September 2, 2021
TAC Agenda Item 8.2
Continued From: New
Action Requested: INFORMATION

NAPA VALLEY TRANSPORTATION AUTHORITY
TAC Agenda Letter

TO: Technical Advisory Committee

FROM: Kate Miller, Executive Director

REPORT BY: Kate Miller, Executive Director
(707) 259-8634 / Email: kmiller@nvta.ca.gov

SUBJECT: September NVTA-TA Board Retreat/Measure *X*

RECOMMENDATION

Information only

EXECUTIVE SUMMARY

A NVTA-Tax Agency Board Retreat will be held on September 13 from 10 AM to 2 PM to discuss pursuing changes to the existing ½ cent Measure T sales tax. The Retreat will be held at the Westin Verasa, Napa.

FISCAL IMPACT

None

BACKGROUND AND DISCUSSION

Measure T was approved by the voters in 2012 and became operative in 2018. It provides roughly $20 million per year for local streets and road rehabilitation. The funds are distributed on a fixed percentage to the six jurisdictions, 1% to NVTA for administration, and $70,000 a year, adjusted for inflation, to the Independent Taxpayer Oversight Committee (ITOC), for audits and other costs associated with the work performed. The measure also includes a Maintenance of Effort (MOE) requirement and a provision where the city/county jurisdictions and NVTA collectively commit to expend 6.67% of the value of Measure T revenue generations in other qualified funding on Class 1 separated pedestrian/bicycle facilities.

Staff was prompted to consider changes to the measure for several reasons. The primary reason is that the existing Measure does not allow for bonding, and consequently, the jurisdictions are not making the necessary progress on local street and road deferred maintenance. Staff has dubbed this effort "Measure X". The Board Retreat is titled "Solving For X".

Staff convened a small working group comprised of the public works directors for each jurisdiction, the executive director of the bicycle coalition, and the chair of the ITOC to review potential changes to the ½ sales tax measure. The group has reviewed a plethora of financial analyses showing revenue generations under various scenarios, including bonding, extending, and increasing the measure. The group also discussed potential highway, transit, and bicycle/pedestrian projects – in addition to the current local street and road eligibility and formula. This information was used to create a voter poll, and working with a consultant team, a poll was disseminated to Napa County voters in May 2021. The polling data will be presented at the Board Retreat by the consultant team.

What follows is a summary of NVTA staff's analysis and considerations that will be made to the NVTA-TA Board at the September 13th Retreat.

1. Bonding

   Governments bond against future revenue to finance and reduce the cost of large capital projects to address accelerating construction escalation costs and inflation. The cumulative road rehabilitation and maintenance need over the next 30 years for all Napa County jurisdictions is roughly $1.5 billion. The current Measure revenues are paid to the jurisdictions on a quarterly basis. The revenues that are currently generated is insufficient to meet rehabilitation needs. Consequently, funds are banked until revenues are sufficient to meet project costs. While the revenues are deposited in very secure interest bearing accounts, the amount of interest does not compensate for inflation and construction escalation rates – the former currently in excess of 6% and the latter 4-8% annually. The value of revenues will decline significantly over the 25-year life of the measure. Simply stated, the current purchasing power of the dollar in 2021 will buy significantly more road maintenance than the dollar in 2043 – at the end of the Measure T program.

   Bonding against future Measure T revenue will bring the funds forward when they are needed which will reduce the long term costs of rehabilitation and increase all jurisdictions' pavement management scores. It will also aid jurisdictions to address big paving projects, facilitate improved coordination between jurisdictions on shared roadways and increase the potential for joint contracting resulting in additional savings.

2. Extending

   Measure T became operative in 2018 and will sunset in 2043. If there is an interest by the NVTA-TA Board to make other changes to the Local Streets and Road sales tax measure, staff recommends replacing Measure T with a 30-year measure, beginning in FY 2026.

3. Project Diversity

There is significant need to fund capital projects in Napa Valley. Local sales tax is frequently used in other counties to match state and federal funding programs on large capital projects.

Highway funding comes into the county in several ways: formula programs, state competitive programs, federal competitive programs, and regional competitive programs. NVTA receives revenues from three formula programs – the Regional Transportation Improvement Program (RTIP), One Bay Area Grant Program (OBAG), and the Local Partnership Program (LPP). The first two programs are administered by the Metropolitan Transportation Commission (MTC) and combined are roughly $3-6 million annually, the third program, administered the California Transportation Commission, generates roughly $400,000 annually and is based on the amount of local sales tax generated in relationship to the eligible sales tax generations for county and regional transportation agencies state-wide.

The most significant awards are federal and state competitive grant funds. As the smallest county in the San Francisco Bay Area, and one of the smallest counties in the state, competing for funding with larger counties is challenging for the primary reason that scoring is frequently based on the level of improvements measured by congestion relief and safety – a central city freeway, therefore, would generally compete much better than a rural highway on net traffic counts alone. Another grant criterion is the percentage of the project funded by non-federal and non-state matching funds. Having another source of matching funds would provide an additional edge when competing for grant funds.

By allocating some sales tax measure revenues directly towards capital projects, staff may leverage these competitive state and federal grant funding opportunities. The existing funding that NVTA receives is frequently not sufficient to match federal/state grant opportunities. The Soscol Junction project required that NVTA advance four cycles of RTIP funds which was instrumental in securing the $25 million Solutions for Congested Corridor award. And while this is an effective approach to project delivery, advancing funds has opportunity costs in that there is no funding for other capital project needs for four cycles. Having a local source for capital projects will provide alternative resources for project development. Planning, environment studies and design phases can cost as much as 20% of the project, and there are very few competitive programs that fund these phases. Getting projects “shelf-ready” would render projects more competitive in the state and federal funding spheres. Finally, if even $1 of sales tax is committed to a capital project, Caltrans must limit its hourly costs to 10% of indirect costs. Caltrans plays a significant role in approving and overseeing capital projects in state right-of-way. Even if the project is administered by NVTA, Caltrans’ staff review documents and administer certain project elements which can cost over 2% of the project.

Projects and programs that NVTA polled voters about include:

- SR 29/Airport-Jameson – would include improvements at Airport Devlin and Jameson/Kelly
- SR 29 American Canyon Improvements
- SR 29/Carneros Highway
- Napa Valley Vine Trail/Bicycle and Pedestrian Facilities
- Highway and Emergency Operations Center
- Veterans and Low Income Transit Fare Subsidies
- Vine Express Bus Expansion

4. Simplify and Improve

There are a number of elements in the Measure such as legacy agreements that are permanently embedded in the ordinance. Some elements are hard to administer, some of the language is arcane and difficult to decipher, and the ordinance is absent of options that would aid project delivery in the county. They include:

- 6.67% Measure T Equivalent – as previously mentioned, this element requires NVTA and the jurisdictions to collectively identify the equivalent of 6.67% of the annual Measure T generations in other eligible funding to be committed to Class 1 facilities. Eligible funding includes general funds and other funding not specifically committed to Class 1 facilities. As an example, NVTA could use highway and transit funds that would *normally* be used for other purposes to meet the requirement. At the time that this requirement was agreed to, counties received additional formula funding that would have been eligible to meet the 6.67% Measure T Equivalent requirement. Shortly after Measure T passed, these funds were redirected to the State's Active Transportation Program, which is a competitive grant program and no longer meets the 6.67% Measure T Equivalent requirement. NVTA has responded to this requirement by manually tracking the funding that meets the requirement, which generally includes funding to address shortfalls on projects, primarily the Napa Valley Vine Trail. Such funding for this project would have had to been committed, whether the requirement was in place or not. In short, we are not making the intended headway on expanding Class 1 facilities just because this requirement is in place. The 6.67% requirement Measure T revenues, which is equivalent to roughly $1.3 million annually, would only fund a mile or less of a Class 1 facility. Consequently, the effect of the requirement contradicts its intention. The requirement is more likely suppressing the investments that the jurisdictions would otherwise make rather than expanding these types of facilities. Staff is recommending prioritizing the completion of the Napa Valley Vine Trail in tandem with other contributions from the Measure capital program.

- Fixed percent distribution over the Measure Time Horizon – Table 1 below shows the distribution of revenues by jurisdiction which is fixed for the 25-year Measure.

Table 1: Measure T Distribution

Jurisdiction	**Percentage Distribution**
American Canyon	7.70%
Calistoga	2.70%
City of Napa	40.35%
Napa County	39.65%
St. Helena	5.90%
Yountville	2.70%

Much discussion has occurred between NVTA staff and jurisdictions about the formula source(s). Initially, NVTA staff were told that the formula was based on a hybrid of population and lane miles, and more recently the discussion has revolved around return to source (sales tax generations). NVTA staff was unable to replicate the current Measure T formula, and discussions about what it should be based on are ongoing. What has been agreed to by participants of the Measure X Working Group is that the distribution should updated every five years to recognize changes in development that could influence vehicle miles traveled, lane miles and sales tax generations, and that some proxy for distributing the funds should be agreed upon prior to going to the voters.

NVTA has run various analyses on factors that could serve as a proxy for to update the Measure T formula in a future sales tax measure. These include population, vehicle miles traveled, lane miles, return to source (sale tax generations), and need (based on lane miles, type of lane miles, condition of pavement, total of all revenues for maintenance and rehabilitation). NVTA staff also ran a number of hybrid analyses of these factors to understand which formula optimizes individual and collective pavement management scores. The analyses take under consideration a subset of the estimated revenues for rehabilitation purposes (acknowledging that some funds should be used for transportation capital projects), as well as costs for administration and bonding. It should also be acknowledged that each jurisdiction differs significantly and that the proxies - other than lane miles and vehicle miles traveled – favor the city/town jurisdictions over the County. Staff fully recognizes the challenges of reconciling these differences but would underscore that county roads are used by all jurisdictions, their visitors, and commercial traffic, and therefore there must be a reconciliatory factor that balances the interest of the cities/town with the County's. Based on feedback from the Measure X Working Group, one possibility is using a return to source formula for the city/town jurisdictions and a hybrid of return to source/lane miles for the County. This formula makes minor adjustments to the County and City formulas – slightly reducing the former and increasing the latter.

A comparison between the current Measure T, Measure T formula with bonding, and the proposal to use return to source for city/town jurisdictions and return to source/lane miles for the County is listed below in Table 2.

Table 2. Comparison of Measure T and X selected scenarios, in millions ($).

Jurisdiction	**Current Measure T (Future Value/No Bonding)**		**Measure X Distributed Using Existing Measure T Formulas (Present Day Value/Bonding)**		**Measure X Distributed Using Return to Source/County 50% RTS 50% Lane Miles (Present Day Value/Bonding)**	
American Canyon	7.70%	$21.8	7.70%	$38.5	7%	$35.0
Calistoga	2.70%	$7.6	2.70%	$13.5	3%	$15.0
Napa	40.35%	$114.1	40.35%	$201.8	41%	$205.0
Napa County	39.65%	$112.1	39.65%	$198.3	39%	$195.0
St. Helena	5.90%	$16.7	5.90%	$29.5	7%	$35.0
Yountville	2.70%	$7.6	2.70%	$13.5	3%	$15.0
NVTA	1.00%	$4.4	1.00%	$5.0		
Total	**100.00%**	**$284.4**	**100.00%**	**$500.1**	**100%**	**$500.1**

Staff has analyzed the impact on PCI scores if Measure T is not altered, shown in Figure 1. A PCI of 80 is considered a state of good repair.

Figure 2 shows PCI scores based on Measure X Distributed Using Existing Measure T Formulas. Figure 3 shows Measure X Distributed Using Return to Source/County 50% Return to Source 50% Lane Miles. Figures 2 and 3 show how PCI scores are much higher under the proposed bonding scenarios as compared to the status quo.

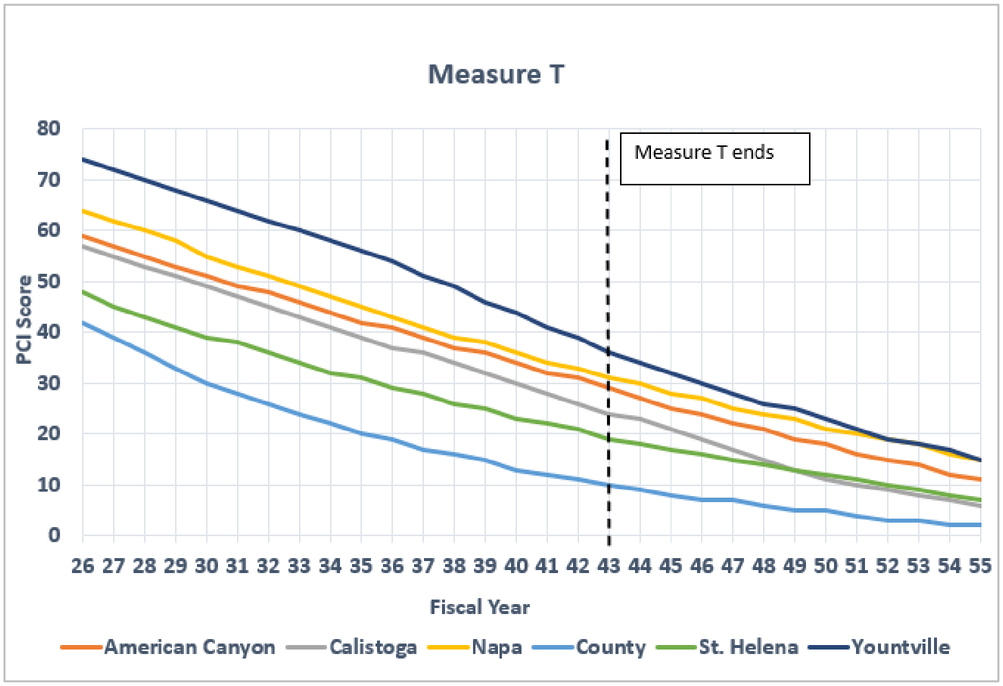

Figure 1. Future PCI scores across Napa County jurisdictions with current Measure T structure and revenue, assuming no changes to the measure.

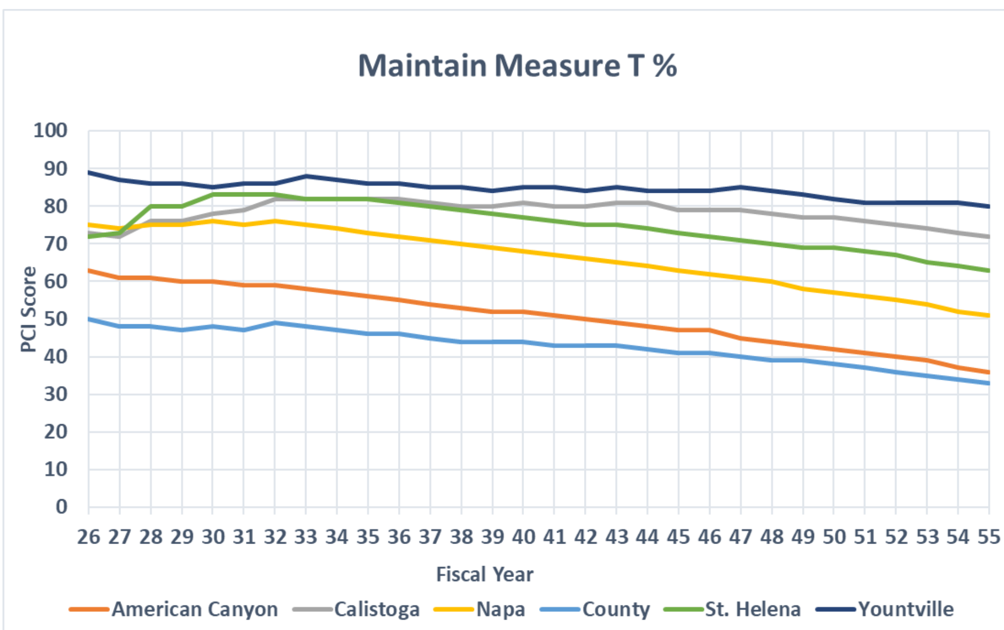

Figure 2. PCI scores across Napa County jurisdictions during the term of Measure X, with Measure X distribution according to the Measure T allocations.

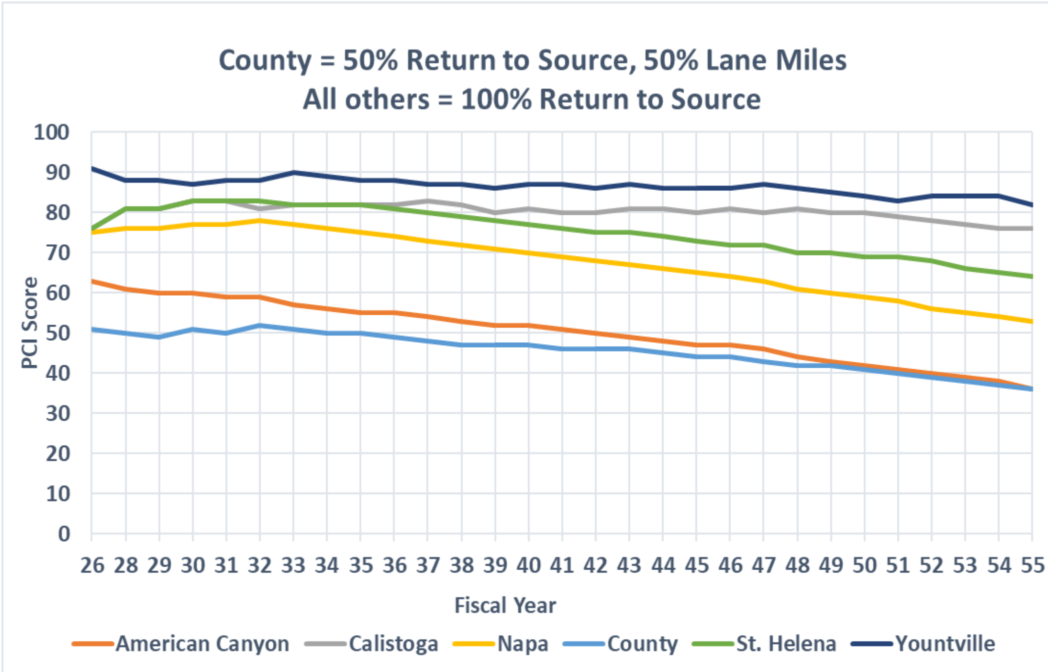

Figure 3. PCI scores across Napa County jurisdictions during the term of Measure X, with Measure X distribution according to return to source for all jurisdictions except the county, which is distributed based on 50% Return to Source and 50% Lane miles.

- No existing opportunity to use revenues to advance "Non-Measure T" projects

Many local sales tax measures for transportation around the state include provisions that would allow a jurisdiction to advance projects that are included in the measure and have committed funding elsewhere that will be available at a future date. This mechanism is often referred to as a *funding exchange*. Eligible projects have committed funding in an established formula program, such as the RTIP, and are ready to commence construction but must wait for the funding to be available – which could be years in the future. Using local funding to advance such a project could reduce the capital cost of that project because it's being delivered sooner. Another eligible Measure project would then be replaced in the established funding program. The provision would need to factor in inflationary and investment opportunity costs and timing considered to ensure revenue factors are being optimized.

- Increase administration oversight from 1% to 2%

Administration oversight around the state for similar measures range between 2% to 5%. NVTA staff has been able to manage the oversight expenses because the current measure is based on a formula. If the NVTA-TA Board is interested in pursuing changes, such as bonding and including capital projects, then additional revenues will be needed to oversee Measure X complexities.

5. Increase

Sales tax measures around the state range between ½% to 2%. NVTA staff acknowledges that increasing taxes in Napa County is difficult, and that Measure T's success was somewhat based on appending it onto the back end of Measure A, the Flood program, when it expired in 2018. Coupled with the timing of when the poll was completed (May 2021), staff decided to delay questions related to an increase and instead focused on other elements to understand what might be accomplished without additional taxation. That said, staff will elicit the NVTA-TA Board's input on a ¼% to ½% increase at the retreat.

Next Steps

NVTA will ask the NVTA-TA board for direction at its September 13 meeting on:

- Their interest to change Measure T; and if supportive, a targeted election date
- Their interest on what to change based on the above discussion
- Seek input on the local streets and road formula
- Seek further direction on additional polling and organizing

<u>SUPPORTING DOCUMENTS</u>

Attachments: None