

City of Encinitas Infrastructure Task Force FINAL REPORT

February 2024

Prepared for:



Prepared by:



ACKNOWLEDGEMENTS

Significant efforts over the course of a year by the Infrastructure Task Force members, project consultants, and City of Encinitas staff led to the creation of this final report; time and effort is greatly appreciated. In addition to the list below, a number of City staff provided valuable information and recommendations; their input and assistance is appreciated.

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1. Introduction

City of Encinitas Background

The City of Encinitas is a relatively young city, incorporated in 1986. Encinitas encompasses 20.0 square miles and includes 172 centerline miles of roads, 66 miles of storm drains, 152 acres of parkland, 6 public beaches and 10 civic buildings. The drainage system and most of the roadways were built prior to the City becoming incorporated, and many don't meet standards. Unlike most other San Diego County cities, Encinitas derives the majority of our revenue (68%) through Property Taxes. The City is a bedroom community without a major industry, amusement park, hotel row, or car dealership corridor to generate large revenue. After incorporating in 1986, the City has had to fund construction of several large infrastructure projects to support our residents: a library, community/senior center, marine safety/lifeguard center, community parks, arts center and three fire stations. Many of those projects were funded through reserves, some through bonds, and some through loans. With relatively stable revenue and increasing construction costs, City Council determined that an examination of funding for the City's infrastructure was needed.

Formation of the Infrastructure Task Force

At the November 16, 2022, City Council meeting, the Council approved the formation of the Infrastructure Task Force (ITF) to address the gap between Capital Improvement Program (CIP) needs and estimated funding available over the next 10 years (2025-2034). Staff created an application for community member participation that required a diverse mix of applicants.

At the January 25, 2023, City Council meeting, the Council appointed seven applicants to serve on the ITF. The appointees comprise members of the community from a variety of backgrounds, with interest and expertise in Capital Infrastructure Projects and Funding/Financing. This group advised and worked with the Director of Engineering and City staff to meet the objectives of the Task Force.

The establishment of the ITF reflected the following Operating Principals from the Strategic Plan: Financially-Sound Decision Making, Data Gathering & Sharing and Measurement & Accountability through the allocation of resources and staff toward the ITF objectives. The committee's work was shared with public by posting meeting notices, agendas, minutes, and meeting materials to the ITF website (<https://www.encinitasca.gov/government/boards-commissions/infrastructure-task-force>) in advance for public viewing. Each meeting was also recorded and available on the ITF website. All 19 ITF meetings were open to the public, and opportunities for public comment were provided at the beginning and the end of each meeting.

CIP Background

A capital project represents any project over \$100,000 that has a useful life of five years or more. Examples include roads and sidewalks, trails, buffered bike lanes, and civic buildings such as the marine safety center, city hall, community center, and fire stations. All of this City infrastructure affects the quality of life in Encinitas. The city is tasked with ensuring older infrastructure is in good working order and ensuring that new infrastructure is constructed where needed.

The City typically adopts a five- or six-year Capital Improvement Program (CIP) funded by a combination of General Fund and restricted funding sources. Unlike the City's operating budget,

capital projects have assigned budgets that carry across multiple fiscal years as some projects take several years to complete.

The City has routinely transferred additional General Fund dollars to supplement the CIP to fund infrastructure needs in the City. Unfortunately, the funding available each year is insufficient to cover the costs of new infrastructure projects and updates to older, failing infrastructure (roads, bridges, storm drains, facilities, etc.). The Council identified Council Members Mosca and Lyndes to serve on a subcommittee tasked with outlining a meeting structure for a Task Force to address the gap between CIP needs and estimated funding available over the next 10 years.

ITF Purpose

The purpose of the ITF is to develop a systematic method to quantify the City's infrastructure backlog and future needs, rank infrastructure projects according to a consistent set of scoring criteria that reflects the values of the City of Encinitas, and explore potential new revenue sources.

ITF Mission and Goals

The City Council Subcommittee identified overarching goals for the ITF:

1. Identify the City's capital improvement backlog and future needs for the 2025 to 2034 timeframe.
2. Define criteria and clarify processes for identifying and prioritizing future city CIP needs, projects, and funding opportunities.
3. Ensure that the CIP program and prioritization is linked to the City's policies and planning priorities.
4. Ensure transparency in communications about infrastructure needs, challenges, and the work of the ITF.
5. Make recommendations regarding funding the City's infrastructure backlog at the conclusion of the task force work.

ITF Scope of Work

The City Council Subcommittee identified the following as the ITF scope of work:

1. Identify the City's infrastructure backlog, future needs, and what criteria should be used to prioritize the needs identified.
2. Estimate the total cost of the infrastructure backlog including likely escalation in City project construction estimates and budgets, as well as increases in the cost of labor, equipment, and materials due to continuing price changes over time.
3. Estimate the cost of a ten-year infrastructure future forecast (beyond the backlog) including likely escalation in City project construction estimates and budgets, as well as increases in the cost of labor, equipment, and materials due to continuing price changes over time.
4. Make recommendations that address funding the infrastructure backlog and 10-year future forecast at the conclusion of the ITF meetings in early 2024 considering:
 - a. Public/private development partners.
 - b. Public agency partners (State, Federal, Regional grant funding).
 - c. Potential financing measures.
 - d. Optimizing and leveraging existing city and partner investments for matching funds, and/or

- e. Other funding mechanism (assessment districts, new General Funds, etc.).
5. Determine if the City's infrastructure needs can be effectively implemented given current staff resources.

Purpose of this Document

The purpose of this document is to provide a summary of the task force's findings, including infrastructure needs the ranking rubric for City infrastructure projects, and the ITF's recommendations for City Council on planning, staffing, and funding decisions.

The process to develop the scoring rubric, project rankings, and recommended funding sources is intended to be repeated and revised periodically to reflect evolving City priorities, needs, and initiatives. This document summarizes recommended modifications for future prioritization exercises based on the ITF committee members' experience with the initial process.

2. Infrastructure Backlog and Future Needs

Projects List Development Methodology

In the spring and summer of 2023, the Infrastructure Task Force received a list of infrastructure projects from the following groups:

- Engineering Department, Traffic Division
- Engineering Department, Capital Improvements Division
- Development Services Department, Climate Action Division
- Development Services Department, Coastal Management Division
- Public Safety Department, Fire and Marine Safety Divisions
- Parks, Recreation, and Cultural Arts Department
- Public Works Department
- Information Technology Department
- Utilities Department

The ITF also reviewed projects that were included in City planning documents such as the Modal Alternatives Project (MAP), the City of Encinitas Active Transportation Plan (ATP), the Climate Action Plan (CAP), the Capital Improvement Program (CIP), the Cross-Connect Implementation Plan, or any Department work plans.

The ITF project list includes a description of each project, the department and division it is associated with, the source that identified the project (such as planning documents, presentations, or City Council feedback), estimated recurring and non-recurring costs, total estimated cost during the 10-year program, whether a City department had identified it as a priority (see Glossary: "City Department Priority"), and whether it was on a corridor with demonstrated safety concerns as identified in the Local Road Safety Plan (LRSP).

Eligible Projects

In total, over 300 projects were presented to the ITF. To be eligible for inclusion in the 10-year CIP, projects had to meet the following requirements:

- The project must be physical infrastructure;
- The project must have a cost estimate over \$100,000;

- The asset or infrastructure must have a useful life of at least 5 years; and
- The project cannot be funded by user fees/enterprise funds.

The project list was refined to remove duplicates, projects that were already fully funded, already in construction, scheduled to be completed by the end of 2023, were not focused on physical infrastructure, did not have a cost estimate over \$100,000, did not have a useful life over 5 years, or were funded by user fees/enterprise funds. Infrastructure such as water, sewer, and other utilities must be fully funded by user fees and are not eligible to receive supplemental funding from other sources of revenue.

Of the initial list of projects provided, 97 projects met these eligibility criteria. At the November 15, 2023, Joint City Council Infrastructure Task Force Meeting, the Council requested an additional 16 projects be added to the list, for a new total of 113 projects at a total cost of approximately \$1.31 billion. The Comprehensive List of Projects can be found in **Appendix A**.

Project Classification

Each project was assigned a classification as backlog or future needs based on the following definitions.

Backlog

Backlog projects are associated with existing assets or commitments. They are projects that maintain, repair and rehabilitate, or modernize existing assets to conform with an accepted industry standard or state of good repair. These projects may help the City meet existing local, regional, or state performance targets or mandates.

Examples of backlog projects include (but are not limited to) facility renovations and replacements, roadway safety projects, and drainage improvement projects.

The ranked list of Backlog Projects can be found in **Appendix B**. The unfunded cost for the 34 projects on the list is estimated at \$257 million. Detailed information on the ranking rubric can be found in Section 3 of this report.

Annual Backlog

Annual Backlog projects are a subset of backlog projects. Annual Backlog projects meet the definition of backlog and have an annual funding component, or set aside funds for a general project category. They address a general category of infrastructure to support existing infrastructure conformance with an accepted industry standard or state of good repair. The City sets aside annual funding to address these needs, which are typically incremental or citywide improvements. The precise project locations are generally unknown during the budgeting process.

The ITF project list includes 10 Annual Backlog projects which are: Corrugated Metal pipe Lining/Replacement, Storm Drain Repair, Annual Street Overlay and Slurry Project, Traffic Safety and Calming, Drainage Projects, IT Security Controls, Playground Equipment Replacement, Traffic Signal Modifications & Upgrades, Facility Maintenance and Habitat Stewardship. The 10-year unfunded cost of this Annual Backlog subset of Backlog projects is approximately \$90.6 million.

Future Needs

Future Needs projects would provide community betterments through new or improved infrastructure. Examples of future needs projects include (but are not limited to) new pedestrian infrastructure, new bike lanes, beach sand projects, and roadway improvement projects. The ranked list of Future Needs Projects can be found in **Appendix C**. The unfunded cost for the 79 projects on the Future Needs list is estimated at \$1.05 billion.

3. Project Prioritization Rubric

Rubric Development Process

The ITF considered many factors to develop a rubric that could be consistently used to rank the City's diverse array of infrastructure project needs. They considered the types of information available about each project, the opinions of subject matter experts within City staff, previous planning efforts and policies, and dozens of objective and subjective criteria. The process to develop the rubric is outlined below.



Peer Agency Review

The process began with a peer agency review of score-based ranking systems across the country. This step provided an overview of approaches from other peer agencies regarding the criteria, scoring weights, and the extent to which quantitative and qualitative information was utilized. Eight different peer agency project ranking approaches were reviewed. Of these, the approaches to project prioritization developed by the City of San Diego, CA and the Town of Wayland, MA were referenced most closely as a guide.

Each project ranking system resulted in a numerical score based on several individual categories, which allowed for objective ranking of projects after scores were completed. In general, public health, safety, and state of good repair were consistently assigned high priority and scoring weight among all peer agencies. Other criteria varied across agencies, which underscores the importance of taking local priorities into consideration to align the project prioritization with the City's unique challenges and values.

Criteria Selection

With the peer agency review as a starting point, the ITF began reviewing local priorities as outlined in the City of Encinitas Strategic Plan and ultimately selected a set of scoring criteria to align with the City's stated goals and priorities. Each criterion was assigned a maximum score based on the ITF's perception of importance through an iterative refinement process. Scoring guidelines were developed to help clarify the types of projects that would receive a high, medium, or low score for a given criterion. Finally, the proposed rubric was presented to the Encinitas City Council for feedback and approval on November 15, 2023.

The selected criteria, maximum scores, and scoring guidelines were developed to align with the City of Encinitas Fiscal Year (FY) 23/24 Strategic Plan. The goal of the rubric is to create a

repeatable and refinable process for staff to rank potential new capital projects. For future project prioritization exercises, the rubric should be evaluated and updated if necessary to align with evolving City priorities.

Criteria Maximum Scores

The maximum scores of each of the five criteria, along with a brief description for the reason of behind them, are as follows:

Criterion 1, **Risk to Health, Safety, and Regulatory or Mandated Requirements**, has a maximum score of 30 points, the highest in the rubric. The ITF members felt that mitigating risk to health and safety is paramount, as is remaining in compliance with legal mandates. Scoring this category highly was supported by the observed trends in peer agency rating systems.

Criterion 2, **Identified Infrastructure Need and Asset Longevity**, has a maximum score of 28 points. This criterion was determined to be a close second to Criterion 1 in terms of importance. This criterion was intended to prioritize projects that keep the City’s existing infrastructure in good repair or have been identified as a priority need by City staff subject matter experts.

Criterion 3, **Sustainability, Environmental Conservation, and Resilience**, has a maximum score of 16 points. Given that Encinitas is a coastal beach town, the City values projects that support the natural environment and protect its community, lifestyle, and businesses from natural hazards.

Criterion 4, **Livability and/or Equitable Community Investment**, has a maximum score of 14 points. This criterion supports projects that equitably improve quality of life for residents and creates a welcoming atmosphere for visitors.

Criterion 5, **Consistency with City Priorities**, has a maximum score of 12 points. This criterion is used to determine whether a project addresses local priorities based on the most current version of the City of Encinitas Strategic Plan.

Prioritization Rubric

The ITF members rated each project with a “high,” “medium,” or “low” score for each criterion based on the project description and supporting information available. Projects given a “high” rating receive all of that criterion’s available points, while a “medium” rating receives half of the available points, and a “low” rating receives zero points. All seven of the ITF members performed the exercise of ranking each project according to the prioritization rubric. The average score was calculated to determine the ultimate project rankings.

Table 1 below shows City of Encinitas Infrastructure Project Prioritization Rubric. See **Appendix D** for the complete rubric and scoring guidelines.

Table 1: City of Encinitas Infrastructure Project Prioritization Rubric

Criteria	Maximum Score	Scores		
		Low – No Points	Medium – Half Points	High – Full Points
1. Risk to Health, Safety, and Regulatory or Mandated Requirements	30	Project does not address existing health/safety issues and is not legally mandated.	Project maintains or improves public health/safety. Project may be deferred without impacting existing health/safety and project is not legally mandated.	Project satisfies one or more of the following statements: <ul style="list-style-type: none"> • Project provides an essential service or infrastructure to correct, maintain, or address an existing deficiency that directly affects health/safety. • Project deferral may impact future risk to health/safety. • Project is legally mandated.
2. Identified Infrastructure Need and Asset Longevity	28	Project is not an identified infrastructure need and does not improve longevity or reliability of infrastructure.	Project is an identified infrastructure need in a City planning document but was not identified as a priority by a City department or maintains assets nearing the end of their useful lives.	Project is identified as a City department priority or corrects existing deficiencies to maintain critical functioning of the asset.
3. Sustainability, Environmental Conservation, and Resilience	16	Project does not improve sustainability, environmental conservation, or resilience (as defined in the scoring guidance).	Project improves one of the following: sustainability, environmental conservation, or resilience (as defined in the scoring guidance).	Project improves at least two of the following: sustainability, environmental conservation, or resilience (as defined in the scoring guidance).
4. Livability and/or Equitable Community Investment	14	Project does not improve livability, community equity, or existing disparities.	Project improves livability or equity for underserved communities/users of all ages and abilities by addressing disparities in infrastructure.	Project improves livability and equity for underserved communities/users of all ages and abilities by addressing disparities in infrastructure.
5. Consistency with City Priorities	12	Project does not address City priorities (as defined in the scoring guidance).	Project addresses one City priority (as defined in the scoring guidance).	Project addresses multiple City priorities (as defined in the scoring guidance).
Total	100			

Ranked List of Projects

Based on the average total score for each project, the comprehensive list of projects was ranked with the highest score corresponding with the highest ranking. Each project has an overall ranking, as well as a ranking within its project classification (either backlog or future need). **Appendix A** shows the Comprehensive List of Projects with project descriptions, cost estimates, overall rank, and each project's rank within its respective category (annual backlog, backlog, or future need).

4. Funding Infrastructure Needs

Existing CIP Funding Sources

The existing CIP budget is comprised of the unrestricted General Fund and restricted funding sources such as Special Revenue funds, grants, and other restricted funds as outlined below.

Unrestricted Funds

The General Fund is an unrestricted fund for revenues which are not reserved for special use in a separate fund. General Fund sources include: sales tax, property tax, 80% of the transient occupancy tax (TOT), licenses and permits, fines, and forfeitures. Data on the City's annual budget was provided to the ITF in March 2023. The following information is reflective of the FY 23/24 budget. General Fund revenues were projected to total \$100.3 million in FY 23/24, of which approximately \$3.8 million was available for new CIP project implementation.

Existing General Fund Revenue Sources and Expenditures

Property taxes are the primary revenue source for the City of Encinitas General Fund. Because the City is already largely developed, property tax revenue is expected to remain relatively steady. FY 23/24 General Fund revenues were projected to total \$100.3 million. **Figure 1** shows General Fund revenue by source, in millions of dollars (2023 unescalated dollars). **Figure 2** shows FY 23/24 budgeted General Fund operating expenditures by function (in millions of dollars), totaling \$90.1 million for FY 23/24.

With FY 23/24 General Fund revenues of \$100.3 million and an Operating Budget of \$90.1 million, \$10.2 million remains available in the General Fund. The City's debt service was \$5.2 million. \$3.6 million were transferred to internal service funds such as the Self-Insurance and Equipment Replacement Funds, leaving \$1.4 million of FY 23/24 General Funds available for CIP. In FY 23/24 an additional \$2.4 million from General Fund reserves was transferred to the CIP for a General Fund total of \$3.8 million.

Figure 1: FY23/24 General Fund Revenue by Source (in Millions of Dollars)

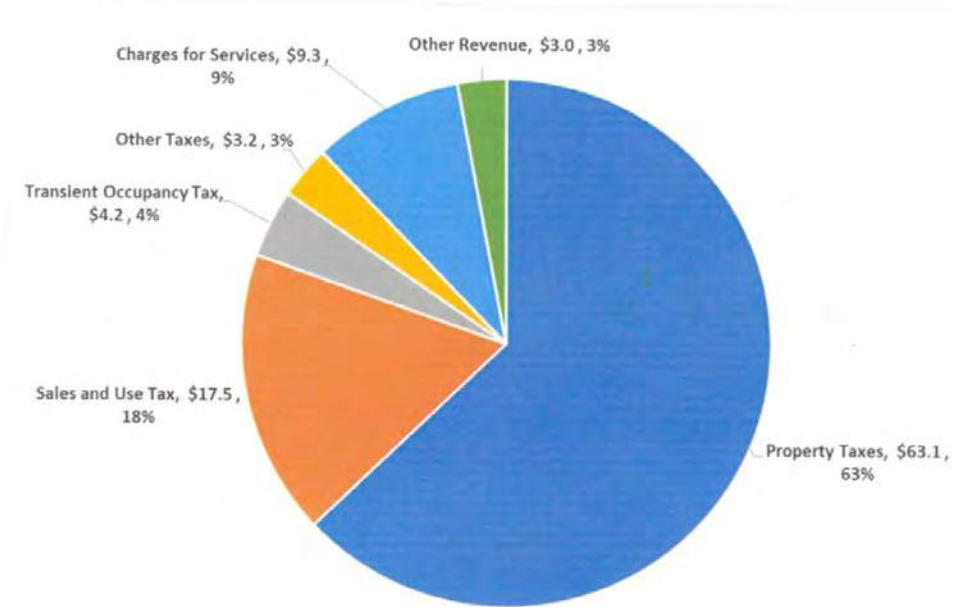
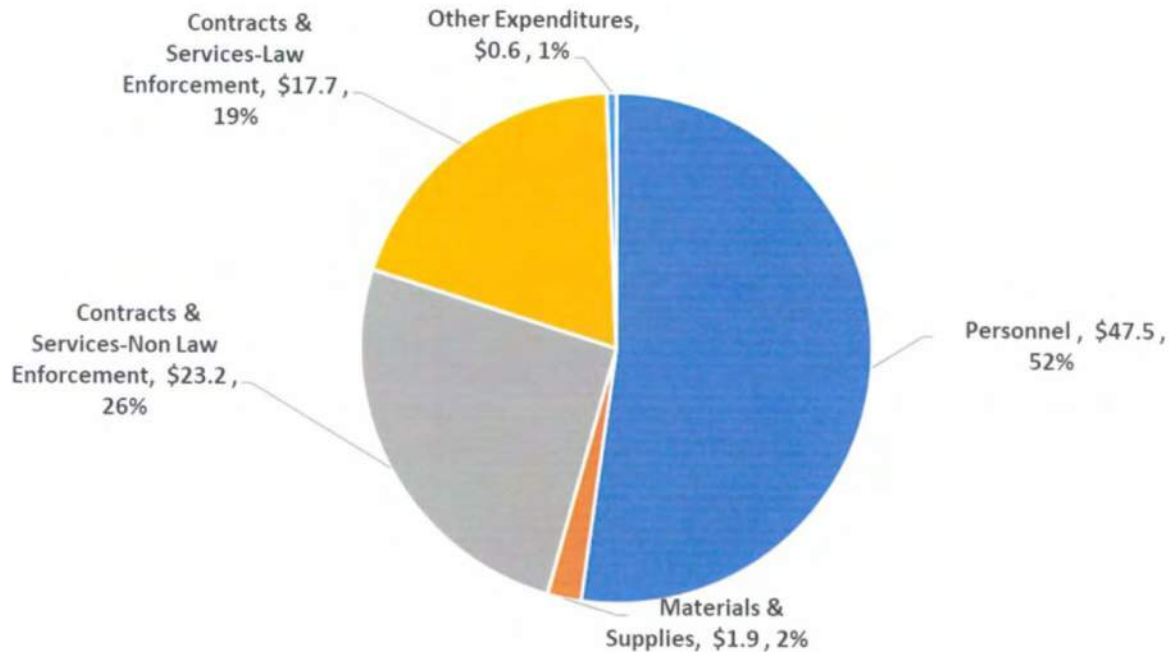


Figure 2: FY23/24 Budgeted General Fund Operating Expenditures by Function (in Millions of Dollars)



Restricted Funds

Restricted funds can only be used for specific purposes. Restricted funds that contribute to the CIP budget include the following:

- Special Revenue
 - Gas Tax/Senate Bill 1 (SB1)
 - Reserved for annual paving
 - TransNet: ½ cent sales tax
 - Reserved for annual paving
- State Grants (project-specific funds)
 - Department of Transportation
 - Coastal Conservancy
- Federal Grants (project-specific funds)
 - Highway Safety Improvement Program (HSIP)
 - Active Transportation Program (ATP)
 - RAISE Grants
 - Safe Streets & Roads for All (SS4A)
 - Federal Railroad Administration (FRA)
 - Community Development Block Grants (CDBG)
 - Reserved for projects in disadvantaged areas or projects that improve facilities in accordance with the Americans with Disabilities Act (ADA)
- Developer Impact Fees
 - Reserved for projects that mitigate development impacts
- Enterprise Funds
 - Reserved for utility projects
- Transient Occupancy Tax (TOT)
 - Encinitas currently has a TOT tax of 10%.
 - 80% of the revenue goes to the General Fund for unrestricted use, and 20% funds sand replenishment and stabilization projects.
 - The TOT tax ranges from 10.5% to 14% in the neighboring cities of Imperial Beach, National City, Solana Beach, Del Mar, and San Diego.
- Facilities Fund
 - Reserved for building maintenance/enhancement

Existing 10-year CIP Revenue Projection

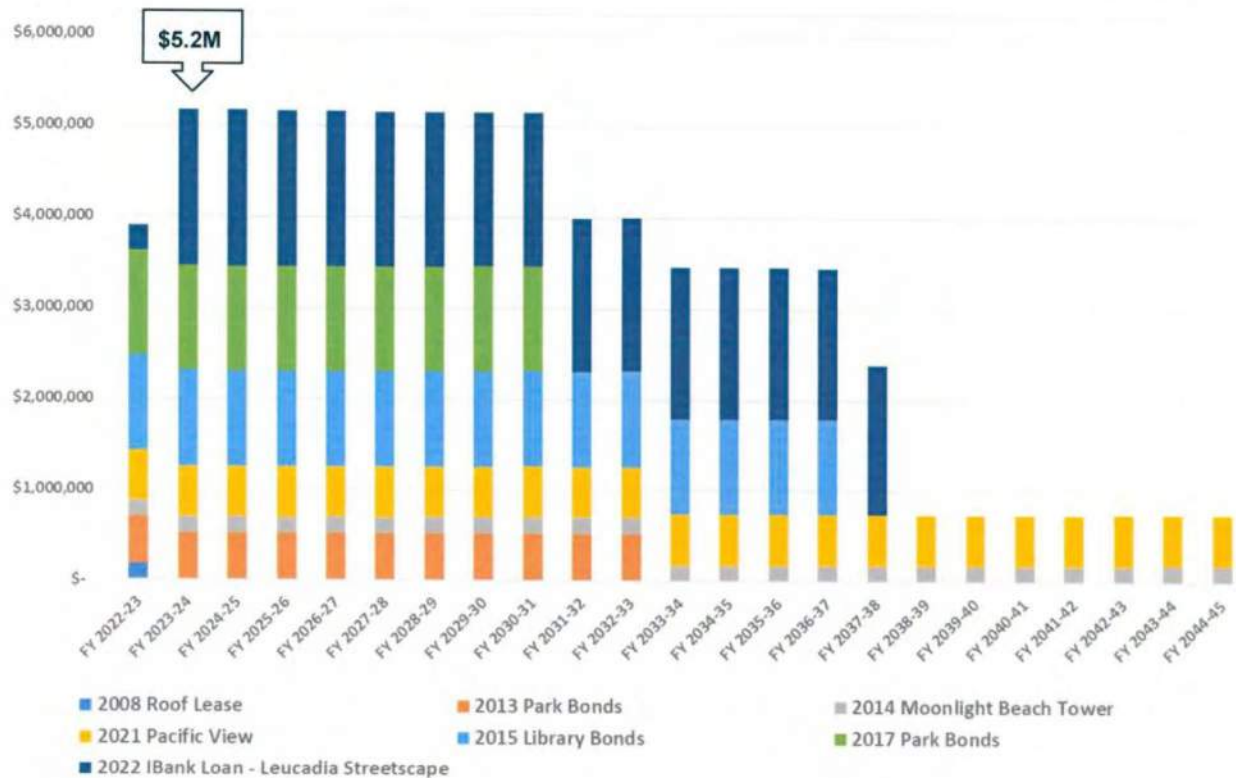
The FY 23/24 CIP budget consisted of approximately \$8.2 million. Approximately \$4.0 million per year was funded by HUTA, SB1, and TransNet and reserved for citywide annual paving projects. The remaining \$4.1 million was funded by \$3.8 million of General Fund, and \$0.3 million from Restricted funds, such as grants and fees.

While the available CIP funding varies on a yearly basis, the existing 10-year CIP budget projection is approximately \$79 million (not including escalation), of which \$40 million would fund annual paving, and \$39 million would fund other CIP projects.

Bonding and Borrowing Capacity

Figure 3 shows the FY 23/24 projected payments due on the City's bonds and loans over the FY 2022-2045 timeframe. In FY 23/24, the projected debt service payments total \$5.2 million, which includes principal and interest. To maintain a AAA bond rating, the City cannot take on additional loans or bonds at this time. However, as shown in the figure, in 2031/32 the 2017 Park Bonds will be paid off and there will be some additional borrowing capacity.

Figure 3: City of Encinitas Projected Bond and Loan Payments from FY 2022-2045



Potential Funding Sources

The following matrices summarize categories of new revenue available to a local agency under current law. The ITF received information about each of these funding sources, the potential revenue they could generate, pros and cons and how readily the new revenue could be implemented.

Table 2 provides a list of potential revenue sources that require a ballot measure or election and would be successful with a simple majority approval. **Table 3** provides a list of potential revenue sources that require a ballot measure or election and would be successful with 2/3 majority approval. **Table 4** provides a list of potential revenue sources that require engineering studies to determine fees. New Development Impact Fees can be assessed after a public hearing and City Council adoption. Transportation Utility Fees require a ballot measure and 2/3 majority approval. **Table 5** provides a list of potential revenue sources that require special conditions or agreements to determine fees.

Table 2: Possible Funding/Financing Options Requiring 50% Voter Approval

	Assessment District (AD)	General Sales Tax Increase	Transient Occupancy Tax (TOT) Increase
Description	Benefit assessment to fund certain public improvements and services	General Local Sales Tax (percentage increase range 0.125%-2%)	TOTs are imposed on rooms or living spaces at hotels, inns, rental houses, homes, motels, or campsites
Authority	Improvement Act of 1911 Municipal Improvement Act of 1913	Laws passed by the State Legislature	Revenue & Taxation Code Sec. 7280
Eligible for Funding	Public services and capital projects	General Services (goes to General Fund)	General Services (goes to General Fund)
Rate and Methodology	Mathematical formula based on how much each property will benefit, if a property benefits it must be assessed	Additional Sales Tax revenue generated by a local increase to the sales tax rate.	In CA, the TOT rate varies by locality, typical ranges from 8% to 15.5% of the room rate
Assessment	Fixed percentage of total district debt assigned to each parcel, requires annual public hearing process	Fixed rate increase on sales of goods and services	The TOT is collected by the lodging establishment, then remitted to the agency
Concerns	Cannot assess for general benefit (defined as benefit to the public at large or benefits that are not property related, for example, through traffic on arterial roadway, traffic signals, protection of life). 5-year limitation on funding capital improvements for streets, roads or highways. Unless narrowly crafted, unable to fund 100% of a program due to general benefits.	Requires ballot measure, costly to campaign for, requires 1/2 registered voter approval	Requires ballot measure, requires 1/2 registered voter approval
Why use this approach?	Can be used in undeveloped areas and/or established areas to fund public infrastructure and services	Can be used for specific or particular purpose, not subject to Prop 13 limitations	Does not typically produce financial hardship on residents. No cap.
Primary steps to complete	1. Public outreach 2. Resolution of Intention 3. Prop 218 ballots mailed to each property owner in the district 4. Public Hearing 5. Adoption of Resolution of Formation 6. Protest Hearing (majority protest, weighted, of ballots returned)	1. Public outreach 2. Proposal filed with Attorney General for ballot title 3. Signature gathering 4. Legislative hearings on proposal 5. Submission of signatures 6. Ballot Measure (1/2 majority vote for approval)	1. Public Outreach 2. Proposal filed with Attorney General for ballot title 3. Signature gathering 4. Legislative hearings on proposal 5. Submission of signatures 6. Ballot Measure (1/2 majority vote for approval)
Timeframe	Estimate 6 to 12 months	Estimate 18 to 24 months	Estimate 6-12 months
Potential Funding	Requires additional information to determine	Current Sales Tax = 7.75% 0.5% increase = ~\$7.6 Million 1.0% increase = ~\$15.2 Million (Data from ITF Q&A Matrix)	Current TOT = 10% 1% increase = ~\$440,000 annually 2% increase = ~\$880,000 annually (Data from ITF Q&A Matrix)

Source: Harris & Associates, 2023

Table 3: Possible Funding/Financing Options Requiring 2/3 Voter Approval

	Special District	Community Facilities District (CFD)	Public Bond Measure Financing
Description	Parcel tax for a specific purpose	Special tax district to fund public improvements and services	Long-term borrowing that governments frequently use to raise money
Authority	Laws passed by the State Legislature, Principal Acts	Mello-Roos Community Facilities Act of 1982 (Government Code Section 53311 et. seq.)	Laws passed by the State Legislature
Eligible for Funding	Specific or particular purpose only	Public services and capital projects, including maintenance	Primarily used for long-lived infrastructure assets, Bond will identify eligible projects
Rate and Methodology	Apportioned out to each parcel within the special district	Not subject to strict principles of benefit assessment, tax formula must be reasonable, allows for defined tax exemptions	Bond amount is set - duration of loan established (~ 30 years) and repaid by taxable property within the jurisdiction over length of the bond
Assessment	Fixed rate per property parcel based on either square footage or flat charge for a specified length of time	Maximum Annual Special Tax Rate, may run in perpetuity	Payback of loan is dispersed through collection of taxes
Concerns	Requires ballot measure, costly, requires 2/3 registered voter approval	Higher taxes. Can be complex to administer when funding public improvements through bonding, requires 2/3 registered voter approval If less than 12 registered voters, may be a landowner vote, requires 2/3 of all acreage within district boundary in favor for approval	Requires ballot measure, costly, requires 2/3 registered voter approval
Why use this approach?	Can be used for specific or particular purpose, not subject to Prop 13 limitations	Broadest range of eligible funding, may fund 100% of costs, allows for expedited future annexations – best used in developing areas	Can be used for specific or particular purpose, not subject to Prop 13 limitations
Primary steps to complete	<ol style="list-style-type: none"> 1. Public outreach 2. Proposal filed with Attorney General for ballot title 3. Signature gathering 4. Legislative hearings on proposal 5. Submission of signatures 6. Ballot Measure (2/3 supermajority vote for approval) 	<ol style="list-style-type: none"> 1. Public outreach 2. Initiation of CFD 3. Adoption of Local Goals and Policies, Proposal of Resolution of Intention 4. Public Hearing, Adoption of Resolution of Formation 5. Election (2/3 supermajority vote when >12 voters) 	<ol style="list-style-type: none"> 1. Public outreach 2. Proposal filed with Attorney General for ballot title 3. Signature gathering 4. Legislative hearings on proposal 5. Submission of signatures 6. Ballot Measure (2/3 supermajority vote for approval)
Timeframe	Estimate 12 to 24 months	Estimate 9 to 12 months	Estimate 18 to 24 months
Potential Funding	Requires additional information to determine Sample Range: \$9/parcel to \$1500/parcel County Public Road District (PRD)	Requires additional information to determine Sample Range: Encinitas Ranch = \$541/parcel to \$2,770/parcel	Varies – No limit Currently maxed out on bond capacity until 2031/32

Source: Harris & Associates, 2023

Table 4: Possible Funding/Financing Options Requiring Studies and Fee Calculations

	Development Impact Fee Update / Additional DIFs	Transportation Utility Fee
Description	One-time charges applied to new developments for facilities	Fee to fund transportation services.
Authority	Assembly Bill 1600 (Mitigation Fee Act)	Laws passed by the State Legislature
Eligible for Funding	Capital Costs for new improvements only	In CA, TUFs can only be levied as a fee for a service—i.e., to fund transit service. It cannot be linked to larger health and safety purposes
Rate & Methodology	Fair share based on a rational nexus test	Typically assess the fee using a per trip methodology
Assessment	One-time fee on new development to mitigate impacts	TUF is usually paid monthly as part of the utility bill or along with the property tax payments
Concerns	Cannot fund existing deficiencies, ongoing maintenance, or salaries	CA cities have not implemented TUFs yet – may have liability issues or face extreme backlash
Why use this?	Tried and true method of funding new development’s share of capital facility costs. Does not impact property taxes	Jurisdictions have typically tried to levy TUF as a fee rather than as a tax to avoid voting
Primary Steps to Complete	<ol style="list-style-type: none"> 1. Public outreach 2. Public Hearing 3. Adoption of ordinance & resolution 	<ol style="list-style-type: none"> 1. Identify Fee Type (Fee, Special Fee, Assessment, general tax, or special tax) 2. TUF as a special tax is likely the most defensible option legally. 3. (See Special District Parcel Tax)
Timeframe	Estimate 4 to 5 months	Estimate 18 to 24 months
Potential Funding	Varies – depends on new development and fee update FY 22/23 Traffic Fees were \$276K 20% Traffic Fee increase = +\$56K FY 22/23 Flood Control was \$81K 20% Flood Control Fee increase = +\$16K	Varies

Source: Harris & Associates, 2023

Table 5: Possible Funding/Financing Options Requiring Special Conditions/Agreements

	Enhanced Infrastructure Financing District (EIFDs)	Private Loans/Borrowing	Public Private Partnerships	Grants
Description	Special financing district to earmark existing revenue to finance projects within the EIFD	Private loans (private placements) /borrowing from accredited banking institutions	Collaboration between a government agency and a private-sector company that can be used to finance, build, and operate projects	Funding awarded by an entity for a particular purpose
Authority	Laws passed by the State Legislature	General Police Power (California Constitution Article XI, Section 7)	City and Private Entity	Grantee organization
Eligible for Funding	Public infrastructure projects, infrastructure maintenance, affordable housing development, economic development, etc.	Generally, anything the entity would like to spend funds on, as long as they can pay back the loan to bank	Depends on partnership agreement terms, common projects: public transportation networks, parks, and convention centers	Depends on grant terms
Rate and Methodology	Increment increase in property tax is diverted into a separate pool of money, which can be used to pay for improvements or pay back bonds	Lump Sum	Could be lump sum, earmarked for specific use, matching funds, reimbursement	Could be lump sum, earmarked for specific use, matching funds, reimbursement
Assessment	Tax increment over the base amount; uses the growth from existing tax revenues	Likely general fund will pay back loan	Varies	Grantee may require phased delivery of funds
Concerns	Cumbersome administrative process and increase public engagement requirements; need to form Public Financing Authority for oversight	Financial Risk – Poor terms (higher interest rates), potential for accelerated/immediate repayments	Atypical funding mechanism for municipalities of this size.	Unpredictable, Competitive pool of applicants, many grants are for lower income communities
Why use this approach?	No voter requirement for formation or bond issuance (Assembly Bill 116 - 2019)	Lower issuance costs, fewer disclosure requirements	Often times free money	Often times free money
Primary steps to complete	<ol style="list-style-type: none"> 1. Form team 2. Evaluate EIFD feasibility 3. Conduct outreach 4. Initiate formal process 5. Prepare Infrastructure Financing Plan 6. Pre-adoption / Public Hearings 7. Approval and Formation 	<ol style="list-style-type: none"> 1. Request private placement terms from multiple accredited banking institutions 2. Identify which has best terms for City’s interest 3. Execute agreement between bank and City 	<ol style="list-style-type: none"> 1. Coordinate with Economic Development Team 2. Identify viable private partnership opportunities 3. Secure agreement 	<ol style="list-style-type: none"> 1. Identify grant opportunities 2. Submit grant application (typically involves heavy staff involvement)
Timeframe	Estimate 12-18 months	Estimate 3-6 months	Varies	Varies
Potential Funding	Dependent upon tax revenue growth	Varies. City is currently maxed out on loan capacity until 2031/32	Varies	Varies

Source: Harris & Associates, 2023

5. ITF Recommendations

Funding/Financing Recommendations

The City does not generate enough revenue to fund its backlog of deferred maintenance projects and implement important future needs projects. Additional revenue is needed to ensure the City's infrastructure is in a state of good repair and improvements that are important to the community can be funded timely.

This section explains the ITF's recommendations for potential new sources of funding and financing that could be implemented individually or collectively to fund infrastructure projects. Although the scope of this task force was limited to finding new revenue sources, the ITF also recommends that the City perform a review of annual expenditures, evaluate possible shared services with other agencies to reduce costs, and assess whether identifying efficiencies in the existing General Fund could increase funding available to the CIP.

The ITF reviewed the City's bond/loan capacity, amount of potential revenue generated and likelihood of successful implementation of new funding to evaluate the twelve funding/financing mechanisms presented. The following recommendations are based on ITF deliberations made after data presented by Harris & Associates, True North Research, and TeamCivX.

One-Cent General Sales Tax Increase

The most significant and achievable option available to the City to generate new revenue is implementation of a one-cent sales tax increase. Nine other cities in San Diego County have previously approved a local sales tax increase. The City of Encinitas has not. A one-cent sales tax increase would bring the City's existing 7.75% sales tax to 8.75%, equal to the sales tax rate of nearby communities like Del Mar, Solana Beach, Chula Vista, Imperial Beach, and National City.

A sales tax increase requires a majority approval of registered voters on a general ballot measure. If approved by voters, a one-cent sales tax increase would generate \$15.36 million in new annual revenue, and \$153.6 million over the 10-year CIP cycle. Putting forward a ballot measure gives residents the choice to vote for or against new funding that could be used to fund infrastructure improvements.

In November 2023, the City contracted with True North Research and TeamCivX to conduct a citywide survey of residents to gauge public support for a potential 10-year, one-cent general sales tax increase for infrastructure improvements. Survey results were presented to the ITF on January 22, 2024, and indicated that local voters who are likely to participate in the upcoming November 2024 election cycle would support funding the City's infrastructure needs with a one-cent general sales tax increase. See **Appendix E** for the full voter survey results.

The survey results were well above the simple majority required for passage of the general tax, even after the respondents were presented with potential opposition arguments, with 58% of respondents indicating they would probably or definitely vote yes on the one-cent sales tax increase. These findings indicate that voter approval of the sales tax increase appears feasible if put forth on the November 2024 ballot. Therefore, the ITF recommends that City Council consider presenting residents with the choice in the upcoming election cycle to vote for or against a 10-year, one-cent sales tax increase.

Two-Percent TOT Increase

An additional mechanism to generate new revenue would be to increase the Transient Occupancy Tax (TOT). The City has not increased its TOT since 1998, over 25 years ago. The City's existing 10-percent TOT is two-percent lower than the neighboring cities of Del Mar and San Diego, and four-percent lower than Imperial Beach and National City. A two-percent TOT increase would generate an additional \$880,000 in revenue per year. The TOT increase could be two-percent for all impacted facilities, or the City could explore using different TOT rates for hotels versus short-term rentals.

To reduce voter confusion, it was recommended to put forth only one tax initiative per election. Due to the smaller increase in yearly funding the TOT increase would yield compared to the sales tax increase, the ITF recommends that the Council consider putting forth the sales tax measure first and that the City conduct a polling survey to gauge public support for a potential future TOT increase, possibly in the 2026 election cycle. The two-percent TOT increase could generate \$7.04 million in new revenue between 2026 and 2034.

The ITF recommends that City Council consider a future action to present residents with the choice to vote for or against a two-percent TOT increase.

Grants

The ITF recommends increasing efforts to investigate opportunities for state and federal grants for eligible projects. A project's competitiveness, rank on the project list, required match funding, and staffing capacity should be considered when deciding to pursue grant funding.

Due to the City's demographic composition and absence of census tracts that meet state and federal metrics for disadvantaged and low-income communities, the ITF recommends prioritizing grant applications for existing programs like the Highway Safety Improvement Program (HSIP), the Active Transportation Program (ATP), and the Bridge Investment Program (BIP), where Encinitas may see a greater chance of success.

To improve the chances that grant applications are successful, the City could set aside a higher-than-minimum grant match for the project, or could hire expert grant writers or consultant support to assess grant opportunities and assemble competitive applications. By strengthening the grant applications and maximizing the chances of success, taxpayer dollars can go even further.

Public-Private Partnership Financing

Public Private Partnerships (P3) are increasingly popular as an alternative means to finance municipal infrastructure. A successfully structured P3 could help the City leverage and maximize new sources of revenue for larger capital projects like a new civic center or public safety facilities.

The ITF recommends the City Council procure P3 consulting services to determine which, if any, city infrastructure projects would be attractive to the P3 marketplace, including but not limited to:

- Private building development on leased public property with leaseback options to City for all or a portion of the developed facility (such as City Hall). Agreements could require that all maintenance be performed by the private development entity.
- Private facilities on public lands.
- Public use of EV charging stations on city-owned lots.
- Communications fiber in unused or underutilized City conduits.

- Private capital construction of solar photovoltaics on City property. Note, this may be less attractive with new public utility commission rules implemented in April 2023.
- Microtransit, such as neighborhood electric vehicles.
- Rail crossing safety partnerships with NCTD or SANDAG for pedestrians and bicycles

New Revenue

The ITF recommends all new revenue should be allocated to infrastructure and/or supporting costs including staff, as needed.

Citizens Oversight Committee

The ITF recommends that City Council establish a citizens' oversight committee to review tax increase expenditures and ensure they are spent in accordance with the intended usage.

10-Year CIP Funding Plan Options

Unescalated Future CIP Revenue

Without any new revenue, a 10-year CIP budget would include approximately \$40 million for annual paving and \$39 million in unrestricted funding. If voters approve a one-cent sales tax increase in November 2024 and a two-percent TOT increase in 2026, the unrestricted 10-year CIP budget would increase by \$160.6 million for a 10-year unrestricted total of \$199.6 million. This unrestricted CIP budget is in addition to the 10-year \$40.0 million of HUTA/SB1/TransNet funds set aside for paving.

Escalated Future CIP Budget Projection

A 3% increase in revenue was assumed per year over the next 10 years based on the last 10 years of Consumer Price Index data from the Bureau of Labor Statistics.

Project Implementation Recommendation

Project costs were escalated 6% per year based on the last 10 years of DGS California Construction Cost Index data. The escalation rate was applied based on the year each project was anticipated to be implemented. For annual backlog projects, the annual cost was also increased 6% per year over the 10 years.

The ITF recommends that Council allocate the majority of the new revenue to address backlog projects to keep the existing infrastructure in good repair, while also implementing some of the high priority future need projects.

Appendix F contains three possible approaches to the 10-year CIP funding plan. These include:

- **Annual Backlog Option:** Funding all annual backlog projects, the top 3 future need projects, and devoting the remaining budget to backlog projects, in order of rank.
- **80/20 Option:** Dedicating 80% of the CIP budget to backlog projects and 20% to future need projects, in order of rank.
- **Backlog Option:** Funding backlog projects in order of rank, before funding any future need projects.

The ITF applied the rubric directly without subjectivity upon viewing the results, with the understanding that City Council could choose a different approach. This could mean expediting

emergent issues that arise within the community or distributing funding more evenly to the various departments, neighborhoods, and infrastructure needs.

Staffing Recommendations

Assuming the sales tax increase is approved by voters, the City could have almost triple the current funding for capital improvements to execute over the next 10 years. The ITF recommends that the City develop a staffing plan to execute the new capital projects in a timely manner. The staffing plan should consider all phases of the project, from planning, design, permitting, construction, operations, and maintenance.

The staffing plan would depend on the types of projects that are funded and the associated resources they require. For example, the plan could include hiring expert grant writing staff or consultant support to increase the success rate. If a new fire station is constructed, new fire personnel will be needed to staff the facility. If the size of the CIP budget is doubled, new engineers and support staff will be needed to execute capital projects in a timely manner. If new assets are built, additional maintenance staff may be needed once the assets are operational.

Infrastructure Rubric Usage and Future Recommendations

The ITF recommends City Council consider the project rubric score as part of their analysis when evaluating projects for funding during each budget cycle.

During the process of developing the rubric and considering aspects of each project, the ITF noted some opportunities to support on-going use of the rubric as a fair, objective, data-driven comparison of projects.

- Periodically perform the project ranking exercise and revise the scoring rubric.
 - The ITF recommends that City staff rank all projects on a yearly basis to ensure that project rankings are consistent with current City priorities.
 - Revise the scoring rubric and guidelines at least every five years, or if there are significant changes to City priorities stated in the Strategic Plan.
- City departments to develop guidelines to identify priority projects.
 - Provide a maximum number of projects or a percentage of the total number of projects each department is allowed to identify as a Department priority.
- Include quantitative data about each project in the matrix, such as:
 - Asset management program output;
 - Polling data on which types of projects have the most public support;
 - Geographic Information Systems (GIS) demographics information (such as housing density, income, seniors, schools);
 - GIS information to quantify the distribution of infrastructure funding throughout the City districts; and
 - Safety data.
- Add more qualitative information to the project matrix, such as:
 - More complete project descriptions, such as:
 - Detail on project scope, project limits, why the project is needed, what issues the project will address, what risks the project may mitigate, possible consequences of project deferral;
 - Context for risk to public health and safety on all project types, not just mobility projects.

- Context for how projects are tied to compliance with legal requirements.
 - Public support data, provided by a polling specialist.
- Add links to recommended reference documents to use during the ranking process.
 - Documents could include the Strategic Plan, ATP, MAP, CAP, Cross Connect, LRSP, and City department presentations.
- Define “underserved communities,” as there were no census tracts classified as Low Income Communities or Disadvantaged Communities within the City of Encinitas in the 2020 census. For example, an income threshold, demographic characteristics, or infrastructure gap analysis.

6. Glossary

Annual Backlog: Annual backlog projects meet the definition of backlog and have an annual funding component, or set aside funds for a general project category.

Asset Longevity: How long an asset can reasonably be expected to be used for the benefit of the City. Projects that extend asset longevity include repairs and preventative maintenance, such as resurfacing roadways or fixing a leaky roof.

Backlog: Backlog projects are associated with existing assets or commitments. Projects that maintain, repair and rehabilitate, or modernize existing assets to conform with an accepted industry standard or state of good repair. Projects that would help the City meet existing local, regional, or state performance targets or mandates.

City Department Priority: Project was identified as a priority by a City department based on their subject matter expertise, local knowledge, and good faith judgment to identify priority projects.

Critical Function: A function that is necessary to effectively utilize an infrastructure asset. Failure to maintain critical function would prevent the asset from being effectively utilized.

Future Need: Projects that would provide community betterments through new infrastructure.

Identified Infrastructure Need: Project was identified in a City planning document or City budget.

Infrastructure: Physical improvements, assets, and facilities under the jurisdiction of the City of Encinitas over \$100,000 and a useful life over 5 years. Projects that are funded purely by user fees/enterprise funds (all utility projects) are not included.