Proposition B
$208 Million General Obligation Bond for Street Resurfacing, Accessibility Improvements, Bicycle and Pedestrian Safety Improvements

Introduction

This bond measure was placed on the ballot by a vote of the Board of Supervisors. It will provide $208 million primarily for San Francisco street re-surfacing and maintenance, but also including capital improvements, pedestrian and disabled access enhancements, bicycle upgrades, and other street-related upgrades. If approved by voters, the measure will add $15 annually per $100,000 of assessed value to property taxes. Total cost of repaying the bond over 20 years is estimated to be $360 million, including $152 million in interest. The measure requires a two-thirds vote in support to pass.

Background

For many years San Francisco has spent less than required to maintain city streets, resulting in a significant backlog of projects and an increase in costs over time to replace highly degraded facilities. The current need for street maintenance is estimated at $34 million annually, but the City spends only a fraction of this amount. Approximately $3.6 million of this need is currently provided through the enhanced local sales tax (the Proposition K transportation sales tax) and $5.2 million from state funding. Minor additional funding comes from the federal government. This underfunding of street maintenance has resulted in a current backlog of over $330 million in repairs. This backlog, plus the annual ongoing needs, would require $751 million dollars over the next 10 years. Only $125 million has been identified to meet this need.

This measure seeks to begin catching up on this backlog of projects. Funding will include $115 million for street reconstruction and paving, $40 million for improved curb ramps and Americans with Disabilities Act upgrades, $7 million towards sidewalk improvements, $8 million for street structures (such as bridges, pedestrian overpasses, and stairways), and $3 million for pedestrian and bicycle safety projects.

In the past, General Fund support and Gas Tax revenues were used to pay for street repairs. As other funding sources became available however, General Fund support was diverted to other programs and Gas Tax revenues to street cleaning. But due to changes in the allocation of the City's transportation sales tax and state funding, money the City has for years relied on for street repair is no longer available. Although City officials would prefer a permanent dedicated financing mechanism for this effort, no one has yet identified such a funding source. Options include imposing local vehicle license fees, supporting a regional enhanced gasoline tax, or creating a dedicated assessment district(s).

Analysis

SPUR is strongly in favor of adequate ongoing funding for maintenance and capital projects, as this investment reduces government costs significantly in the long run while improving quality of life at the same time. Inevitably, maintenance funding is cut from the City's annual budget as immediate health and human service, public safety, and emergency needs compete more effectively for funding in the annual budget process. This dynamic is especially poignant in the case of street maintenance.

Well-maintained streets are able to last 20-40 years or more. Poorly maintained streets may begin to fail after 8-15 years. The cost of maintenance required to prolong the life of a street is small compared to the cost of rebuilding from scratch.

Bonded indebtedness is generally considered appropriate for capital projects with a long life, which are too large to pay for out of regular annual revenue. By contrast, it is fiscally inappropriate to fund ongoing operations or expenses that occur predictably over time using bonds. To do so is analogous to paying rent or buying groceries on a credit card and paying it off over a long time—while it may be necessary in some situations, it is not a financially sustainable to do so repeatedly over the long run, since interest payments will eventually become so large that they displace other spending.

In a certain sense, streets could be placed in the category of capital projects, since they have a long life span if properly maintained, and are major investments. However, because of the massive size of San Francisco's street network, maintenance and repairs to some street will be required every year, and no general obligation bond would be large enough to replace the entire street network (the value of the whole street network is estimated at over $4 billion dollars, while the City's remaining legal debt capacity is just over $2 billion). In this respect, street repaving is more akin to an annual expenditure, since these are a normal, predictable expense of government that will occur every year. As a result, most jurisdictions fund streets using regular tax revenues instead of long-term debt.

Some of the work to be done on streets under this measure, such as ADA improvements and street substructure upgrades, are true capital expenditures meriting long-term financing since they are one-time investments in new structures,

Overall indebtedness is an important indicator of fiscal health. San Francisco is nowhere near its prudent debt limit, partly because several bonds have been rejected in recent years, but also because property values have soared in the past decade (prudent debt limits are determined as a ratio of bonded indebtedness to total property value). The City's debt legal general obligation bond debt limit is three percent of the assessed value of all taxable property, or about $3 billion dollars. Current outstanding debt is slightly under $1 billion. However, several major bond measures are expected in coming years, as the City has identified over $3 billion in unfunded capital needs. Moreover, there are market-based constraints on the amount of debt the City can carry as well, since interest rates will increase as the City goes further into debt.

Pros

Those who support the measure state:

- The city's streets are falling into disrepair and further delay in improving the most-in-need streets will result in increased costs.
- City officials understand the need for a long-term funding solution for street maintenance, but hammering out an agreement on such issues will take time, resulting in further costly degradation of streets. This bond will provide a temporary funding source while a long-term solution is being developed.
- Many costs to be incurred under the proposal are appropriate for a bonding measure as they provide long-term capital improvements.

Cons

Those who oppose the measure state:

- It is unacceptable to indebt the City for projects that are a basic responsibility of government and should be funded through annual income; this measure is a sign of the City's inability to "live within its means." If we approve this bond, we will be paying interest for 20 years just to get five years of street repairs.
- Covering maintenance projects with bond measures is the most wasteful way to address this need. Allowing streets to degrade then rebuilding them with bonds means we are paying more money for streets in worse conditions than it would cost if we simply had the discipline to take care of the streets we invest in.
- This wasteful cycle of deferring maintenance then funding it with bonds results in less money for other important City services over the long run.
- If a long-term strategic plan for funding streets were in place, this measure might make sense as a short-term infusion of cash to catch up on the City's backlog. But no such plan exists.
- While the need for street repaving is critical, passing this bond measure will reduce pressure on City officials to develop a long-term funding solution. The problem will again be ignored until the bond money runs out, and we will be back to square one but with higher interest payments.

Recommendation

The SPUR Ballot Analysis committee voted 8 to 2 to recommend that SPUR oppose this Bond measure. SPUR has a history of consistently supporting general obligation bonds, and has been a strong advocate for improving the City's management and funding of its capital assets. And while everyone agrees it is undesirable to fund street repairs using bonds, an argument can be made that under the current circumstances there are few other choices to begin to address the backlog of deferred maintenance. Moreover, the ADA, pedestrian, bicycle, and capital improvements in the measure are legitimate uses of bond funds. However, we cannot support incurring new debt for this purpose until the City identifies permanent funding mechanisms for ongoing street maintenance. This measure will only push back a few years the difficult choices needed to permanently correct the City’s chronic neglect of street repairs. This measure is a short-term solution to a structural problem that is not going a way. It will require voters to pay interest for 20 years on five years worth of repairs that should be made on a pay-as-you-go basis, and it will push the City closer to its prudent debt limit, displacing other projects that are more appropriate for bond financing.