to \$97,000,000	

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DISCUSSION (continued):

Since that time development of a parking garage was tabled due to lack of sufficient revenue for bond funding and subsequent recommendations in the Dixon Parking Study. In addition, estimates of funding for the Hwy 17 bicycle and pedestrian bridge project are now estimated to be \$25M. The Town also has identified storm system needs in excess of \$17M. An assessment of Town building facilities, sidewalks, and accessibility needs are underway.

CONCLUSION:

While the funding from GFAR greatly enhances the Town's ability to implement the CIP over the years, it is not enough to support future annual infrastructure maintenance or construct new facilities. Establishing a reliable, dedicated source of funding for basic capital improvements beyond the use of accumulated reserves remains a long-term need and important goal for the Town.

COORDINATION:

This report was coordinated with the Town Manager, Town Attorney, Assistant Town Manager, Parks and Public Works Director, and Director of Finance.

FISCAL IMPACT:

None

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. 2021-2023 Strategic Priorities
2. Current CIP Project Matrix