



City of Chula Vista

Staff Report

File#: 16-0550, Item#: 14.

CONSIDERATION OF APPROVING THE EXPENDITURE PLAN, CREATING NEW CAPITAL IMPROVEMENT PROJECTS, APPROPRIATING FUNDS, AND AUTHORIZING THE CITY MANAGER TO NEGOTIATE AGREEMENTS RELATED TO MEASURE P, THE TEMPORARY HALF-CENT SALES TAX

- A. RESOLUTION NO. 2016-263 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING THE CITY COUNCIL INFRASTRUCTURE, FACILITIES AND EQUIPMENT EXPENDITURE PLAN; ESTABLISHING NEW CAPITAL IMPROVEMENT PROJECTS, "STREET PAVEMENT CITYWIDE (MEASURE P)" (STL421) AND "DESIGN OF FIRE STATIONS (MEASURE P)" (GG229); AND MAKING VARIOUS AMENDMENTS TO THE FISCAL YEAR 2016/17 OPERATING AND CIP PROGRAM BUDGETS APPROPRIATING FUNDS FOR ELIGIBLE MEASURE P SALES TAX EXPENSES (4/5 VOTE REQUIRED)
- B. RESOLUTION NO. 2016-264 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA AUTHORIZING THE CITY MANAGER OR HIS DESIGNEE TO NEGOTIATE LEASE PURCHASE AGREEMENTS FOR EQUIPMENT AS APPROVED WITHIN THE INFRASTRUCTURE, FACILITIES AND EQUIPMENT EXPENDITURE PLAN; WAIVING THE COMPETITIVE FORMAL BID REQUIREMENT AND AUTHORIZING THE CITY MANAGER OR HIS DESIGNEE TO NEGOTIATE AND EXECUTE TWO-PARTY AGREEMENTS BETWEEN THE CITY OF CHULA VISTA AND HARRELL AND COMPANY ADVISORS, LLC TO PROVIDE FINANCIAL ADVISORY SERVICES AND BETWEEN THE CITY OF CHULA VISTA AND J.P. MORGAN CHASE TO PROVIDE UNDERWRITING SERVICES FOR THE PROPOSED ISSUANCE OF TRANSACTIONS AND USE TAX REVENUE BONDS

RECOMMENDED ACTION

Council adopt the resolutions.

SUMMARY

On November 8, 2016 Chula Vista voters approved Measure P, authorizing a one-half cent sales tax increase on retail sales within the City for a period of ten (10) years. The recommended resolutions are in accordance with Ordinance 3371("Ordinance"), Section 3.33.160.B, which required that within 30 days after approval of Measure P, the City Manager bring forth for City Council consideration and action, in its discretion, proposed budget amendments and financing options to accelerate large-scale projects for fiscal year 2016/17 that would fund and implement the City Council Intended Infrastructure, Facilities and Equipment Expenditure Plan that was approved by the City Council concurrent with the Ordinance, using Measure P fund revenues.

ENVIRONMENTAL REVIEW

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The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines because it will not result in a physical change to the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the actions proposed are not subject to CEQA.

Environmental Notice

The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

BOARD/COMMISSION RECOMMENDATION

Not applicable

DISCUSSION

Updated City Council Spending Plan

On August 2, 2016 the City Council approved Ordinance 3371 ("Ordinance") modifying the Municipal Code to establish a temporary one-half cent General Transactions and Use Tax if approved by the voters. As part of the action to approve the Ordinance, the City Council approved a spending plan described as the Intended Infrastructure, Facilities and Equipment Expenditure Plan, which identified how the funds were to be allocated.

On November 8, 2016 Chula Vista voters approved Measure P, authorizing the one-half cent sales tax increase on retail sales within the City for a period of ten (10) years. In order to move forward with allocating the new revenues, the spending plan has been updated to reflect, where necessary, the ratification of Measure P. Staff recommends that Council approve the updated Infrastructure, Facilities and Equipment Expenditure Plan ("Expenditure Plan") report.

Projected Revenues and Proposed Budget Adjustments

The Ordinance, Section 3.33.160.B required that staff return to the City Council with proposed budget amendments for fiscal year 2016/17, within 30 days after the approval of Measure P. In accordance with the requirement of the Ordinance, staff has brought forward for consideration the following recommended budget adjustments to fund and implement the Expenditure Plan.

The new one-half cent sales tax becomes effective on April 1, 2017, which will generate revenues for one (1) quarter (April to June) in the current fiscal year. Based on the most current data from the City's sales tax consultant, the City anticipates receiving approximately \$3.2 million in fiscal year 2016/17. The Expenditure Plan included a \$4.0 million allocation which was based on an average of annual sales tax revenues. Due to the seasonality of sales tax revenues, in which revenues in the second quarter of the calendar year is typically lower than the fourth quarter holiday season, the amount allocated to fiscal year 2016/17 has been lowered by \$0.8 million. Staff recommends that the \$3.2 million be allocated to the following, which are eligible items that were approved as part of the Expenditure Plan.

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ITEM DESCRIPTION	DEPARTMENT	FY 2017 COST	FINANCED COST (Capital Lease)	TOTAL COST
Replacement of Public Safety Regional Communications System (RCS) portable radios	Fire	\$ 300,000	\$ -	\$ 300,000
	Police	\$ 1,025,460	\$ -	\$ 1,025,460
	Public Works	\$ 300,000	\$ -	\$ 300,000
Public Safety Regional Communications System (RCS) financing	Fire/Police/ Public Works	\$ 350,000	\$ 3,500,000	\$ 3,500,000
Computer Aided Dispatch (CAD) System	Police	\$ 17,660	\$ 2,069,079	\$ 2,086,739
Fleet Replacement	Fire	\$ 279,000	\$ 4,967,650	\$ 5,246,650
	Police	\$ 463,940	\$ -	\$ 463,940
Fire Station Design (GG229)	Public Works	\$ 100,000	\$ -	\$ 100,000
Residential Street Pavement (STL421)	Public Works	\$ 363,940	\$ -	\$ 363,940
TOTAL ESTIMATED FISCAL YEAR 2017		\$ 3,200,000		

The original allocation in fiscal year 2016/17 was for the purchase of Fire Vehicles. Some of the Fire Vehicles are now anticipated to be acquired under a capital lease program; which will generate savings in fiscal year 2016-17. While it is expected that these vehicles be ordered in the current year, payments for these vehicles are not projected to begin until fiscal year 2017/18. This allowed for other approved projects within the Expenditure Plan to be executed earlier than scheduled. Staff will seek the best methods possible to generate savings to ensure that Measure P funds are spent responsibly.

In compliance with the Ordinance, Section 3.33.160.A, staff has created the 2016 Measure P Sales Tax Fund (Fund 201) for the purpose of monitoring all revenues and expenditures of Measure P monies. As specified within this section, any and all expenditures of Measure P funds will be tracked and accounted for by City Finance Department staff in accordance with Generally Accepted Accounting Principles (GAAP), and presented annually in a report to the newly created Citizens' Oversight Committee (COC).

Capital Lease Purchase Agreements

As mentioned above, staff desires using capital lease financing in addition to revenue bonds in order to maximize the amount of funds available in the first few years for approved projections within the Expenditure Plan with Measure P revenues as the source of funds for the lease and bond payments. Resolution B will authorize staff to move forward with obtaining the best lease purchase agreements, at which time staff will return to City Council with their recommendation.

Financial Advisory and Underwriting Services

In order to accelerate the implementation of the Expenditure Plan, staff intends to pursue financing options that would fund large-scale projects. Resolution B will authorize the City Manager to negotiate contracts with Harrell and Company Advisors, LLC and J.P. Morgan Chase based on current market rates for these services. Chula Vista Municipal Code Section 2.56.070 (B)(3) authorizes the City Council waiver of the formal competitive bid process. A waiver is requested for

these services due to the City's requirement in the Ordinance to move forward expeditiously with the revenue bonds. As such, the City's interests would be materially better served by waiving the competitive bid process and awarding the contracts to Harrell and Company Advisors, LLC and J.P. Morgan Chase as it will allow the City to take advantage of the current market conditions and accelerate the large-scale projects within the Expenditure Plan.

The Underwriter's scope of services will be specified in the negotiated agreement and shall include the negotiation and pricing of public municipal revenue bonds. Financial Advisory services will be specified in the negotiated agreement and shall include representing the City in all fiscal matters related to the issuance of the revenue bonds to ensure market rate pricing and the appropriate structure of the municipal revenue bonds. Future matters related to the financing options will be brought to City Council for formal approval that memorializes the anticipated amounts of the revenue bonds and the commensurate fees schedules of all vendors involved.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council of the City of Chula Vista members and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.).

Staff is not independently aware, and has not been informed by any City of Chula Vista City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. This action supports the Operational Excellence goal by communicating the City's projected financial position for the current fiscal year in an open and transparent manner. This transparency supports City Initiative 1.3.1. - "Foster public trust through an open and ethical government."

CURRENT YEAR FISCAL IMPACT

Per the Ordinance, all revenue generated by the tax shall be accounted for in the General Fund as a separate line item titled "Local Sales and Use Tax - Measure P". These revenues will then be transferred to the newly created 2016 Measure P Sales Tax Fund and therefore there is no net fiscal impact to the General Fund.

Staff has established the 2016 Measure P Sales Tax Fund to account for all revenues and expenditures as part of the one-half cent sales tax. The requested budget adjustments as part of Resolution A, as well as costs related to Resolution B will be offset by the transfer in of additional sales tax revenues generated as a result of the approval of Measure P from the General Fund. There is no net fiscal impact to the 2016 Measure P Sales Tax Fund. The fiscal year 2016/17 impacts are summarized below:

FUND	Revenue	Transfer Out	NET COST
General Fund (Non-Departmental)	\$ 3,200,000	\$ 3,200,000	\$ -

FUND	Transfer In	Expenditures	NET COST
Measure P Sales Tax Fund	\$ 3,200,000	\$ 3,200,000	\$ -

Resolution B authorizes the City Manager or his designee to negotiate and execute agreements for financial advisory and underwriting services for the issuance of revenue bonds. The Expenditure Plan estimates the financing of approximately \$50.0 million in order to expedite the most critically needed repairs or replacements of citywide infrastructure. The actual bonding capacity will vary depending on market conditions at the time of bond issuance. The allocation of such bond proceeds are identified on page 13 of the Expenditure Plan.

ONGOING FISCAL IMPACT

The Expenditure Plan anticipates that the one-half cent sales tax increase would generate between \$16.3 million in the first full year of fiscal 2017/18 year and \$14.6 million in three (3) quarters of the final fiscal year 2026/27. As part of the City's annual budget process, annual allocations to the 2016 Measure P Sales Tax Fund would be brought forward for City Council consideration and action. In accordance with the Ordinance, for each subsequent year after fiscal year 2016/17, prior to City Council consideration of the City's annual budget, staff will prepare and present to the Citizens' Oversight Committee for its review a spending plan for Measure P revenues.

ATTACHMENTS

1. The Infrastructure, Facilities and Equipment Expenditure Plan

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