AGENDA
CITY OF NORCO
AD-HOC COMMITTEE ON INFRASTRUCTURE NEEDS AND FUNDING OPTIONS

Tuesday, March 3, 2015
City Hall Conference Rooms A & B
2870 Clark Avenue, Norco, CA 92860

CALL TO ORDER: 6:30 p.m.

ROLL CALL:
Jodie Webber, Chair
Corinne Holder, Vice Chair
Kevin Bash, Committee Member
Cathey Burtt, Committee Member
Linda Dixon, Committee Member
Patricia Hedges, Committee Member
Herb Higgins, Committee Member
John Padilla, Committee Member
Bill Schwab, Committee Member

PLEDGE OF ALLEGIANCE: Committee Member Linda Dixon

BUSINESS ITEM:

1. Approval of January 12, 2015 Meeting Minutes (City Clerk)

DISCUSSION ITEM:

1. Review and Approval of the Draft Report of Infrastructure Needs and Funding Options with Recommendations to the City Council. (City Manager)

COMMITTEE AND STAFF COMMENTS

PUBLIC COMMENTS

This is the time when persons in the audience wishing to address the Ad-Hoc Committee may speak on matters not on the agenda. Persons wishing to speak must complete a speaker card located in the back of the room and present it to the City Clerk so that you may be recognized.

ADJOURNMENT

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the City Clerk's office, (951) 270-5623. Notification 48 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility.

Staff reports are on file in the City Clerk's Office. Any writings or documents provided to a majority of the Committee Members regarding any item on this agenda will be available for public inspection at the City Clerk's Counter in City Hall located at 2870 Clark Avenue.

MINUTES
CITY OF NORCO
AD-HOC COMMITTEE ON INFRASTRUCTURE NEEDS AND FUNDING OPTIONS

January 12, 2015
City Hall Conference Rooms A & B
2870 Clark Avenue, Norco, CA 92860

CALL TO ORDER: 6:30 p.m.

ROLL CALL: **Present:** Chair Jodie Webber, Vice Chair Corinne Holder, Committee Members Kevin Bash, Patricia Hedges, Herb Higgins, John Padilla, Bill Schwab
Absent: Committee Members Cathey Burtt and Linda Dixon
Staff Present: City Manager Andy Okoro, Director of Public Works Lori Askew, City Clerk Cheryl Link

PLEDGE OF ALLEGIANCE: Vice Chair Corinne Holder

BUSINESS ITEMS:

1. Approval of December 15, 2014 Meeting Minutes (City Clerk)

M/S HEDGES/SCHWAB to approve the December 15, 2014 regular meeting minutes as presented. The motion was carried by the following roll call vote:

Ayes:	Bash, Hedges, Higgins, Holder, Padilla, Schwab, Webber
Noes:	None
Absent:	Burtt, Dixon
Abstain:	None

DISCUSSION ITEMS:

1. Update on Trails Maintenance Plan (Director of Public Works)

Director of Public Works Lori Askew presented supplemental information on costs of pedestrian-equestrian trails in the Landscape Maintenance Districts (LMDs). The information was requested by Committee Member Higgins, as a scenario should the City have to assume the costs if the LMDs were no longer in existence. The data is consistent with the other city-wide trail system information provided previously. The data Director Askew presented included information on all four LMDs with the year the fencing was installed, number of lots, trail location, the length of the trails segments, approximate square footage, and costs associated with the current fencing standard (wood) and alternates (vinyl and HDPE). The unit cost for the wood fencing is $9/lf, 2-rail vinyl fencing is $9/lf, and the HDPE is $22/lf. Director Askew noted that the wood fencing has a 10-year life, whereas the 2-rail vinyl and the HDPE has 20-year life. Director Askew indicated that the annual cost for replacement of the wood fencing in the LMDs would be $899,397; the annual cost for replacement of 2-rail vinyl fencing is $899,397; and the annual cost of replacement of HDPE is $2,198,526.

Vice Chair Holder asked if the cost presented for the HDPE fencing is the original cost because at one point, the Streets, Trails and Utilities Commission considered changes to HDPE. Director Askew stated that she contacted the HDPE company and that with modifications, the cost range was $18-22; therefore, she used the higher end of the range.

City Manager Okoro also presented supplemental information. First, the information provided was for trail maintenance of the LMDs. Mr. Okoro presented the total assessment collected for each LMD and the expenditures for trail maintenance. For all LMDs, there is an annual shortfall of $1,441, which over 20 years equates to a shortfall of $38,720. If the LMDs are eliminated and assessments are no longer collected, the future cost to the City annually would be $122,294 and over 20 years would be $2,445,876.

City Manager Okoro also presented costs associated with trail fence replacement. For the current standard (wood), the annual cost is $120,835, which is $2,416,695 over 20 years.

In response to Committee Member Higgins, Mr. Okoro noted that combining the trail maintenance and trail fence replacement, the annual cost would be approximately $240,000 for LMDs only. Mr. Higgins asked if personnel costs were included in the figures presented. Mr. Okoro noted that the costs are based on contracted labor. Committee Member Schwab asked what else is covered in the LMDs in addition to trail maintenance and replacement. Mr. Okoro stated that water, electrical, utilities, pumps, and tree maintenance.

Ted Hoffman suggested that the vinyl fencing could be more durable by having a vinyl clad wood board on the top rail and a hollow rail on the bottom. The vinyl clad wooden board on the top would provide durability and strength.

2. Cost-of-Living Adjustments and Total Cost Summary for Each Infrastructure Plan (City Manager)

City Manager Okoro presented information on the various infrastructure categories and the costs for the first year need, the average annual need, and the 20-year need. The first year need for streets based on PMS is $2,600,00, which over 20 years is $69,862,974. The first year need for parks and public facilities is $433,097, which equates to $8,661,940 over 20 years. For existing trails with fencing, the first year need is $266,429, which over 20 years is $7,159,047. The first year need for backyard trails, DG and materials, fence installation on trails without fencing is $107,251, which is $2,881,875 over 20 years. Therefore the total first year need for all categories, excluding storm drains, is $3,406,777, which is $88,565,835 over 20 years. Mr. Okoro noted that the 20-year need assumes a cost escalator of 3% each year.

Committee Member Schwab added that if the City assumes the trail maintenance and replacement for the LMDs, then approximately $242,000 would need to be added the annual totals just presented.

3. Review of Sales Tax Information by Business Types (City Manager)

City Manager Okoro stated that this item is informational only, as requested by Committee Member Schwab. Mr. Okoro presented a handout of sales tax information prepared by the City's sales tax consultant, HdL Companies. The handout shows the top 25 business types listed by allocation for the second quarter of 2014 compared to the second quarter of 2013.

Committee Member Schwab said that the reason why he requested the information was because one of the Committee's options was to increase the sales tax. However, based on the numbers in the handout, the City is only receiving about $5 million a year in sales tax. If the City were to increase the sales tax by 1%, that would only be an additional $50,000. Mr. Okoro clarified that the $5 million is the 1% that the City receives from the 8% sales tax rate for the County. Mr. Okoro commented on the implementation process for a sales tax increase. From the time the tax is approved to when the City begins receiving the revenue, is about a six-month delay.

Geoff Kahan asked if there is a legal way to apply a 1% sales tax increase except for a certain industry, such as auto sales. In response, City Manager Okoro indicated that there is not. The State determines what is taxable. Mr. Okoro added that regardless of where Norco residents purchase their vehicles, they must pay the sales tax. Mr. Kahan commented on dropping fuel prices and the impact on revenue. Mr. Okoro stated that he doesn't know the impact just yet but will be addressing it during the mid-year budget adjustments.

In response to Chair Webber, Mr. Okoro noted that any revenue measure that the City Council adopts can have a sunset provision.

In response to Committee Member Schwab, Mr. Okoro commented that a sales tax increase would affect consumers not retailers or wholesalers.

4. Infrastructure Funding Per Resolutions Passed (Chair Webber)
   A. Alternative Funding Solutions

City Manager Okoro presented potential revenue figures for three different scenarios. Revenue Measure Scenario 1 is an add-on sales tax. For current fiscal year 2013-2014, sales tax revenue at 1% is $5,418,231. Each 0.25% increase would generate $1,354,558, assuming all variables remain equal. Mr. Okoro said he looked at the current infrastructure needs of $3,406,777, without an inflation factor, less Measure A funds of $500,000. The amount needed from an add-on sales tax would be $2,906,777. Therefore, the add-on sales tax rate recommended is 0.50%, which would generate approximately $2,709,116.

Revenue Measure Scenario 2 is a parcel tax. The annual infrastructure needs, with an inflation factor, is $4,428,292. Less Measure A funds of $500,000, the amount needed from a parcel tax is $3,928,292. The total number of parcels to be assessed is 7,556 at an annual flat levy of $500, the parcel tax would generate $3,778,000 in revenue.

In response to Vice Chair Holder, City Manager Okoro stated that none of the scenarios include the LMDs.

Revenue Measure Scearnio 3 is a utility users tax. The annual infrastructure needs, with inflation factored, is $4,428,292. Less Measure A funds of $500,000, the total amount needed from a utility users tax is $3,928,292. Each utility users tax (includes gas, electric, water, sewer, refuse, cable television) at 1% is estimated to generate a total of $3,675,000.

In response to Geoff Kahan, Mr. Okoro stated that the numbers presented do not include the infrastructure needs of the LMDs; however, the parcel tax addresses all parcels in the City, including businesses.

In response to Ted Hoffman, Mr. Okoro clarified that the 7,556 parcels are assessed parcels.

Lance Gregory asked what is needed for a vote on each of the scenarios presented. Mr. Okoro indicated that a general revenue measure requires a 50% +1 vote. A sales tax requires a two-thirds majority. A sales tax for a specific purpose also requires a two-thirds majority vote.

In response to Geoff Kahan, Mr. Okoro indicated that retailers have not tracked how much sales tax is generated from Norco residents versus visitors.

Chair Webber commented that the City Council charged the Committee with recommending new funding sources. Ms. Webber opened the discussion to the Committee as to the best scenario to present to the Council as well as discuss the pros and cons.

Committee Member Bash noted that the problem now is discussing what would be presented to him at a City Council meeting.

Committee Member Higgins inquired about the passage and failure rates for the types of scenarios presented. Mr. Higgins suggested including the passage and failure rate information in the final report and let the Council decide on the best scenario.

There was also some discussion about educating the public on the Committee's work and what is ultimately decided by the City Council. City Manager Okoro stated that public education and marketing is an important factor but was not a charge of the Council, rather a Committee and public suggestion.

Committee Member Bash commented that it is ultimately the vote of the residents and what residents are willing to do to preserve the equestrian lifestyle. Mr. Higgins added that even if the equestrian element is removed from the City, it still does not solve infrastructure problems such as those concerning streets, buildings, etc. to make the City function. Mr. Higgins expressed his concern on the issues that faced at San Jacinto and the lack of informing the residents of the consequences of a measure failure, which is what happened, resulting in decreased number of police officers and park closures.

Mike Thompson commented on entitlement generations and what residents expect they deserve for living in Horsetown USA.

Ted Hoffman concurred with Mr. Higgins and commented that a parcel tax will not pass. Mr. Hoffman said that the Committee and Council must think how the average voter thinks.

Geoff Kahan indicated that if the City is making $5.2 million on 1% sales tax, then that means that there is $520 million worth of taxable business to generate that sales tax. If the $520 million is divided by the 7,500 parcels in the City, then each parcel would have to do $70,000 worth of business annually, or $5,700 a month, in order to be responsible for 100% of the total amount. Committee Member Higgins said that for every $1 he spends, $15 more dollars are created by him. City Manager Okoro noted that the majority of sales tax is not generated by Norco residents. Per capita basis, the City generates more sales tax than many cities in California.

Lance Gregory commented on the possibility of impacts to a city when the sales tax is greater than surrounding cities. Mr. Gregory noted the importance of public education.

Chair Webber indicated that part of the charge was to consider alternative funding solutions and opened the discussion to Committee Members and the public. With no further discussion, Chair Webber stated that the Committee has completed its charge. The draft report will be prepared and reviewed by the Committee. There was some discussion regarding the timeline and Mr. Okoro noted that the draft report could tentatively be ready by the end of February. Chair Webber stated that the Council will make the final determination and recommendation, unless the Committee would like to vote on any of the three scenarios. The concurrence was to present the three scenarios as funding options to the City Council.

Chair Webber noted that the current schedule of Committee meetings is postponed until the draft report is available for review.

B. Consideration of a Single Tax to Cover All Plans/Resolutions

No further discussion.

COMMITTEE AND STAFF COMMENTS

None.

PUBLIC COMMENTS

None.

ADJOURNMENT

Chair Webber adjourned the meeting at 7:57 p.m.

Cheryl L. Link, CMC, City Clerk

Ad-Hoc Committee and Public Suggestions Log Sheet

Streets	Trails: Fencing	Trails: DG/Materials	Trails: Programs/Fees	Water	Storm Drains	Buildings	Parks	Public Education	Misc.
Curbs and gutters	Installation of one rail versus two – cost savings.	Fine, compacted woodchips	Trails maintenance volunteer program	Reclaim storm water		Selling of advertising space at City facilities	Creation of park foundations to help fund parks	Educating the public on maintenance and funding issues ; PSAs, City website, and Subcommittee	Use of grant funds
Meet with neighboring cities with good street ratings for ideas	Trails fencing on major roadways only	Pea gravel	Community trail clean-up program	Funding water conservation projects		Use of grant funds for the Emergency Operations Center (EOC)	Selling of advertising space at City parks	Notice in water bills regarding trail maintenance responsibility	Structured fee for horse ownership
	Priority for trail fencing given to major roadways	Compactor for DG	A fee-based Adopt-A-Trail program	Use of reclaimed water for parks				Warnings for non-compliance of trail maintenance sent in water bills.	Recreation tax per unit per lot
	Installation of rolled curbs as opposed to trail fencing – cost savings.		Trail maintenance fee					"Straight Trail Talk" flyer in water bills, on City website, and City Facebook page	Motorcycle officer
	Intermittent versus continuous trail fencing		Issuing citations and penalties for non-compliance of trail maintenance					Town Hall meetings for tax measure education	Modifying NMC clarifying that erosion caused by property owner is not the City's responsibility
	Define street trails		Citizens Patrol issuing trail violation citations						Park Sheriff patrol vehicles throughout City rather than at City Hall to deter speeding and crime.
	Trail fence post in tube above grade to prevent rotting		City-wide assessments similar to LMDs						Endowments

Updated 01.12.15

Ad-Hoc Committee and Public Suggestions Log Sheet

Streets	Trails: Fencing	Trails: DG/Materials	Trails: Programs/Fees	Water	Storm Drains	Buildings	Parks	Public Education	Misc.
	Different vinyl fence colors (versus white); more rural look								Venue operator to handle ticket sales for arena events
	Vinyl clad wood board on top rail and hollow bottom rail.								EB-5: residency status to foreign investors
									California Statewide Communities Development Authority: infrastructure bond issuance
									SB628: Enhanced Infrastructure Financing Districts, public-private partnerships
									Sunset provision on tax measure

Updated 01.12.15

DRAFT

Ad-Hoc Committee on Infrastructure Needs and Funding Options

Final Report on Infrastructure Needs and Funding Options

March 3, 2015

EXECUTIVE SUMMARY:

Our City, the City of Norco, California has officially been branded as "Horsetown USA" reinforcing the City's unique equestrian lifestyle of "City living in a rural atmosphere." For Norconians, this is not just a slogan but a way of life that is supported by large residential lot sizes with animal keeping amenities, hundreds of miles of equestrian trails, numerous parks and open spaces, first class horse facilities, and scores of miles of streets and roads. After fifty years of Cityhood, the City has invested over $231 million, based on historical cost, in infrastructure that supports this cherished lifestyle. However, this prized infrastructure is in serious need of capital maintenance and replacement with the City having no identified funding sources.

The Ad-Hoc Committee on Infrastructure Needs and Funding Options has determined that over the next twenty years, the City will need nearly $4.5 million each year or $88.6 million over a twenty-year period to sustain the infrastructure that supports the City's unique lifestyle. Although the City has balanced its budget over the last three years and managed to set aside rainy day funds to meet future operating budget needs and gaps, the City still remains in a position of not having enough revenues to support its expenditures for capital replacement and improvements. Unless further and substantial reductions are made to core services, new revenue sources must be found for capital investment in the City's infrastructure and facilities. In the past, the City funded its general City infrastructure needs primarily through bond proceeds issued by the now defunct Norco Community Redevelopment Agency. Other sources of infrastructure funding, which included Measure A allocation, development impact fees, grants, Transportation Uniform Mitigation Fees (TUMF), etc. are either not adequate or can no longer be relied upon to meet the City's growing infrastructure needs and funding gaps.

INTRODUCTION:

The City of Norco has adopted the following Mission Statement to guide the actions of the City:

"The mission of the City of Norco is to serve its residents and businesses in a professional, ethical, and cost effective manner with excellent customer service to provide a high quality of life in a community that values its identity as Horsetown USA."

The core goal of the City's Mission Statement is the provision of high quality life in a Horsetown environment. This is emphasized by the City's ***"Vision 2020 Statement" which states: "In the year 2020, Norco will be widely known as Horsetown USA, an attractive western community with residents who enjoy a high quality animal-keeping lifestyle. Most residents will continue to have the opportunity to keep horses and other animals on their properties."***

In order to realize the City's vision, the City must not only provide adequate funding for its operating municipal services needs for public safety, parks, recreation, leisure, planning, senior programs, building regulations, animal control, economic development and code compliance, the City must also provide funding to meet its critical infrastructure needs which are necessary to support municipal services.

OPERATING AND CAPITAL BUDGET OVERVIEW

The City's funding allocations are made through Operating and Capital Improvement Program budgets.

Operating Budget: The annual Operating Budget includes appropriations to fund recurring municipal service expenditures for public safety, park operations, building and safety, planning, building maintenance, animal control, senior programs and administrative support services. The Operating Budget also includes the operations component of business-type enterprise operations of water and sewer. For governmental type activities, operating budget revenues come from the following broad categories:

1. Property tax
2. Sales tax
3. Business license and transient occupancy tax
4. Franchise fees
5. Vehicle license fees
6. Fines and penalties
7. User fees – recreation, building, engineering, planning
8. Reimbursements
9. Rental income and investment earnings
10. Grants and inter-governmental
11. Gas tax - dedicated

Capital Improvement Budget: The Capital Improvement Budget (CIP) provides annual appropriation for capital improvement projects such as streets, park improvements, trail improvements, building construction, storm drainage systems and other major facilities maintenance. Historically, City CIP expenditures have generally been funded from the following revenues sources:

1. Bond proceeds from now defunct Redevelopment Agency
2. Development impact fee
3. County Measure A
4. Grants, contributions (federal, state, county, TUMF)

BUDGET OUTLOOK:

The Ad-Hoc Committee on Infrastructure Needs and Funding Options was appointed by the City Council to assist the City Council in quantifying the City's future infrastructure needs and to provide recommendations regarding future potential revenue funding sources to meet the identified infrastructure needs and funding gaps. As part of its work, the Ad-Hoc Committee conducted a preliminary analysis of the City's General Fund budget to see if the General Fund could be a potential funding source for meeting future infrastructure funding needs of the City. After preliminary review of the General Fund budget, the Committee concluded that operating budget issues are best left to the City Council to address as part of its annual budget public hearing and workshop processes.

The Ad-Hoc Committee reviewed the City's current Five-Year Capital Improvement Program (CIP) budget in order to understand past budget allocations, funding sources, available funds, and future infrastructure needs. Based on this review, the Committee determined that the current sources that the City uses to fund its infrastructure either do not have sufficiently available funds or can no longer be relied upon as future funding sources.

The future outlook for these funding sources is described below:

Redevelopment Agency (RDA) Bond Proceeds: A significant portion of the City's past infrastructure funding came from revenues generated through the issuance of bonded debt backed by revenues derived from tax increment generated by the now dissolved Redevelopment Agency. When the state dissolved redevelopment agencies in California, effective February 1, 2012, the City, like most cities in the state, lost its most significant funding source for infrastructure.

Examples of infrastructure projects funded in recent years by RDA bond proceeds include the following:

- Ingalls Equestrian Center
- Acquisition of land and construction new fire station on Hillside
- Major renovation of fire station on Corydon
- Hamner Avenue and other street improvements
- Sheriff station renovation
- Sixth Street improvements
- Ingalls Memorial Plaza

Future Revenue Outlook: Due to the dissolution of the RDA, the City has lost the ability to finance future infrastructure projects using RDA bond proceeds. As of December 31, 2014, the City had less than $500,000 of RDA bond proceeds available for future projects.

Development Impact Fees (DIF): Past City infrastructure projects were also funded using development impact fees which are fees charged on new residential, commercial and industrial development to defray the costs of the impact of new development on City infrastructure.

Recent projects funded partially by development impact fees include:

- Pikes Peak Park
- Hamner Avenue improvements and widening
- Ingalls Equestrian Center
- City-wide fiber optics system
- Norco Ridge Ranch park
- Second Street widening

Future Revenue Outlook: The City of Norco is a mature City with very limited new development opportunities. Furthermore, it is to be noted that the use of development impact fees is generally limited to projects needed in order to mitigate the impact of new development on City infrastructure. The City cannot depend on impact fees to meet its existing infrastructure replacement or capital maintenance needs.

Measure "A" Funds: Measure "A" funds are generated through the allocation of ½ cents sales tax by the County to the City for the construction, reconstruction, alteration and maintenance of City streets.

Historically, the City has used this funding allocation for the following purposes:

- Traffic signal improvements
- Reconstruction of streets
- Street widening
- Street rehabilitation and overlay

Future Revenue Outlook: The City currently receives approximately $500,000 annually from Measure "A" allocation. The ½ cent sales tax imposition from which Measure "A" allocation is derived has been authorized by the voters through 2039. This is the only currently known recurring revenue source to fund the City's street infrastructure needs.

Grants and Contribution from Others: In the past, the City met some of its infrastructure needs from grants and contribution from federal, state, county or other local governments. Grant revenues are usually restricted for specific purposes, awarded on a competitive basis and require matching local funds. County grants/contributions have been a major source of funding for storm drain projects. Transportation Uniform Mitigation Fee (TUMF) has also been a source of funding for major arterial road improvements including Hamner Avenue.

Future Revenue Outlook: While County Flood Control District contributions have served as the primary source of funding for storm drain projects, the City's ability to generate grant revenues to fund major infrastructure projects is very limited. Grants are generally awarded on a competitive process and bigger cities with bigger projects that benefit more people tend to get priority funding. Additionally, grants are usually restricted for specific purposes and require local matching fund.

CITY OF NORCO INFRASTRUCTURE NEEDS:

The City's infrastructure needs can be broadly categorized as follows:

1. Streets and Roads
2. Trails
3. Storm Drainage Systems
4. Building Facilities
5. Parks and Facilities Improvements

Streets and Roads

The City is approximately 14.3 square miles in size and has street network of over 91 miles. From a functional classification stand point, 3.4 miles are arterials, 9.4 miles are collectors, and 77.4 miles are residential/local streets.

Current Condition: Many City streets and roads are need of capital maintenance and replacement. Currently, over 27% of City streets are in poor or very poor condition. It is important to maintain streets and roads on a regular planned basis rather than put off the work as long as possible. Studies show that pavement performs better during the first 75% of its useful life and is still considered to be in fair condition. After that however, the pavement deteriorates very quickly leading to very poor road conditions. Studies have also shown that if streets are maintained while in excellent to good condition, the total annual maintenance investment is four to five times less than if the pavement is allowed to cycle to poor or failed conditions.

A Pavement Condition Index (PCI) is used to measure the condition of streets. This index ranges from a scale of 0-100 with where 0 represents a failed street and 100 represents a street in excellent condition. Based on analysis performed by the City Engineer (RKA Consulting) and Public Works Department, City streets were identified as having an average PCI score of 67. PCI of 70 or above receives preventive maintenance while PCI below 70 receives rehabilitation. Thus, many City streets currently require rehabilitation which is significantly more expensive than preventive maintenance.

Current Funding Resources: The City has invested over $76 million in streets and roads and a recent Development Impact Fee Study estimates that the cost to replace City streets and road infrastructure to be more than $107 million. Based on estimate of fund balance as of December 2014 and projected Measure A and Street Fund expenditures for FY 2014-2015, it is estimated that remaining available funds for future streets and roads project after Fiscal Year 2014-2015 will be less than $2.0 million. Along with recurring Measure A funding estimated receipt of $500,000 annually, the City will have estimated available funds of $2.5 million by the end of FY 2014-2015. Based on the City's projected expenditure needs, the City will run out funds to provide capital maintenance and replacement by Fiscal Year 2016-2017. The only available funding source after Fiscal Year 2016-2017 will be the recurring receipt estimated at $500,000 annually from Measure "A". In the past, in addition to Measure "A" funding, expenditures for streets and roads capital projects were funded by development impact fees, grants, TUMF, and RDA bond proceeds. Other than Measure "A", there is no assurance that the City will receive future revenues from these other sources.

Projected Streets and Roads' Needs: Based on the current condition of City streets as determined using the City's Pavement Management System, which measures pavement condition index, the City will need to spend $3.5 million annually on streets and roads to reach and maintain acceptable PCI of 70 or better. Over the next twenty years, the Ad-Hoc Committee estimates that the City will need to spend nearly $70 million in order to maintain and preserve its streets and roads infrastructure in acceptable condition.

City Horse Trails

The City's trail system is the most unique feature that defines the community as "Horsetown USA". The City is proud of its animal keeping lifestyle and most residents own horses. The City has over one hundred miles of trails and it is estimated that about 70% of the trail system have trail fences. In order for the City to sustain its trademark tradition as Horsetown USA, residents must enjoy a reliable and well-maintained horse trail system.

Current Condition: Except for some trails in the Landscape Maintenance Districts, most of the City's trail system has been neglected and the condition is generally poor and worsening each year that passes. The City has not invested adequately to maintain or perform necessary capital improvements in the City's trail system.

Current Funding Resources: Previous funding for trail improvements came from development impact fees. The City had approximately $273,000 of available funds to spend on the trail system at the beginning of Fiscal Year 2014-2015. The City plans to spend estimated amount of $166,000 during the Fiscal Year which will reduce available funds to $107,000 by the end of the year. This amount is not sufficient to meet the City's annual trail system expenditure requirements. Consequently, without new revenue source, this unique feature will be in serious jeopardy by Fiscal Year 2016-2017.

Projected Trails' Needs: Based on the analysis reviewed and adopted by the Ad-Hoc Committee, the City needs to spend approximately $500,000 annually in order to adequately preserve its cherished horse trail system This figure includes trail fence replacement based on old trail standards (annual needs based on newly adopted standards may be different), decomposed granite and maintenance for erosion. Currently, there are no established funding sources to address the City's future trail needs.

Storm Drainage Systems:

Due to the City's topography, with many homes below street level, there is great need of master and minor drainage systems to protect residents from floods. Adequate storm drainage systems are critical for the protection of life and property in the City of Norco.

Current Condition: Most of the City's storm drainage system are new and in good condition.

Current Funding Resources: The City has been able to meet most of its needs through funding provided by the County Flood Control and Water Conservation District. Over the last few years, the District has been able to provide funding for master drainage plan projects. The District also allocates about $1 million annually to fund minor drainage projects. However, there is no guarantee that the County will continue to provide funding at the levels it has provided in the past.

Projected Storm Drainage Needs: The Ad-Hoc Committee concluded that the City's future funding needs for storm drainage systems are currently met using funds provided by the County Flood Control and Water Conservation District. Thus, the Committee did not consider additional funding needs for Storm Drainage at this time.

Building Facilities:

The City has several major building facilities that are used to provide public services including public safety and leisure to Norco residents. These facilities include City Hall, George Ingalls Equestrian Center; Nellie Weaver Hall, Fire Stations, Senior Center, Riley Gym, Animal Control Facilities, library, and others. Attached to this report are sample pictures of City buildings with vital information for each building.

Condition Building Facilities: The condition of City building facilities has been slowly deteriorating for years. Years of minimal capital investment has resulted in buildings that are in poor physical condition, unattractive, and/or functionally obsolete. As part of the Ad-Hoc Committee's work, City staff conducted a Facility Condition Index (FCI) analysis in order to determine the physical condition of City buildings. The FCI is a ratio of the cost of assessed deficiencies divided by the replacement value of the facility. The higher the calculated FCI, the worse the physical condition of the building. This assessment indicated that many City buildings were in fair or poor condition.

Current Funding Resources: The total value of City's investment in buildings is estimated to be nearly $59 million. Some of these buildings are public use buildings, such as Nellie Weaver Hall, and others are for governmental use, such as City Hall. The funding source for the most recent building construction or improvements was bond proceeds from the now defunct Norco Community Redevelopment Agency. Also, limited funding is usually provided on as needed basis through the City's General Fund for minor building improvements. The only currently available financial resource is $150,000 that has been set-aside through the City's General Fund for facilities replacement.

Projected Facilities' Needs: Through the FCI analysis, it has been estimated that the annual cost to preserve the useful lives of City buildings is $304,000 or $6.1 million over the next twenty years. The City currently has no identified funding source to undertake planned and systematic improvements that are necessary to preserve City buildings.

Parks and Related Improvements:

The City has a well-planned park system that varies in size and facilities/amenities. Additionally, the City also has large amount of open space. A City's park system is usually a major factor in the selection of a place to live. Attached to this report are sample pictures along with vital information of City parks and related facilities.

Condition of City Parks and Related Improvements: Most City parks and improvements are in relatively good condition. Parks generally do not require major capital maintenance or improvements once they are built. However, related facilities do require capital maintenance and replacement.

Current Funding Resources: There are currently no available funds for the City to undertake any park or related facilities improvements. Most recent capital improvements and replacement were funded with bond proceeds from the now defunct Norco Community Redevelopment Agency. Past funding also came from Development Impact Fees and grants.

Projected Parks and Related Facilities' Needs: A recent study by Revenue Cost Specialist estimates that the total value of the City's parks, open space and improvements to be over $228 million. The Ad-Hoc Committee reviewed and adopted a plan that estimates the annual capital costs to preserve parks and related improvements to be $129,000. There are no currently available funds for future parks and related facilities improvement.

INFRASTRUCTURE FUNDING OPTIONS

The City currently has limited existing funding sources to meet its future infrastructure needs. County of Riverside Measure “A” allocation estimated to be $500,000 each year is the only source of funding that has been currently identified, but must be used for Streets and Road improvements The City must look to new revenue sources to meet the remaining $4 million funding gap in annual infrastructure needs over the next twenty years.

Ad-Hoc Committee Funding Considerations and Options:

The Ad-Hoc Committee on Infrastructure Needs and Funding Options examined several potential new revenue sources that the City Council may consider implementing, with voter approval, to address the City’s infrastructure funding needs gap. Each of the recommended revenue sources would create new taxes for the residents of Norco. When considering tax initiatives, several complex factors must be considered. One important factor to be considered by the City Council is the provisions of Proposition 218 which describes the process and requirements for the approval of various taxes.

The table below provides a summary of the necessary steps required before a revenue measure can be approved and implemented. These steps include actions that must be taken by the City Council and voter approval requirements. The process to be followed also depends on the type of revenue measure and how the new revenues would be used as depicted on the chart on the next page.

Revenue Item	City Council Approval	Voter Approval
City General Taxes – where revenues are used for unrestricted purposes.	If consolidated with a regularly scheduled election of the City Council, 2/3 for general law cities and majority for charter cities. If not consolidated, unanimous declaration of a "fiscal emergency" is required	Majority
City special taxes – where revenues are restricted for specific purpose.	Majority	2/3
Transactions & Use Tax	2/3	2/3 (For Specific Purpose) Majority for General Purpose
User Fees	Majority – through ordinance or resolution	None – however property related charges may be subject to Prop. 218 protest vote.
General Obligation Bond	Majority	2/3
Property Assessment	Majority	Majority of affected property owners. Vote weighted by assessment liability
Parcel Tax – Tax on Parcels of Property (flat rate or rate that varies based on use or size)	Majority or Super Majority depending on City type and use of revenues	2/3

Utility Users Tax: Utility user's tax is one of the revenue options available to the City Council to seek voter approval for implementation in order to fund the City's infrastructure needs gap. Utility user's tax is a tax imposed on the consumer (residential, commercial, and industrial) of any combination, or all, of gas, electric, cable television, telephone, refuse, water, and other utility services. Utility user's tax is usually collected by the utility company as part of its billing process and then remitted to the City. Outlined below are some points to note regarding utility user's tax imposed by California cities.

- Rates range from 1% to 11%
- Particular utilities to which the tax is applied varies
- Different rates may apply to residential versus commercial users
- The most common rate (mode) is 5%

- The average rate (mean) is 5.5%
- Provides 15% of general revenues for cities that levy UUT
- California cities with UUT 154 – covers 50% of state's population
- May be levied for general or specific purpose
- Most utility users tax imposed by California cities do not include sewer, water or refuse

Staff performed analysis with limited data for the Ad-hoc Committee to estimate potential revenues that could be generated from the imposition of utility user's tax. The data is summarized below.

Estimated Potential Revenue Utility Users Tax	
Utility	Gross Receipts
Gas Company - Calendar Year 2013	$ 3,750,940
Edison Company - Calendar Year 2013	24,989,450
Water City of Norco - FY 2013-2014	9,600,000
Sewer City of Norco - FY 2013-2014	5,500,000
Refuse City of Norco - FY 2013-2014	4,990,000
Cable TV - Charter & AT&T - FY 2013-2014	3,647,096
Total (Excludes Telephone)	$ 52,477,486
Each 1% of UUT May Generate	$ 524,775

The Ad-Hoc Committee also considered potential advantages and disadvantages of proposing and/or implementing utility user's tax.

Utility User Tax		
Pros		Cons
More timely cash flow to the City; once implemented, revenues will be received monthly from utility providers		More difficult to administer – need cooperation of utility providers
Equitable tax – amount is based on usage		Hard to audit – subject to revenue losses
Encourages conservation – tax payers have ability to reduce amount paid		Difficult to project amount of revenues that will be generated each year
City Council and voters to determine which utilities to tax; rates may also vary by utility		
If for general use, requires a simple majority of voters approval to impose or increase		
Monthly tax burden paid with utility may not seem too big compared with parcel tax that would be paid twice a year		

Parcel Tax: Parcel tax levy was another potential revenue funding option that the Ad-Hoc Committee considered. Parcel tax is considered special tax on a parcel of property. Outlined below are noteworthy points on parcel tax.

- Special tax on parcel of property
- Generally based on either flat per-parcel rate or variable rate depending on the size, use, and/or number of units
- Administered by the County through the property tax process
- May be levied for general or specific purpose
- Parcel taxes are property related and thus, require at least 2/3 voter approval regardless of how revenue would be used

The Ad-Hoc Committee looked at three different scenarios for a potential parcel tax and the results are as follows:

Scenario #1

POTENTIAL REVENUE FROM PARCEL TAX			
Property Description	Number of Parcels	Levy per Parcel	Total Revenues
Residential	6,771	$ 400	$ 2,708,400
Commercial	277	400	110,800
Vacant Land	432	400	172,800
Industrial	76	400	30,400
Total	7,556		$ 3,022,400
Assumes $400 Annual Flat Levy Per Parcel			

Scenario #2

POTENTIAL REVENUE FROM PARCEL TAX			
Property Description	Number of Parcels	Levy per Parcel	Total Revenues
Residential	6,771	$ 240	$ 1,625,040
Commercial	277	240	66,480
Vacant Land	432	240	103,680
Industrial	76	240	18,240
Total	7,556		$ 1,813,440
Assumes $240 Annual Flat Levy Per Parcel			

Observation: Based on the data above, each $100 parcel tax flat levy would generate approximately $750,000 in annual revenue. Consequently, a flat levy of $500 would generate approximately $3,750,000.

Scenario #3

POTENTIAL REVENUE FROM PARCEL TAX						
Property Description	Number of Parcels	$50/Parcel	$240/Parcel	$600/Parcel	$600/Parcel	Total Revenues
Residential	6,771	-	1,625,040	-	-	$ 1,625,040
Commercial	277	-	-	166,200	-	166,200
Vacant Land	432	21,600	-	-	-	21,600
Industrial	76	-	-	-	45,600	45,600
Total	7,556	21,600	1,625,040	166,200	45,600	$ 1,858,440
Assumes Various Rates Depending on Parcel Type						

Scenario #3 estimates different tax rates based on parcel use. It is to be noted that in order to generate approximately $4,000,000 in annual revenues, per parcel levy would need to be 2.2 times the amount shown on Scenario #3 above.

Similar to utility user's tax, parcel tax also have advantages and disadvantages which the City Council should consider before recommending parcel tax for voter approval.

Additionally, further consideration may need to be made for those parcels currently within a Landscape Maintenance Development to avoid double taxation.

Parcel Tax Pros	Parcel Tax Cons
Easy to administer once county gets on tax rolls	Delayed cash flow; may take months to get on the county rolls; once on the county rolls, tax revenues received semi-annually
Revenues to be collected are more predictable once rates are set: less revenue leakage – imposed through tax rolls	Requires 2/3 voter approval to impose or increase
Rate may be imposed based on property size and/or used to mitigate disproportionate burden	A flat across the board amount may create disproportionate burden to tax payers
	Semi-annual tax burden paid with property tax may seem to be too big

Local Add-On Transactions & Use Tax: In 2003, Governor Gray Davis signed SB 566 which gave every County and every City in the state the ability to seek voter approval for local transactions and use tax increase under the following conditions:

- The transaction and use tax may be imposed at the rate of 0.25%, or multiple thereof
- The ordinance proposing the tax must be approved by two-thirds vote of all members of the governing body
- If for general purpose, the tax must be approved by a majority vote of the voters in the city or county
- The maximum combined rate of transactions and use taxes (regular City sales tax and local add-on transactions and use tax) in any location may not exceed 2%, so for the City, the new tax would not exceed 1%.

Local add-on transactions and use tax is becoming very popular for Cities seeking new revenue sources due to the fact that it has generally achieved high percentage passage rate, over 70% in recent elections for general revenue measures. Additional factors to be considered by the City before deciding if local add-on transactions and use tax is the appropriate tax for the City includes:

- How the revenues would be used – (general versus specific purpose)
- The tax applies to where the goods, merchandise, etc., is delivered rather than at the point of sale like regular sales tax.
- For example in the case of sale or lease of vehicle, tax is charged based on the location that the vehicle will be registered. As example, if Norco implements the tax, a Norco resident going to Ontario to buy a vehicle would be subject to the tax whereas an Ontario resident buying a vehicle in Norco would not be subject to the tax.
- The amount of money to be generated versus the rate that would generate that amount of money. Even though the City's current 1% sales tax generated $5.4 million in FY 2013-2014; a similar 1% local add-on transactions and use tax may not generate the same amount of money due to the "leakage" associated with point of sale for regular sales tax versus point of delivery for local add-on transactions and use tax.
- Impact on tax payer is not readily noticeable like parcel tax
- Complex procedures and lengthy time to implement once voter approval is secured.

CONCLUSION:

The Committee recognized the potential impact any revenue measure may have on the community, but determined that identification of the ideal revenue source should be decided by the City Council.