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FUNDING FOR COUNTY ROADS

SUMMARY

The poor and deteriorating condition of local roads affects all residents of Sonoma County. The depth of concern among residents is perhaps best reflected by the fact that, over the course of 2015, more letters to the editor of the Press Democrat concerned road conditions than any other subject.

County residents were given an opportunity last June to vote on a general sales tax measure that would have generated significant revenue, which the Board of Supervisors (BOS) asserted would be spent primarily on road maintenance and paving. The fact that this measure was soundly defeated at the polls reflects voter skepticism that local government can be trusted on funding priorities.

Because maintenance and paving of our roads was given low priority for the prior several decades, the cost to catch up has been escalating sharply each year. Recognizing this problem, the current BOS doubled General Fund contributions for paving for the past three years. Even this additional funding, however, falls short of the minimum \$20 million per year needed to stabilize pavement conditions in the County.

Either budget priorities need to be changed or additional sources of revenue need to be found in order to achieve annual road spending levels that will improve the condition of the County road network over time. After numerous interviews with County staff, however, the Grand Jury is unable to determine what discretionary monies, if any, are available in the County budget.

BACKGROUND

The Grand Jury initiated this investigation in an effort to determine what additional monies from the General Fund and other revenue sources could be allocated to road maintenance and paving, and what funding would be sufficient over time to bring local road conditions to an acceptable level.

METHODOLOGY

During the course of its investigation, the Grand Jury conducted interviews with representatives of the following agencies: Transportation and Public Works (including the Roads Division), the Sonoma County Transportation Authority, the County Board of Supervisors, the County Administrator's Office, and the Risk Management Division of Human Services. Interviews were also conducted with representatives of Save Our Sonoma Roads, an independent advocacy group founded in 2011.

Primary sources consulted by the Grand Jury are listed in the Bibliography below.

DISCUSSION

Current State of the County Road Network

The current state of the County's roads network has developed over several decades and has become one of the County's most challenging legacy problems. In California the distribution of excise taxes on fuels favors population and registered vehicles over road miles. With a 1,370-mile road system and a total of approximately 490,000 registered vehicles, Sonoma County is distinctly disadvantaged under the current tax allocation system.

According to the 2014 Sonoma County Long-Term Road Plan prepared by the County Department of Transportation and Public Works, the eight most populous counties in the State receive approximately 47 percent of fuel excise tax funds. Orange County, for example, receives \$45 million annually, but has only 309 miles of county-maintained roads in comparison to Sonoma County, which receives \$12 million annually for its roadways. This equates to \$145,631 per mile for Orange County roads compared with only \$8,759 per mile for Sonoma County roads. This inequity means that Sonoma County is one of the few counties in the State which must invest General Fund money into paving its road system.

The fuel excise tax rate has remained the same since 1993, while inflation has steadily eroded the purchasing power of this funding. More recently, fuel prices have come down and vehicles have become more fuel efficient. The combined result has been that maintenance projects now consume nearly the entire Roads Division budget, with nothing left for paving projects that improve the roadways.

When roads deteriorate to the point at which maintenance procedures-- primarily filling potholes, slurry sealing and chip sealing-- are no longer effective in preventing road deterioration, the roads need to undergo more expensive heavy-lift paving, if not total rebuilding. For example, chip sealing has an average cost of \$50,000 per mile, whereas a heavy-lift of asphalt has an average cost of \$255,000 per mile, or five times as much. The penalty for letting roads deteriorate is therefore severe.

Recent Action by the Board of Supervisors

Over the past three years, the BOS has taken a number of measures in support of making the long-term condition of County roads a priority. From 1998 through 2012, annual funding from the General Fund for Roads Division pavement projects averaged \$7.49 million. For the 2012-13 through 2014-15 budgets, the average General Fund allocation more than doubled to \$16.1 million per year.

In November 2015, the BOS allocated an additional \$13.5 million of one-time funding, bringing the total yearly General Fund contribution for roads to an all-time high of \$25 million. This funding, which came from a combination of sources within the General Fund, is expected to result in approximately one hundred miles of County roads being repaved during 2017. These efforts demonstrate that the BOS recognizes that a well-maintained road network is essential to the County's economic vitality and well-being.

In making spending decisions, the BOS has many and varied interests to serve. Most involve programs which, if not funded in the present, will not increase in cost over and above what is caused by normal inflation. Other spending programs, however, if not adequately funded in the present, escalate in cost exponentially rather than arithmetically. Funding for road pavement preservation falls into this latter category, as do County pension obligations. As stated above, the difference between maintenance and heavy-lift paving a roadway is fivefold. This makes it essential that road maintenance remains a high priority. As stated in the *Summary Report for the 2014 Long-Term Road Plan*:

A well-maintained road network is vital to economic development. In particular, investment in road infrastructure promotes a healthy economy by creating well-paying construction and engineering jobs, promoting and supporting tourism and recreation, and providing measures of support for agriculture and the environment.

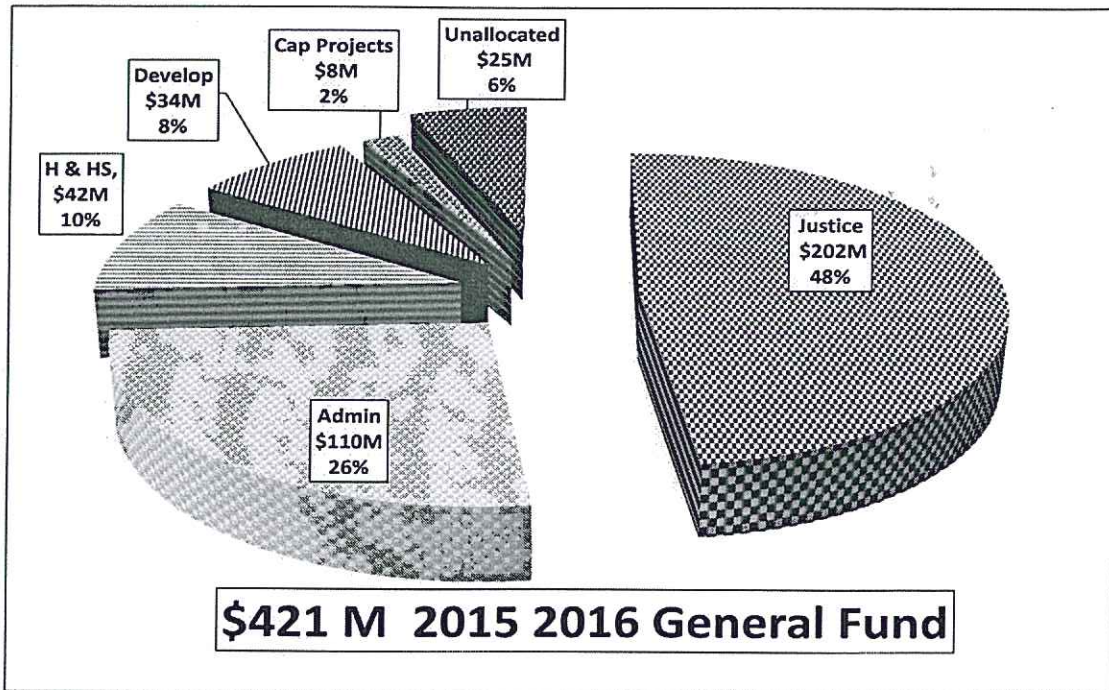
According to the Long-Term Road Plan, without a minimum investment of \$20 million per year, the County road network will continue to decline, creating increasing long-term economic costs. In order to bring the condition of the County road network to a "Good to Very Good" level (defined in the industry as a Pavement Condition Index of 70 or above), an annual investment of \$47.7 million will be required over the next 20 years. Is long-term funding at that level a realistic prospect?

How the County Budget is Constructed

It is a common misconception that the General Fund portion of the County budget is "discretionary" and may be allocated as the BOS sees fit. The reality is that only a small fraction of these funds is truly unconstrained and unallocated.

Nearly 50 percent of General Fund monies are allocated to law enforcement-related services. This includes the Sheriff's Department, the District Attorney's Office, and the Probation Department. Another 26 percent is allocated to Administration and Fiscal Services; Health & Human Services receives approximately 10 percent; Development Services, which includes the Department of Transportation and Public Works (which in turn includes the Roads Division) receives approximately 8 percent. Capital Projects receives 2

percent. This leaves only 6 percent of the General Fund as unallocated. In the FY 2015-2016 Recommended Budget, there was approximately \$421 million in the General Fund, suggesting that the actual discretionary funds available were \$25 million.



In reviewing a variety of financial documents, including recommended budgets, adopted budgets, actual budgets, revised budgets and comprehensive annual financial reports (actual expenditures), the Grand Jury found that amounts reported as “discretionary” varied widely.

General Fund Reserve Account

The County budget also contains a General Fund Reserve Account for use in the event of an emergency or unanticipated event. Nowhere in the budget, however, are these amounts disclosed. In the Consolidated Audited Financial Report, which accounts for the actual spending by County departments, there is no line item for any of the County’s reserve funds.

A report titled *A Review of County & Agencies Fund Balances*, which was presented to the BOS in November 2015, estimated the General Fund year-end balance for the 2015-2016 fiscal year to be \$95 million, \$49 million of which was listed as the General Fund Reserve.

There are no statutory mandates that counties maintain a reserve account at any particular level for emergency or unforeseen events. Does the current state of the

County roads network, with the prospect of dramatically escalating repair costs, not qualify as an emergency?

There would appear to be enough money in the General Fund reserve account to meet at least one year of the \$47.7 million threshold established by the Department of Transportation and Public Works to begin bringing County roads to a "Good to Very Good" condition. The Grand Jury is not advocating that the entire reserve fund be dedicated to roads, but an argument can be made that a portion of this reserve account could be responsibly used for that purpose.

There is in fact recent precedent for tapping a portion of County reserves for road maintenance and repair. On November 10, 2015, the BOS voted to reduce the reserve requirement in the Tax Loss Reserve Fund (the "Teeter Fund") from 2 percent to 1.25 percent on a one-time basis, thereby increasing the allocation for road pavement preservation by \$6.5 million.

Whether invading the General Fund Reserve Account for road repairs would be a financially prudent course of action is for the BOS to decide. What is clear, however, is that the County budget as published makes it extremely difficult to determine what General Fund dollars are actually unallocated and unconstrained.

If interested citizens could understand what funds within the County budget are truly discretionary, they would be more likely to trust the political establishment with respect to spending decisions. As a result, the passage of a future sales tax measure, general or special, would have a better chance of success.

Alternative Funding Sources

Achieving an annual allocation of \$47.7 million for road maintenance and repair over twenty years is a daunting prospect. As discussed above, this is not likely achievable without additional sources of revenue.

The most logical source would be a local tax measure. With the resounding defeat of Measure A in a special election in June 2015, however, it is evident that such a measure would have to be a Special Tax, with revenues allocated exclusively for road repair and maintenance. The difficulty is that, pursuant to California Proposition 218, such a measure would require a two-thirds majority vote in order to pass.

Is such a vote achievable? The Grand Jury found that over the past ten years, 69 percent of special tax measures on Sonoma County ballots were passed. In all but two of these cases, however, the tax measures affected a single local community and were directed toward specific programs, such as school district

bond issues. Whether a County-wide sales tax initiative, specific to road repair, can achieve a two-thirds majority vote is problematic.

For this reason, a number of alternative funding measures have been proposed and should be considered as special taxes or levies for road repairs. These include:

1. An increase in the Transit Occupancy Tax (hotel bed tax);
2. A user fee on winery, dairy, water and other commercial vehicles which carry heavy loads over rural roads on a regular basis;
3. A road preservation bond issue;
4. An increase in refuse-hauling franchise fees;
5. A tax on medicinal marijuana.

The problem with most of these measures is that the revenues generated would be insufficient for the task at hand. Nevertheless, these and similar measures should be explored and debated. The cumulative effect of enacting a number of these measures could be significant.

Prioritizing Road Repairs

Failing increased revenues from one or more of the above sources, the harsh reality is that the County may be forced to let some rural, lightly-trafficked roads go to dirt or gravel. Most rural counties in California--and Sonoma County is still classified as such by the State--have never paved their outlying roads. Early in Sonoma County's history, there were a number of communities that had populations significantly larger than they are today, e.g., Bloomfield and Two Rock. For this reason, County government appropriated a number of theretofore privately owned roads.

Today these roads do not qualify for state or federal support and are maintained entirely by the County. It is only reasonable that funding priority be given to those roads which carry the most traffic and which serve as key traffic arteries between different communities and as conduits by which citizens receive police and emergency services.

The Long-Term Road Plan contemplates such prioritization in order to place limited funding for road maintenance and paving where it will have the greatest impact for the greatest number of citizens. With only limited funding available, residents living in outlying areas of the County may not be able to expect that their roads will be maintained to the same level as roads closer to population centers. Without additional sources of revenue, prioritization of funding is the fiscally responsible thing to do.

FINDINGS

- F1. For the past three years, the Board of Supervisors has demonstrated a commitment to improving the condition of County roads by increasing levels of spending from the General Fund.
- F2. It is difficult for interested citizens to determine what monies in the County budget are available for spending. The Grand Jury was unable to ascertain what, if any, discretionary funds could be allocated for roads.
- F3. In order to prevent further road deterioration and increasing deferred maintenance costs, a minimum annual amount of \$20 million from the General Fund must be dedicated to road paving.
- F4. It is unrealistic to expect that without additional sources of revenue, the County can meet the \$47.7 million per annum threshold necessary to bring all roads up to a Good to Very Good level within 20 years.
- F5. Roads that are essential to commerce and industry and which are travelled by the largest number of users should receive funding priority.

RECOMMENDATIONS

The Grand Jury recommends that:

- R1. The Board of Supervisors direct the County Administrator's Office to present the budget in a form which makes it easy to understand what funding is truly discretionary and what reserves currently exist.
- R2. The Board of Supervisors set budget priorities such that annual General Fund allocations to the Roads Division meet or exceed \$20 million, the minimum amount necessary to stop the decline in the condition of County roads.
- R3. The Board of Supervisors should explore all reasonable avenues to increase funding for paving County roads, including a Special Tax measure.

REQUIRED RESPONSES

Pursuant to Penal Code Section 933.05, the Grand Jury requires responses as follows:

R1- Sonoma County Board of Supervisors

R2- Sonoma County Board of Supervisors

R3- Sonoma County Board of Supervisors

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