Date: July 8, 2016

TO: Mayor and Council

FROM: Derek Johnson, Assistant City Manager

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VIA: Katie Lichtig, City Manager

SUBJECT: Update on the prioritization of infrastructure investment from a quality of life and economic development perspective

Background

One of the initiatives in the Economic Development Strategic Plan (EDSP) was the creation of a prioritized list of projects that would contribute to Economic Development in the City. Since the approval of the EDSP in 2012, there have been numerous discussions about prioritization. Those discussions culminated in the approval of the Infrastructure Investment Capital Fund (IICF) on March 17, 2015. The creation of the IICF is an effective tool to facilitate the funding of critical infrastructure which can help break down barriers to job creation. The IICF allows the Council to set aside funds for future investment in infrastructure and establishes criteria to evaluate the investment in specific infrastructure projects as they are proposed by the development community, the general public or City Staff.

Three discrete tasks embedded into the Housing Major City Goal and Economic Strategic Plan will impact economic development in the short term - AB 1600 fee review (a review of our development impact fees to ensure they are appropriate and justifiable), zoning update based on the adopted Land Use and Circulation Elements and continued permit processing improvements. Each of these tasks have resources programmed in the 2015-17 Financial Plan. Once these tasks are completed, there may be a need for a more thorough process to identify criterion or develop a list of specific projects to prioritize infrastructure investment from an economic development and quality of life perspective. For now, a general overview of how infrastructure is will help ensure transparency and understanding within the community. City staff has created the attached white paper to serve as this general overview. The white paper provides information on prioritizing infrastructure based on economic development and quality of life values. It is envisioned that this white paper will be updated as needed in conjunction with the goal setting process and the update of the long term CIP. This white paper will also serve as background information for continued investment in the IICF in future financial plans.

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INFRASTRUCTURE PRIORITIZATION

JULY 8, 2016

AN OVERVIEW OF THE PROCESS OF THE PRIORITIZATION OF INFRASTRUCTURE INVESTMENT

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ABSTRACT

This white paper describes the City’s process for prioritizing infrastructure investment in order to help provide additional insight and transparency to the public on the City’s overall infrastructure prioritization process. The white paper also provides information on prioritizing infrastructure from an economic development and quality of life perspective. It is envisioned that this white paper will be updated on an as needed basis in conjunction with the goal setting process and the update of the long term CIP.

OVERVIEW AND BACKGROUND

On October 16, 2012 the City Council approved the adoption of the Economic Development Strategic Plan (EDSP). The EDSP focuses on creating a system that supports and sustains industries creating head of household jobs. The EDSP continues to be organized into four overarching strategies including:

1. Break Down Barriers to Job Creation
2. Actively Support Knowledge & Innovation
3. Promote and Enhance the San Luis Obispo Quality of Life
4. Build on Existing Efforts and Strengthen Regional Partnerships

Each strategy has an underlying list of actions, metrics and outcomes that contribute to achieving the goals of the strategic plan. One of the initiatives in the EDSP under the “Break Down Barriers to Job Creation” strategy was the creation of a prioritized list of projects that would contribute to Economic Development in the City. Since the approval of the EDSP in 2012, there have been numerous internal and external discussions about the prioritization effort. Those discussions culminated in the approval of the Infrastructure Investment Capital Fund (IICF) on March 17, 2015. While the creation of the IICF is a more effective tool to help break down barriers to job creation, an overview of the prioritization process as well as identification of key projects can still be valuable to help inform the discussion around infrastructure investment.

The top three key initiatives that will have the biggest impact on economic development: AB 1600 fee review, zoning update and continued permit processing improvements; all have resources programmed in the 2015-17 financial plan. Once these initiatives are completed, there may be a need for a more thorough process to help prioritize infrastructure investment from an economic development and quality of life perspective. In the short term, a general overview of how infrastructure is prioritized will be valuable to ensure transparency and understanding within the community.
OVERVIEW OF THE INFRASTRUCTURE PRIORITIZATION PROCESS

The various departments in the City are accountable to prioritize their investments in infrastructure in order to meet the goals of the City as they are identified in the General Plan, the various specific plans, relevant master plans and by the residents through the Council and the goal setting process. All of the infrastructure investments that are funded in the financial planning process go through a very robust review with intense public input every two years. The infrastructure investments that are funded in the budget are included in the 5-year Capital Improvement Plan (CIP). The City also maintains a long term CIP that includes the entire list of potential major infrastructure investments as identified by the City. It should be noted that long term CIP does not include the necessary and ongoing costs associated with annual infrastructure maintenance. All of the City’s budgeted construction projects and equipment purchases costing $25,000 or more are included in the 5-year CIP. Minor capital outlays costing less than $25,000 are included with the Financial Plan operating program budgets.

DEFINITION OF TERMS AND OVERVIEW OF THE PROCESS

The General Plan: Sets policies and guidelines that direct the efforts of the various departments in the City. The general plan also sets the overall growth expectations and the level of infrastructure required to meet those expectations.

Specific Plans: The various specific plans establish the infrastructure required to support the planned development in those areas as well as the financing mechanisms available to pay for public infrastructure. An example is the Airport Areas Specific Plan (AASP): Chapter 8 specifically relates to the infrastructure needs of the AASP.

Master Plans: Many of the departments, particularly the enterprise funds (water, wastewater, and parking) and public safety activities, have master plans that identify what is required to meet the development envisioned in the General Plan.

Other Plans: There are also other plans that establish priorities for infrastructure investment in other areas that the City has deemed critical. These include the:

- Bicycle Transportation Plan
- Short Range Transit Plan
- Traffic Signal Masterplan
- Area Plans:
  - South Broad Street Area Plan
  - Mid-Higuera Street Enhancement Plan
  - Railroad District Plan

Financial Plan: The City of San Luis Obispo has a very robust financial planning process that covers goal setting, operating budgets and capital expenditures that covers the preparation for the two year budget cycle. The final two year financial plan is based on the General Plan, the specific plans, the various master plans and the goal setting process. The financial plan includes a budget that is supported by various documents including a 5-year Capital Improvement Plan (CIP).
CIP Review Committee: To assist the City Manager in preparing a 5-year CIP recommendation, a designated CIP Review Committee evaluates all departmental requests. While all of the departmental requests evaluated based on need and connectivity to Major City Goals and policies of the City, there is not enough available funding to cover all of the identified needs. It is the task of the CIP review committee to evaluate the prosed requests and prioritize the investments.

In evaluating the CIP recommendations, the review team considered the following evaluation factors in setting priorities:

1. Is it mandated by the State or federal government?
2. Is there significant outside funding for the project?
3. Is it necessary to address an immediate public health or safety concern that cannot be deferred?
4. Is it necessary to adequately maintain existing facilities, infrastructure or equipment?
5. Does it implement a high priority Council goal?
6. Will it result in significant operating savings in the future that makes a compelling case for making this investment solely on a financial basis?

5-year CIP: Through the 5-year CIP, the City systematically plans, schedules, and finances capital projects to ensure cost effectiveness and conformance with established policies and longer-term plans. The City’s 5-year CIP encompasses the work programs for all infrastructure projects and equipment purchases over the next five years. The plan represents a phased approach to funding the projects needed to maintain the City’s infrastructure and major building facility assets over the entire five-year period. The plan also identifies equipment replacement needs in the area of fleet and information technology infrastructure.

Long term CIP: The long term CIP covers all potential infrastructure projects envisioned by the City. As noted above this list does not include ongoing maintenance, for example, the annual Street Paving, Storm Drain Replacement, and other strictly maintenance costs are not included in the long-term CIP. Many of these projects may not be needed in the near term and do not have a funding source identified. This list acts as repository for identified projects and is updated in the non-budget process years.

Allocation of infrastructure costs: Depending on the type of infrastructure, costs can be allocated to the general fund, the various enterprise funds or to outside sources like other governmental agencies, grant funding or private development. It is a policy of the City for new development to pay its fair share for public facilities and services, unless the community chooses to help pay the costs for a certain development to obtain community-wide benefits. The City considers a range of options for financing measures so that new development pays its fair share of costs of new services and facilities required to serve the project (LU 1.13). This essentially means that new infrastructure required for development will be paid by the development unless there is a specific community wide benefit that will be obtained. Currently these infrastructure costs are split into various fee programs covering the specific development areas and a program for city wide development.

PRIORITIZATION AS IT RELATES TO ECONOMIC DEVELOPMENT AND QUALITY OF LIFE

It is critical that it is understood that the health of the City’s economic development is directly tied to the quality of life in the community. The quality of life is also directly tied to the economic vitality
of the community. The quality of life was also one of the priority topics highlighted during the public engagement for the development of the EDSP. For that reason it is important to evaluate the priority of infrastructure investment not only on traditional economic measures but also on some quantifiable measures of quality of life.

During the establishment of the Infrastructure Investment Fund there were six overall criteria established to help evaluate projects that may request funding. The six criteria are:

1) Compliance and furtherance of General Plan Goals, policies and programs; and
2) Alignment with the Major City Goals and other important objectives in place at the time of application; and
3) Head of Household Job Creation; and
4) Housing Creation; and
5) Circulation/Connectivity Improvements; and
6) Net General Fund fiscal impact.

In evaluating the impact of the investment based on the criteria, there are objective measures that, while they may not be perfect, can help decision makers and the public understand what public benefit an investment would have for the community.

In theory, the facilitation (i.e. loans, land based financing, reimbursement agreements, or other means) or the direct contribution to infrastructure by the City, will influence development to occur in a more timely fashion than it would normally occur. By no means does this approach suggest that the City pay for a project’s fair share, rather it is meant to catalyze investment to achieve goals. The impact of delaying, sharing or reducing the infrastructure burden can be evaluated at an aggregate level in the following ways:

**Head of Household Job Creation (HoH):** By measuring the value of the contribution of the City versus the total public infrastructure burden of the project, and correlating that to the land uses in the particular area that are envisioned to occur, a rough calculation of the jobs that will be created at full build out can be estimated and attributed to the City’s investment based on the land uses in the area. For example:

If the total cost of the infrastructure needed in area A is $10 Million and the City’s contribution\(^1\) is estimated to be $1 Million, 10% of the creation of new jobs is attributable to the City’s participation. The table below shows the rough calculation:

<table>
<thead>
<tr>
<th></th>
<th>Manufacturing</th>
<th>Service Commercial</th>
<th>Business Park</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sqft</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Sqft/Employee(^2)</td>
<td>750</td>
<td>550</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Total New Employees</td>
<td>133</td>
<td>182</td>
<td>333</td>
<td>648</td>
</tr>
<tr>
<td>Attributable to City</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>contribution</td>
<td>13</td>
<td>18</td>
<td>33</td>
<td>64</td>
</tr>
</tbody>
</table>

\(^1\) Meaning a portion of Capital Improvement Project which is not the “fair share” contribution for a particular development.

\(^2\) Employment is estimated using 300 square feet per employee for office uses, 550 square feet per employee for commercial uses, and 750 square feet per employee for industrial uses.
Notes:
- The calculations assume full build out and can be adjusted lower or phased in based on the estimated timing and saturation rates.
- Indirect and induced job creation is not included as they would be similar regardless of where the investment resources are allocated.
- The employee per square foot numbers are based on the LUCE fiscal impact analysis.
- Determining the number of jobs that will meet the HoH definition is difficult but can be estimated using industry guidelines.

Based on the above model, if it was the sole desire of the City to contribute to HoH job creation public infrastructure projects then the Airport Area Specific Plan would take priority for IICF investment as that is where the land uses that support HoH creation are predominately located. However, there are also significant job centers in the Margarita Specific Plan Area and in infill areas of the City.

**Housing:** A similar calculation can be made for housing creation. By taking the City’s contribution versus the total requirement and using housing units created the calculation for residential areas is the following:

If the total cost of the infrastructure needed in area A is $10 Million and the City’s contribution is estimated to be $1 Million, 10% of the units are attributable to the City’s participation. The table below shows the rough calculation:

<table>
<thead>
<tr>
<th></th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total New Units</td>
<td>1,000</td>
</tr>
<tr>
<td>Attributable to City contribution</td>
<td>100</td>
</tr>
</tbody>
</table>

Based on the above model, if it was the sole desire of the City to contribute to housing creation public infrastructure projects then the Orcutt Area Specific Plan may take priority for investment as that is where the land uses that support the greatest number of housing units.

However, if a blended approach were to be taken, where Job Creation and Housing are balanced, it is likely that public infrastructure projects located in the Margarita Area Specific Plan would be the prioritization area since that specific plan has a “mix” to land uses and investments in that area and may deliver more jobs and homes at the same time. This highlights the difficulty in establishing a one type fits all prioritization system since limited funds with the mix of land uses in the growth areas of the City.

**Circulation/Connectivity Improvements:** This criterion depends on the overall goal or policy objective. If the goal is for improvements mobility, investment in the areas where the level of service (LOS) for any mode is deemed to be below city standards would provide the most benefit. Currently these areas have the lowest LOS and would benefit the most from investment:

1) East-west connections in the southern section of the City (i.e., Prado Road Extension, Prado Road Bridge widening @ SLO Creek, Tank Farm Road improvements, etc.)
2) Access improvements and barrier removal including signalizations, bike facilities or roundabouts (i.e., Broad/Lawrence, Broad/Woodbridge, Tank Farm/Long Street, etc.)
3) Other significant improvements (i.e., California/Taft roundabout, Froom Ranch/LOVR operational improvements, Madonna Road operational improvements, etc.)
If the goal is improve the bicycle mode, the Bicycle Transportation Plan has identified the future needs infrastructure for the City from a bicycle connectivity perspective. The four highest priority items that are currently not part of the 5-year CIP or are currently underfunded are:

1) Bob Jones Trail – Oceanaire Connection
2) Bob Jones Trail – LOVR to Octagonal Barn
3) Railroad Safety Trail – Toro/Phillips to Amtrak Station\(^2\)
4) MASP connection Broad Street to Higuera Street

If the goal is improved mass transit to support job creation and access, providing funding for incentives and additional trip reduction programs is the most effective method. These incentives and programs reduce single occupancy automobile trips for work, intermodal use, and school purposes in an effort to reduce peak hour congestion levels and defer costly road capacity needs, maintenance or additional parking supply when not necessary.

**Net General Fund Fiscal impact**

In order for the City to be healthy and thriving, the long term financial impacts of development need to be sustainable. Before investing in a project, it is important to analyze the financial impact to the City by that development. While it can be a complicated process to evaluate the total financial impact to the City’s finances of all future anticipated development in the City, the basics are relatively easy to evaluate. Generally, commercial development and hotels have a net positive fiscal impact and manufacturing, office and housing development typically have a net negative fiscal impact. The following table represents the typical fiscal impacts at full build out:

<table>
<thead>
<tr>
<th>Type</th>
<th>Capacity (Units/Sqft)</th>
<th>Net impact $</th>
<th>Impact Per Unit/1,000 Sqft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing(^2)</td>
<td>4,904 units</td>
<td>(4,017,461)</td>
<td>(819)</td>
</tr>
<tr>
<td>Office(^3)</td>
<td>2,345,736 sqft</td>
<td>(1,012,593)</td>
<td>(432)</td>
</tr>
<tr>
<td>Industrial(^3)</td>
<td>892,479 sqft</td>
<td>(131,801)</td>
<td>(148)</td>
</tr>
<tr>
<td>Hotel(^3)</td>
<td>803 units</td>
<td>2,566,894</td>
<td>3,197</td>
</tr>
<tr>
<td>Commercial(^3)</td>
<td>1,829,903 sqft</td>
<td>6,372,458</td>
<td>3,482</td>
</tr>
</tbody>
</table>

\(^1\) Housing and hotel development are per unit and office, industrial and commercial are on a square footage basis.

\(^2\) Healthcare and hotel development are per unit and office, industrial and commercial are on a square footage basis.

\(^3\) LUCE projected development capacity for non-residential development.

The data used in the calculations is from Table 1 and Table 2 of the LUCE fiscal impact analysis report that was prepared as part of the 2015 General Plan update. In simple terms, if the goal of the City is to have a positive impact on the general fund, resources should be focused on the creation of new Hotel and Commercial development. However, there are potential hidden costs associated with not providing housing to workers for these uses, namely local regional transportation costs and the associated environmental impacts.

\(^2\) Funded with state grant.
Complicating Factors

While looking at allocation on one criterion is relatively simple, the City has many goals and the competing factors are more complicated than simply looking at one criteria. Some of the factors that complicate the evaluation and decision making process include:

**Weight given to the criteria:** The weight given to each of the criteria has a significant effect on the prioritization. Therefore, the weighting must be carefully selected to represent community values. This means that when prioritizing job creation, one set of infrastructure improvement projects rises to the top. When prioritizing housing, another set of infrastructure improvement projects rises to the top, and so on. The same situation applies to a mix of criteria depending on the weight of the individual criteria.

**Absence of a particular development project to evaluate:** While a prioritized list of infrastructure projects could be beneficial, the practical limitations of doing this in advance of actual projects being submitted and evaluated presents a challenge. The practical benefits of supporting a given infrastructure project are theoretical until there is/are corresponding development project(s) that can be evaluated and by which the actual benefits can be quantified.

**The Current Economic Climate:** To be effective, the City should be careful not to invest scarce General Fund resources in priority infrastructure projects if they are going to occur anyway because of a positive economic climate and robust private development. If investment is made at a time when the economic climate is not conducive or the investment is in a project that would not otherwise occur in a timely manner, the direct impact would be much greater and can generate public benefits that would otherwise be delayed. Although it is difficult to know with certainty, the best investment the City can make would be in a priority infrastructure project related to a development that would not be able to move forward in a timely manner without the City’s participation because the project cannot pay for both the fair share and any associated non-fair share (City) costs that are required to complete the infrastructure needed for the project and for orderly development.

**The appetite for investment and the time horizon:** The amount of resources the City Council, and by extension City residents, is willing to allocate for new infrastructure projects over a given period of time will impact the scope and prioritization of the projects that could or should be considered.

**Infrastructure Projects that are unknown at a particular moment in time:** While City staff has made every effort to identify all infrastructure projects that could be required there are many ongoing initiatives, including updates to master plans as well as development project that cause new infrastructure projects to surface that are unknown at the time of the prioritization. For example, a particular housing development may require additional water infrastructure that was not identified in the most recent update to the master plan that could require City resources to ensure timely development.

**Factors Out of the Control of the City or other Project Partners:** Many infrastructure investments require resources that are outside the direct control of the City or the proponent. For example, many major infrastructure projects are multi-year projects that can rely on outside funds for completion. The multiple factors related to timing can have a large impact on the feasibility and
timing of a particular project. There can also be situations where land acquisition is required and unless the owner of the land is willing to sell that land or participate in the project in some way the project cannot move forward.

**The completion initiatives of the LUCE update and future Financial Plan goal-setting:** The completion of the AB 1600 fee review and the zoning update can potentially impact the prioritization of the infrastructure projects. Once these tasks are completed, there may be a need for a more thorough process to identify criterion or develop a list of specific projects to prioritize infrastructure investment from an economic development and quality of life perspective. Future changes to the City’s goals can also have an impact as priorities can change.

It is envisioned that this white paper will be updated as needed in conjunction with the goal setting process and the update of the long term CIP. This white paper will also serve as background information for continued investment in the IICF in future financial plans.