



## **STAFF REPORT TO THE CITY COUNCIL**

**DATE:** Regular Meeting of March 26, 2024

**TO:** Mayor and Members of the City Council

**VIA:** Dante Hall, City Manager

**SUBMITTED BY:** Edwin Gato, Director of Finance  
Mike Roberts, Public Works Director

**SUBJECT:** Draft Fiscal Year 2024-25 Capital Projects Proposed Budget and Ten-Year Capital Improvement Projects (CIP) Plan

### **RECOMMENDED ACTION:**

Staff recommends that the City Council receive a report and the Draft Fiscal Year (FY) 2024-25 Proposed Capital Budget and Ten-Year CIP and provide direction to staff regarding potential funding options needed for future capital improvements.

### **EXECUTIVE SUMMARY:**

Hercules Capital Improvement Projects (CIP) aims to maintain and improve our City's aged public infrastructure as best it can with available resources. Taking care of existing infrastructure is an important part of building a resilient city. As such, the capital improvements in this plan balance the need of rehabilitating aged infrastructure while also embarking on key enhancement projects that address critical priorities, such as street safety and sustainability.

This Capital Improvement project emphasizes:

- Substantial capital work has been completed and proposed in light of grant-funded (and locally matched) transportation projects.
- A "fix it first" approach where proper maintenance of Hercules existing infrastructure is prioritized above requests for "new" infrastructure.
- Additional revenue or funding is needed to maintain our existing infrastructure adequately.

Public infrastructure includes the City's streets, sewers, storm drains, transportation, facilities, and parks. While this CIP plans for ten years, the City Council will only allocate funds for Fiscal Year (FY) 2024-25. This CIP and budget will be proposed, along with the City's operating budget for approval by the City Council during the adoption of the annual budget.

## **BACKGROUND:**

The CIP outlines the vision for short- and long-range project delivery and funding for maintaining, improving, and building new and existing infrastructure assets to benefit our residents, businesses, property owners, and visitors. The CIP links the General Plan, Parks Master Plan, and various master planning documents, as well as available resources, to provide a means for planning, scheduling, and implementing capital projects over the next ten years.

The CIP is intended to incorporate the City's investments in infrastructure development and maintenance (i.e., capital improvements) with other significant capital expenditures that add to or strategically invest in the City's inventory of assets. Projects included in a CIP are defined as any long-term investment that builds, replaces, or improves an asset (e.g. facilities, roads, parks, sewer, and drainage lines, etc.), have a useful life of at least five years and a minimum cost of \$50,000. A critical distinction between the capital and operating budget is that capital projects are approved in one year, but their completion can take years. In contrast, operating budgets are typically focused on ongoing maintenance and are "use-it-or-lose-it" at year's end, with unspent funds returned to the fund.

## **ANALYSIS:**

Projects in the Ten-Year CIP were prioritized according to the Ten-Year Action Plan of the recently completed Parks Master Plan, the Sanitary Sewer Master Plan, the City's Pavement Management Program, and the Draft Building Facilities Assessment. Proposed FY 2024-25 recommended projects include:

- Construction of the Refugio Park picnic area and shade structure project
- Completion of the final design of Beechnut Park
- Resurfacing the Foxboro Basketball Court
- Repairs to the Bay Trail Wall

Also included is the design of the Upper Sycamore Sewer main replacement while Falcon Way is to be resurfaced from Wren Court to Refugio Valley Road. Ten of the City's public buildings are proposed to receive upgrades, including painting and recarpeting the first half of City Hall, pool repairs and HVAC replacement in the Community Swim Center, and bathroom renovations in the Ohlone Community Center. The summary of the Ten-Year

CIP is listed in Attachment 2 and detailed descriptions of all the proposed CIP projects are included in Attachment 3 to 7.

The FY 2024-25 Proposed CIP are fully funded by various funding sources as specified below.

The Capital Improvement Projects are funded almost exclusively with revenues from restricted funds.

- The Sewer Fund is restricted to maintenance and replacement of the City's sewers. Much of the available funding for the capital budget is, in fact, devoted to the Sewer Fund.
- Transportation Fund includes Gas Tax, Measure J, and SB1 Road Maintenance and Repair Account are the result of voters' approval of increases dedicated to transportation infrastructures. Transportation projects also are supplemented by Development Impact Fees (DIF), which are paid for by new residential and commercial developments. However, these fees are highly variable and have categorical restrictions.
- Facilities Replacement – Internal Service Fund (ISF) is used for capital improvements to city-owned buildings and is paid through their operating budget.
- The General Fund, though historically a small contributor to the overall capital budget, is the only non-restricted funding source that can support any public infrastructure expense.

While the Draft FY 2024-2025 Capital Budget specifies dedicated funding sources to complete the projects listed, years 2-10 of the Ten-Year CIP identified a significant number of unfunded projects. The total number of unfunded projects identified in the Ten-Year CIP is approximately \$118 million: \$101 million for Hercules HUB, \$9.6 million for streets, \$4.2 million for parks, and \$3.3 million for facilities as summarized in Attachment 2. Staff recommends looking for other alternatives to fund the projects. The following are financing or funding options for the City Council to explore regarding potential funding for the future CIP.

- Capital Grants – The City acquired the services of grant writing consultant, California Consulting to continue efforts to identify, and apply for, available grants applicable to approved Capital Improvement Projects.
- Bond Financing (Attachment 8)
  - General Obligation Bonds, which are also referred to as GOs, are municipal bonds which provide a way for state and local governments to raise money for projects that may not generate a revenue stream directly. They are called “general obligation” bonds because they are not backed by a specific revenue producing project or asset. Instead, they are backed by the “full faith and credit” of the issuer. In simple terms that means the bonds are backed by the state or local government's ability to tax, and to raise taxes

to pay bondholders. For cities, it normally comes in the form of property taxes.

- Lease Revenue Bonds is an effective and increasingly popular vehicle for state and local governments or cities to finance and refinance equipment acquisitions, the construction of public facilities and the expansion and rehabilitation of existing public facilities. Lease financing enables cities to finance a variety of governmental projects without incurring a “debt” or an “indebtedness”.

## **FISCAL IMPACT:**

Projects with prior City Council appropriations that were not fully expended have remaining appropriation balances included as carryover amounts. These amounts are strictly estimates and will be trued up at year-end close. The carryover estimate often includes funds encumbered/committed due to an executed contract for services or goods.

The ten-year CIP coordinates physical improvements with financial planning, allowing maximum benefits from available funding sources. It relies on funding from various sources, primarily retained in the capital and special revenue funds, with uses usually restricted to specific purposes. Funding sources are each further described in the City's adopted budget. The City also adopted a policy to set aside money for a capital reserve to utilize as a funding source for capital needs.

Because staff identified many unfunded projects in the next ten years, staff recommend that the City Council explore financing these projects by issuing bonds. By issuing long-term debt for costly infrastructure projects with long service lives, the City can increase equity between generations without disrupting the operating budget.

Staff are committed to completing the projects outlined in the CIP budget.

## **ATTACHMENTS:**

1. Summary of Completed Projects and Prior Year Carryovers
2. Ten-Year CIP – Summary of CIP Spending Plan FY 2024-2034
3. Ten-Year CIP – Facility Category
4. Ten-Year CIP – Street Category
5. Ten-Year CIP – Sewer Category
6. Ten-Year CIP – Parks & Open Space Category
7. Ten-Year CIP – Transportation Category
8. Presentation - Bond Financing