MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

To:	Honorable Board of Supervisors
From:	Thomas M. Miller, County Executive Officer
	By: Allison Carlos, Principal Management Analyst
Date:	March 22, 2011
Subject:	Presentation on Placer County Road Fund and Land Development

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ACTION REQUESTED

The Board of Supervisors receive a presentation regarding transportation programs, the Road Fund, and the Community Development Resource Agency budget and economic challenges for the FY 2011-12.

I. TRANSPORTATION PROGRAMS AND THE ROAD FUND

BACKGROUND

The Road Fund is comprised of two divisions of the Public Works Department: Engineering and Road Maintenance. The Engineering Division plans, designs, and constructs roads and bridges improvement projects, mostly through a contract services delivery model. The Road Maintenance Division is mainly a maintenance service that provides road repair and snow removal services for roadway systems countywide.

Major funding sources are intergovernmental revenues from the state as Highway User Transportation Account (HUTA or "gas tax"), sales tax and general fund for road maintenance. Federal and State transportation funds as well as traffic impact fees largely account for capital projects.

DISCUSSION

Historical Trends

Since FY 2005-06, the Engineering Division has experienced substantial increases in infrastructure project funding, peaking in FY 2008. While non discretionary revenue sources for infrastructure projects increased during that period, the Road Maintenance Division experienced relatively flat funding, with some fluctuations in Local Transportation Sales Tax and Secure Rural Roads. A main funding source for the Road Fund in general is the General Fund Contribution.

In FY 2005-06 and prior, the Road Fund received an average of $5.7M General Fund. This provided $3.7M for a Maintenance of Effort (MOE) in order to receive Proposition 42 gas tax revenues for road maintenance activity. Engineering received approximately $2M for road overlay. In FY 2007-08, the General Fund Contribution to the Road Fund reached a peak of $6.8M which included the MOE, overlay funding, and also approximately $800K in snow graders which was a priority of the Board of Supervisors that year. In FY 2008-09 due to the economic downturn and pressures on the County budget, the Board of Supervisor reduced the General Fund Contribution to Road Fund for overlay by 50 percent to $1.15M. In FY 2009-10 the Contribution was altogether suspended. When initial General Fund Contributions were reduced it was anticipated there would be no immediate impact to the County due to the availability of Proposition 1B ($5M) and ARRA funds ($ 1.9M) to support overlay programs.

With the shift in funding source mix (increase in federal/state grants and decreases in other general purposes sources), we have seen a significantly increased share of Road Fund as one time funding. At the same time there has been increased construction of projects (verses design and planning) and more of the budget started being spent, reducing fund balance.

For years Public Works budgeted all of their anticipated revenue and any fund balance carryover at the end of the fiscal year. If the full budget, including all projects was spent, they would have zero fund balance. Historically, both the Road Maintenance and Engineering Division did not expend their full budget. In the past, Engineering did not build all of their budgeted projects and did not spend the associated Road Fund match dollars. Road Maintenance often under spent in supplies and salaries, for example. This provided fund balance carryover, averaging $3M between FY 2005/06 and FY 2010/11 which was used the following year. Of course, project construction dollars are not discretionary but dedicated funding sources for specific use.

Public Works recognizes the growing challenge to the one time nature of project funding while experiencing diminished discretionary revenues and increasing labor costs. They have constrained operating costs, for example, by reducing supplies. They have also performed services with reduced staff while holding vacant positions unfilled.

In 2005, the vacancy rate was 9 percent. Currently, the two Road Fund Divisions have a 19 percent vacancy rate as positions vacated remain unfilled. During that period of time, filled positions within the Engineering Division have remained effectually flat, with a decline in filled positions in the Road Maintenance Division.

Current Condition and Service Impacts

The Engineering Division relies upon contract services for 90 percent of project related work. Staff performs elements of project work, but also serves within the functions of transportation planning, traffic engineering and land development review. As mentioned, these functions have been supported by Road Fund.

Within the Road Fund FY 2010-11, there was reduced fund balance carryover. In order to balance Engineering and Road Maintenance appropriations, the department's budget utilized reserves. Staff is projecting no fund balance for this fiscal year end. While current reserves are available with a balance of $4M (Designated for Contingencies), continued reliance on reserves to balance budgets is not recommended.

The department recognizes that the condition is not sustainable. Beginning this fiscal year, the department managers proactively initiated steps to restructure and shift workforce within the Road Fund to maximize on available funding sources. For example, the equivalent of two Engineering Division staff were recently redirected to project work funded by grants, in lieu of outside contracts. This staff was previously assigned to traffic engineering, transportation planning and other land development activity.

Future Condition

In FY 2011-12, Public Works continues to address funding for operations. While they have developed a plan to redirect Engineering staff to areas of work that receive state and federal funding, those are finite projects. The department plans to continue with this redirection next fiscal year and proposes to reduce Road Fund funding to: (1) Road Maintenance by $1.3M (7 percent), (2) Transportation Planning by $650K (42 percent), (3) project match funding by $550K (92 percent). The department continues to work on program delivery plans to mitigate any significant adverse service delivery impacts. We will need to be very attentive to the disposition of the road overlay program which historically has been funded by General Fund or Proposition 1B, as mentioned.

SUMMARY

- Road Fund has diminished capacity for funding on-going operations, primarily due to diminished discretionary funds over time, increased budget expenditure, and labor costs.
- Beginning FY 2010-11, reserves were required to balance the budget.
- Redirection of transportation planning staff time to projects that receive state and federal funding.
- Road Maintenance is funding reduction is proposed.
- Road Maintenance equipment replacement is substantially grant funded, there is no replacement program within the budget.
- Staff is conducting additional analyses of operations and programs within the department for consideration of options for FY 2011-12 budget and beyond. The department submitted budget provides early concepts that include reduction to Road Fund project match funding and reduced use of Road Fund and services within NPDES and Road Maintenance.

ROAD FUND – STATE IMPACTS

Last year, the Legislature adopted a Gas Tax Swap that eliminated funding for Proposition 42 (approximately $3.5 in dedicated Transportation funding to Placer County) and replaced it with an increase in the Excise Tax and sales tax for diesel fuel to 17.3 cents and 1.75 percent, respectively. With the passage of Proposition 26 last fall, the Gas tax Swap was eliminated. While Placer County continues to receive timely payment of the gas tax revenues under the old formula, we had been waiting for the state clarification on this issue. On March 16, 2010, the Legislature did affirm the Gas Tax Swap which solidifies continued receipt of transportation revenues. There is no adverse impact to the County by this action.

II. COMMUNITY DEVELOPMENT/RESOURCE AGENCY (CDRA)

BACKGROUND

CDRA, comprised of Administrative Services, Engineering and Surveying, Planning and the Building services continues to provide a range of land development and project services, consistent with the interests of the Board of Supervisors. This includes traditional new construction planning, plan check, permitting, and inspection, but also advanced planning, Geographical Information Services coordination, Placer County Conservation Plan development, Intergovernmental coordination such as with the Tahoe Regional Planning Agency, Implementation of the Hazardous Vegetation Program, Biomass Facility Processing, Administrative Citation Program implementation, Systems automation and ongoing process improvement.

Major funding sources have historically been land development permit and major project direct billing revenues, grants, contract services to other County departments, and the General Fund.

DISCUSSION

Historical Trends

In FY 2005-06, the forecast for land development services was significantly different than today. Placer County was moving into the top tier of fastest growing California counties. At one point, projections were forecasting almost doubling of the unincorporated population within the next few decades. Multiple land departments were consolidated under the CDRA umbrella to enhance efficiency, automation, and centralize administration. That fiscal year, the total expenditure budget was around $26M with a Net County Cost of about half that amount. In FY 2007-08, costs peaked, primarily due to increased staffing and overhead costs (such increased rent and utility costs associated with the building). With the economic downturn, CDRA has experienced reduction in workforce as layoffs due to lack of work, attrition, and redirection of staff to areas of increased work. The land development component related to septic systems remains in HHS/Environmental Health but has faced similar workload challenges.

Future Condition

Economic conditions suggest there will not be significant increases in land development permit and project activity in FY 2011-12. In general, activity is anticipated to be somewhat static or minimal with some interest in planning for major projects. Construction activity is projected to be relatively flat with potential construction increases in the Martis Valley and Lake Tahoe Basin.

The CDRA submitted budget identifies workforce adjustments within some appropriations for FY 2011-12 to essentially hold year over year Net County Cost flat. The current year, FY 2010-11, total expenditure budget is about $17M. The FY 2011-12 CDRA submitted budget is also about $17M, reflecting essentially flat expenditures, with a Net County Cost similar to that in the FY 2005/06 budget (approximately $12 million). There have been reductions and redirection of staffing in the past years as there was a decline in applications and permitting activity. Remaining staff continue to process applications that are received, but also work on other County land development priorities funded by the General Fund (such as Community Plans development, Addressing, Placer County Conservation Plan).

Summary

- Activity for land development next fiscal year is expected to be relatively flat.
- CDRA continues to identify most efficient ways to perform core functions, and modifying staffing levels to match work.
- Consistent with approaches in the current fiscal year, CDRA continues to seek opportunities to utilize existing staff to provide contract services for other County departments. CDRA's department requested budget reflects:
    - Engineering and Surveying;
        a. Six staff performing services for Public Works in lieu of contracts.
        b. One staff (equivalent) is identified to assist the Clerk Recorder with work started in 2010-11 on verification of district boundaries in the GIS system.
        c. .25 staff (equivalent) to assist the Facility Services Division for miscellaneous project work.

- Within the Building Division appropriation, two staff are identified to continue serving the Treasurer-Tax Collectors Office in implementing the mPower program.

If these contract opportunities are affirmed to continue FY 2011-12, total redirected Agency staff for services to other departments will total nine. Should these resources not materialize as planned, however unlikely that may be, nine staff may be at risk due to lack of work.