



# County of Monterey

## Item No.15

### Board Report

Board of Supervisors  
Chambers  
168 W. Alisal St., 1st Floor  
Salinas, CA 93901

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January 30, 2024

**Introduced:** 1/8/2024

**Current Status:** Scheduled AM

**Version:** 1

**Matter Type:** General Agenda Item

- a. Receive a status report on the Board Referral 2020.12 “Consider funding options to increase the Pavement Condition Index of County roads to at least a ‘Fair’ standard over the next ten years”;
- b. Support implementation of a financing plan for the local road rehabilitation pilot program;
- c. Approve the initial local road repair plan; and
- d. Provide direction to staff.

#### RECOMMENDATION:

It is recommended the Board of Supervisors:

- a. Receive a status report on the Board Referral 2020.12 “Consider funding options to increase the Pavement Condition Index of County roads to at least a ‘Fair’ standard over the next ten years”;
- b. Support implementation of a financing plan for the local road rehabilitation pilot program;
- c. Approve the initial local road repair plan; and
- d. Provide direction to staff.

#### SUMMARY:

This report provides an update to the Board of Supervisors on the status of the proposed local road rehabilitation pilot program and recommends that the Board support the financing approach (Version 2) and proposed initial 10-year plan.

#### DISCUSSION:

##### ***Background***

The County Administrative Office (CAO) and the Public Works, Facilities, and Parks Department (PWFP) received Board Referral 2020.12 on March 3, 2020, to consider funding options to increase the Pavement Condition Index of County roads to at least a “Fair” standard over the next ten years. Upon receiving the Board Referral, staff began researching options and consulted with the County’s municipal advisor, KNN Public Finance (KNN), to identify funding/financing strategies within the context of the Road Fund existing revenue sources. Staff reviewed financing tools that the Board has mentioned in the past, starting with iBank, then the Total Road Improvement Program (TRIP), and lines of credit. KNN performed extensive research and analysis of potential financing options and security structures to possibly leverage existing Road Fund revenues. Based on this collective research and evaluation, the primary financing options available are: 1) Revenue Bonds, non-General Fund backed; and 2) Certificates of Participation (COPs), General Fund backed - but with debt service/repayment covered by the Road Fund (specifically, Measure X revenue proceeds).

Attachment A is the report which went to the Capital Improvement Committee (CIC) on March 6, 2023. It outlines a proposed debt financing approach (Version 1) and summarizes previous status and

options as well as related concerns and questions. This was scheduled to go to the full Board for direction in late March; however, PWFP's response to the Winter Storms precluded doing so at that time. Subsequently, after further evaluation, and in response to concerns iterated by both the Debt Advisory Committee (DAC) and Budget Committee, staff in PWFP have developed a third financing option for Board consideration - one which does not involve bond issuance or debt financing.

***Previously Proposed Financing Approach - Summary (Version 1)***

This financing approach would rely on available Road Fund balance to fund local road repairs until Fiscal Year (FY) 2025, at which time a General Fund COP of approximately \$43 million would be issued to continue funding the program, followed by another issuance of about \$23 million in FY 2028. This approach would rely solely on the availability of Measure X revenues to secure and repay the bonds (approximately \$5 million per year for 20 years starting in FY29). The estimated total debt service for these two issuances is about \$109 million, with a total interest cost of \$43.3 million.

The alternative Revenue bond issuance would cost the Road Fund about \$4.9 million more in higher interest costs. These are preliminary estimates, which would be refined and further detailed at the time the Board is asked to formally approve the first debt issuance.

(Refer to Attachment B for more detailed information - PowerPoint used for Budget Committee presentation on November 30, 2022).

Summary of Concerns with Version 1 and regarding possible Bond financing:

- **The DAC had the following concerns that should be considered and evaluated:** Debt service difference between General Fund COP and Revenue bond; Asset capacity if the Board wanted to bond for other major capital projects; Clarify and ensure that any bonds have terms not exceeding the Measure X sunset date, and that the road improvement useful life is 20 years or more; Recognize that the Measure X County allocation is set by ordinance by the Transportation Agency for Monterey County (TAMC) and could technically change in the future; Acknowledge concerns about future Senate Bill 1 (SB1) and the Highway Users Tax Account (HUTA) revenues/trends due to changes in fuel use. The DAC also noted that staff should pursue releases of currently pledged assets to the extent allowable under existing debt issuances.
- **Budget Committee (received a presentation on the bond financing approach at its meeting of November 30, 2022). The Budget Committee (BC) did not make a recommendation, and instead outlined the following key issues that the BC felt should be further considered:** Ensure that this program focusing on local roads does not impact ongoing efforts to rehabilitate higher-volume County roads that serve as important agricultural and tourism links; Concern about funding road repair in those County Services Areas (CSAs) that are responsible for and should be funding road repairs, and desire to understand how much of this program is directed to these CSAs; Cost of the program, specifically, the high cost of debt service and suggestion to pursue local road repair to the extent existing revenue sources allow; Ability to deliver projects in a timely manner and provide adequate inspection and oversight given current staffing levels; Provide information on potential upcoming large projects that the County might issue bonds for and ensure that the proposed road bond program does not preclude the County's ability to pursue other large bond-financed projects.

PWFP staff recognize the validity of the concerns which were expressed and believe that the most significant issues are the cost of debt service and satisfying commitments to the higher-volume County roads that serve as important agricultural and tourism links which strengthen the regional economic base.

***Present Proposed Financing Approach for new Local Road Rehabilitation Program - Version 2***

This proposed alternative financing approach would also rely on available Road Fund balance to fund local road rehabilitation work until Fiscal Year (FY) 2025; however, this would become a ‘pay as you go’ (PAYGo) program (rather than debt financed) from that point forward (for the remaining term of the 10 year ‘Pilot Program’). The dedicated funding source would be the Road Fund’s share of the County Transient Occupancy Tax (TOT). With the adoption of the FY 2024 Budget, there was follow-up that directed staff to implement the Financial Policy for the Road Fund that includes allocating 25% of TOT to the Road Fund in FY 2025 as part of the FY 2025 budget process. This proposed PAYGo program describes how those funds would be used.

Fundamental tenets and potential benefits of this approach, include:

- **No Planned Bond Issuance** - Switching to a ‘PAYGo’ program should mitigate concerns regarding the cost of the program, specifically, the high cost of debt service (utilizing Measure X revenues to secure and repay the bonds). This would also conform with the BC’s suggestion to pursue local road repair to the extent existing revenue sources allow.
- **Convert Local Road Rehabilitation Program to ‘PAYGo’ utilizing TOT** - starting in FY25. There is currently a planned increased transfer to the Road Fund in FY25 from General Fund TOT to 25% of tax receipts. As a result, just over \$10 million is projected to be available in FY25 (up from \$6.2 million in the current fiscal year - FY24). The projected 10-year total for this revenue stream is a little over \$105 million.
  - For possible reference, Attachment C is the existing County General Financial Policy. Within Section 7.9 (page 13), there is a clause dealing with the transfers to the Road Fund - ‘Contributions to the Road Fund’ which reads as follows: “In FY 2013-14, the TOT contribution percentage for the Road Fund was established by the Board at twenty percent (20%) of total TOT revenue. Per annum, the contribution shall increase by one percent (1%) until it reaches a twenty-five percent cap (25%). This contribution replaces, and is not in addition to, the \$2.0 million the County previously provided per annum to the Road Fund from the General Fund.”
- **Use of Measure X and SB1** - Switching to a ‘PAYGo’ program will permit these funds to be dedicated to major maintenance and road improvements consistent with what was originally envisioned when passed by the electorate in 2016 and 2017 (i.e., for Pavement Management and other improvements on higher-volume County roads which function to strengthen the economic backbone of the region).

In addition, the current road selection process of the 5-year CIP prioritizes these higher-volume roads that carry significant amounts of people and goods movement, particularly agricultural goods (a policy of the Monterey County General Plan), and is consistent with other policies of the Circulation Element of the Monterey County General Plan.

Switching to a “PAYGo” program allows more funding for these roads in the 5-year CIP to be performed (rather than paying interest on debt).

**Measure X** is primarily needed to fund any on-going program for major maintenance/upgrade of higher-volume County roads that serve as important agricultural and tourism links. Being able to avoid using a substantial portion of this recurring revenue stream to pay bond debt will also facilitate our being better able to:

- Satisfy specific commitments which were made to the Ag community in 2016.
  - Fund other Safety and Operational improvements on the County high volume system (e.g., Intersection upgrades).
  - Retain a focus on roads of primary importance to the regional economic base.
  - Perform road repairs in the communities of Pajaro, Castroville, Boronda, and Chualar.
  - Manage the Road Fund to stay ‘in the black’ and comply with the County’s General Financial Policies which recommend that major funds create reserves for operational contingencies equal to one percent (1%) of estimated annual revenue and a strategic reserve equal to ten percent (10%) of estimated annual revenue.
- **Satisfy Objective of Board Referral 2020.12 - “Consider funding options to increase the Pavement Condition Index to at least a ‘Fair’ standard over the next ten years”.**  
PWFP staff believe that a “Fair” Standard is achievable without bonding. Pavement Condition Index (PCI) provides a snapshot of the pavement health of a road. PCI is measured on a scale of 0 to 100 where 100 means a newly paved road. Examples of typical pavement surface distresses are spalling, rutting, scaling, and cracking. The Overall System PCI for County Roads is presently about 45. In fact, it appears County efforts will attain 50 (‘Fair’) by 2032 with the current/continued Pavement Management Program utilizing existing Measure X and SB1 revenue streams for major maintenance/upgrade of higher-volume County roads which serve as important agricultural and tourism links, and consistent with the Circulation Element policies of the Monterey County General Plan.
  - **Retain Initial Road Repair Plan** as previously developed and presented (i.e., with a 10-year pilot plan) as a guide for the Program - refer to [Attachments D and E](#)). Some restructuring may be necessary on an annual basis to align cash flow to match available revenue. This will be accomplished as part of the regular yearly Capital Improvement Program (CIP) Update (i.e., specific scheduling of projects may be adjusted from what is reflected in the program as initially developed in 2022).
  - **Retain (Existing) Community Road Maintenance Program (CRMP)** - for unprogrammed, qualifying road maintenance projects where the funding is allocated among the supervisorial districts, and that can be handled by PWFP at the discretion of the Director of PWFP. Examples of qualified projects include, but are not limited to: street sweeping, vegetation clearing, litter removal, etc. (beyond base program). Funding for CRMP is from TOT and divided among the supervisorial districts based on a formula set forth in the adopted policy.
  - **Other related local road programs** would also be housed in this program, including:
    - **Annual Seal Coat Program** (already part of TOT - currently \$2 million per year).
    - **Measure X Community Street Repair Program** - currently \$1.4 million per year. This existing program focuses on deferred maintenance on County maintained roads in

neighborhoods which are part of disadvantaged communities, as well as neighborhoods which are part of communities without CSAs (Castroville, Boronda, Pajaro, and Chualar).

- **Sample Program Year (FY25)** - for illustration purposes (all numbers rounded for discussion simplicity's sake):

Revenue: \$10 million

Expenditure categories:

- \$1.5 million - CRMP (25% of revenue of previous TOT allocation)
- \$2.0 million - Annual Seal Coat Program
- \$1.0 million - Maintenance crew needs
- \$5.5 million - Other planned projects in Local Road Rehabilitation Program and/or Added Capacity for Measure X Community Street Repair Program
- Total: \$10 million

- **Recommended Policy Framework/Priorities**

Subject to funding capacity:

1. Available for deferred maintenance on County maintained roads in neighborhoods which are part of disadvantaged communities.
2. Available for deferred maintenance on County maintained roads in neighborhoods which are part of communities without CSAs.
3. Available for one-time deferred maintenance on County maintained roads in neighborhoods which are part of CSA areas - with concurrent commitment to activation and utilization of the CSA's 'Street and Sidewalk Maintenance' function moving forward.

#### ***Other Financing Alternatives?***

Another alternative could include borrowing from county funds and/or reducing the scope of the 10-year pilot plan. This is not recommended at this time; however, this alternative can be reevaluated in the future if necessary as work on the pilot plan proceeds.

There are also potentially grant opportunities and other funding avenues possible through the new Federal infrastructure bill, the "Bipartisan Infrastructure Law." Staff will continue to research and explore these potential opportunities when they are released; however, if successful, staff believes that they should be viewed as extending the program reach (via supplementing).

#### ***Initial Road Repair Plan (unchanged from Version 1)***

PWFP engaged a consultant to help develop a proposed 10-year plan to show how and where bond financing proceeds would be applied to improve local County roads. Local roads in need of repair were selected in areas to make meaningful improvements to entire communities or neighborhoods and address needed deferred maintenance. These community roads would not have otherwise been selected over the other roads in the 5-year CIP. The proposed plan assumed that approximately \$100 million would be available over the 10-year period, which results in about 124 centerline miles of roads that would be improved. The plan is intended to be a living document that will be periodically updated; therefore, roads could be added or deleted depending on funding availability over the life of

this program. The plan focuses on pavement repair and rehabilitation, and other road related repair needs such as drainage features, sidewalks, etc., will be addressed via other road maintenance funding programs. There are no County roads in District 1 (which is entirely comprised of the City of Salinas) and the relatively few County roads in District 4 are not local roads targeted under this program. Therefore, the road sections in this proposed program are contained only in Supervisorial Districts 2, 3, and 5.

While this plan focuses on communities (such as Aromas, San Ardo, Spreckels, Bradley, Moss Landing (residential), etc.), many of the targeted roads are in County Service Areas (CSAs) because these form distinct, residential neighborhood areas, and District 5 has many large CSAs. Therefore, District 5 has the highest percentage of roads targeted under this bond-financed program. Some CSAs include road maintenance services, and after the condition of those roads is improved by this program, those CSAs will be solely responsible for funding future road maintenance per discussion during prior meetings. Roads included in the program were grouped into neighborhoods, so that roads located in relatively close geographic proximity were included in the same neighborhood. This was done to complete repairs on selected roads in the same geographic area to avoid returning to the same area multiple times over the life of the program. This will create cost efficiencies as contractors working on projects under this program can address multiple roads in the same area at the same time and minimize disruption to residents and motorists by impacting the selected roads in the same geographic area with construction activity only once.

The proposed program will have a meaningful impact on the quality of the local roads in the pilot plan, improving the condition of these roads from an overall “Poor” condition rating to an overall “Very Good” condition. Without this program, these roads would continue to decline, perhaps even to a “Very Poor/Failed” condition - even though the overall County maintained road system rating is expected to reach ‘Fair’ within 10 years. The table in [Attachment D](#) lists the neighborhoods selected for each year of the 10-year program, along with preliminary estimated costs. Maps depicting the roads included within each neighborhood and additional details on the proposed program are included in the report provided in [Attachment E](#).

### ***Current Status***

The first two years of the program (FY23 and 24) are underway utilizing Road Fund balance as previously discussed:

- Design is underway for Aromas with construction anticipated in FY25.
- Road rehabilitation work in CSAs 25 and 66 has been completed.
- Design is underway for San Ardo, with construction anticipated over the next two Fiscal Years (FY25 and 26).
- Design is underway for Tierra Grande with construction anticipated in FY25.

The specific planned work plan for years FY25-29 will be included in the 5 Year CIP presented to the Board in the spring of 2024.

### ***Staffing for the Program***

Staffing increases to implement the local road rehabilitation will be measured and modest, and rely on

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increased consultant support (i.e., a “hybrid” approach which has been discussed with the CIC and Board). With this measured approach, PWFP believes that we will be able to make timely progress on delivery of an increased number of road improvement projects.

Staff recommends implementing the new Local Road Rehabilitation Program as ‘PAYGo’ utilizing TOT (rather than leveraging the Road Fund’s Measure X transaction revenues to support either a General Fund COP or Revenue COP bond issuance).

OTHER AGENCY INVOLVEMENT:

PWFP staff continues to coordinate with the County Administrative Office Budget & Analysis Division. They are aware that the recommended approach is now for a PAYGo program using TOT rather than debt financing. The proposed bond-funded local road repair program has been discussed at the CIC at its September 13, 2021 meeting; the CIC at its November 8, 2021 meeting with its implementation plan; the BC at its November 18, 2021 meeting; the full Board of Supervisors at its February 8, 2022 meeting for direction as a pilot; the DAC at its November 21, 2022 meeting; the BC at its November 30, 2022 meeting; and the CIC at its March 6, 2023 meeting.

FINANCING:

Staff recommends implementing the new Local Road Rehabilitation Program as ‘PAYGo’ utilizing TOT (rather than leveraging the Road Fund’s Measure X transaction revenues to support either a General Fund COP or Revenue COP bond issuance). There would be no impact to General Fund revenues other than the use of TOT consistent with the existing County General Financial Policy.

If the Board concurs, then staff will develop and return with a formal Policy for the Local Road Rehabilitation Program which will set out the fundamental framework, tenets, and policies/priorities for adoption and inclusion in the Board Policy Manual (with implementation starting next Fiscal Year 2025).

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

A key objective has been to find funding sources for much needed maintenance to the County’s transportation infrastructure. Financing helps to fulfill this objective. Combining these funds with federal and/or state grants will extend funding even further. The recommended action supports the following Board of Supervisors’ Strategic Initiative below:

- Economic Development
- Administration
- Health & Human Services
- Infrastructure
- Public Safety

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Attachments:

Attachment A - CIC Report - March 6, 2023

Attachment B - PowerPoint from BC Report - November 30, 2022

Attachment C - FY 202324 General Financial Policy

Attachment D - Initial Local Road Repair Program Summary Table

Attachment E - Initial Local Road Repair Program Complete Report