



THE CITY OF SAN DIEGO

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**OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

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# **IBA Review of the FY 2019-2023 Five-Year Capital Infrastructure Planning Outlook**

## **OVERVIEW**

On January 24, 2018, the Infrastructure Committee heard a report on the City's Fiscal Year (FY) 2019-2023 Five-Year Capital Infrastructure Planning Outlook (CIP Outlook) and forwarded the report to the City Council. The CIP Outlook serves as a planning tool that forecasts capital infrastructure needs and available funding sources over the next five fiscal years to inform resource allocation decisions. It also supports development of the FY 2019 Proposed Budget for the Capital Improvements Program (CIP).

The FY 2019-2023 CIP Outlook identifies \$4.37 billion of capital infrastructure needs across 22 asset types<sup>1</sup> and \$2.79 billion in various funding sources available to support these needs over the next five fiscal years. This creates a funding gap of \$1.58 billion, which is associated with General Fund-supported assets. Among this group of assets, storm water remains the largest capital need and has the largest funding gap; followed by streetlights and existing General Fund facilities.

In this report our office: 1) provides an overview of the CIP Outlook and its trends; 2) analyzes projected expenses on capital needs, available funding, and the resulting funding gap; 3) summarizes the Mayor's capital priorities as reflected in the report; 4) highlights specific General Fund-supported asset needs; and 5) discusses opportunities for Council to set CIP priorities. We conclude with considerations for Council to keep in mind during the upcoming budget review process.

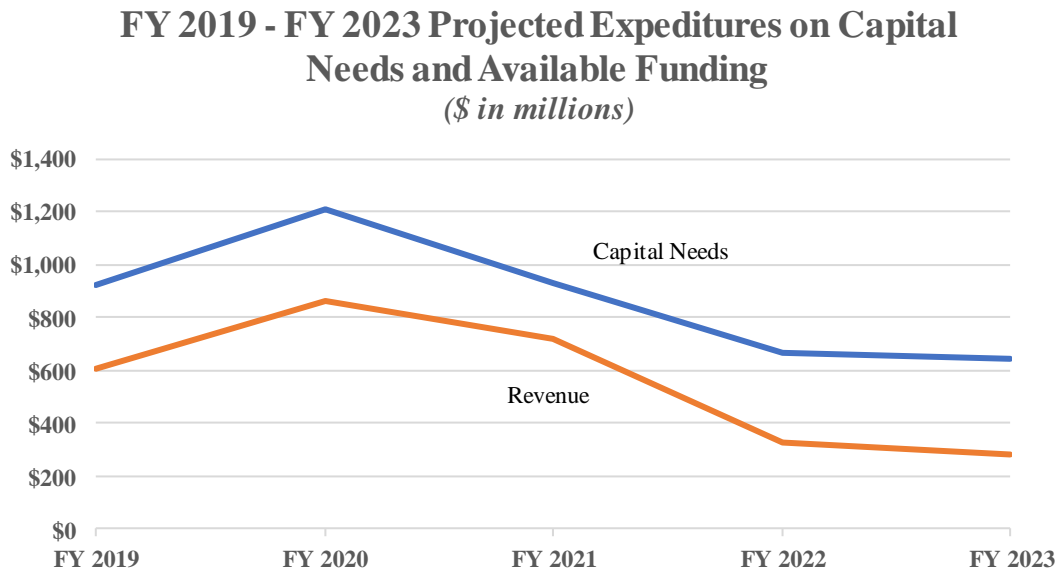
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<sup>1</sup> Airports, bike facilities, bridges, existing General Fund facilities, new fire stations, fleet, golf, landfills, new libraries, new lifeguard stations, parks, new police stations, Pure Water, stadium, sidewalks, storm water, streetlights, streets and roads – modifications, streets and roads – pavement, traffic signals and intelligent transportation systems, wastewater, and water.

# FISCAL/POLICY DISCUSSION

## Overview of the CIP Outlook and Trends

The CIP Outlook provides a high-level overview of the City’s capital needs and available funding over a five-year period. The figure below depicts the projected expenditures on capital infrastructure needs and available funding trend from FY 2019 to FY 2023 (the outlook period).



Projected capital needs and revenue follow a similar declining trend after FY 2020. Almost 90% of the decrease in capital needs and funding after FY 2020 is attributed to Phase 1 of the Pure Water project<sup>2</sup> tapering off, which is estimated to be completed in 2021. This is after a significant ramp up from FY 2019 to FY 2020 with Pure Water projected expenditures increasing by almost \$400 million.

Although capital needs are projected to decline over the outlook period, they have increased over last year’s CIP Outlook by \$72.4 million, or 1.7%. In addition, costs associated with Phase 2 of the Pure Water project are not included as it falls outside of the outlook period.

It is important to note that the projection of capital needs *does not* reflect the total value of the City’s needs. Instead, the report reflects *projected potential expenditures* on capital infrastructure needs because, as it is noted in the report, not all capital needs can be reasonably addressed within the next five years.

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<sup>2</sup> The Pure Water San Diego project is a multi-year program that turns recycled water into drinkable water through water purification technology. Through implementation of this project, the City aims to supply one-third of its own water by FY 2035.

## **Projected Expenses on Capital needs, Available Funding, and Resulting Funding Gap**

### Projected Expenditures on Capital Needs

Capital infrastructure needs projections include costs to complete existing projects as well as to address newly identified needs. Though not part of the appropriations ordinance, the FY 2018 Adopted CIP Budget includes projections of funds needed to complete existing capital improvement projects and ongoing annual capital expenditures, such as pipe replacements. The CIP Outlook includes \$3.96 billion in future costs to complete these existing CIP projects. However, some project costs may not be captured as they go beyond the five-year outlook period.

There are many factors that drive capital needs such as health and safety hazards, federal and state mandates, department goals or Council-approved service level standards on assets, community input, community and other strategic plan updates, and conducting condition assessments on assets. The CIP Outlook states that asset-managing departments submitted \$415 million in newly identified capital asset needs. Together with expenses for existing CIP projects, this brings the total projected expenditures on capital needs to \$4.37 billion.

The Public Works Department recently collected input from the Community Planners Committee (CPC) through an online survey to assist in identifying capital needs. This input was vetted by asset-managing departments and considered for inclusion in the CIP Outlook. Within the CIP Outlook, \$301.3 million in capital expenses is associated with CPC input for new and existing CIP projects. They cover the following asset types: bike facilities, existing park General Fund facilities, parks, sidewalks, streetlights, street and road modifications, and traffic signals and intelligent transportation systems.

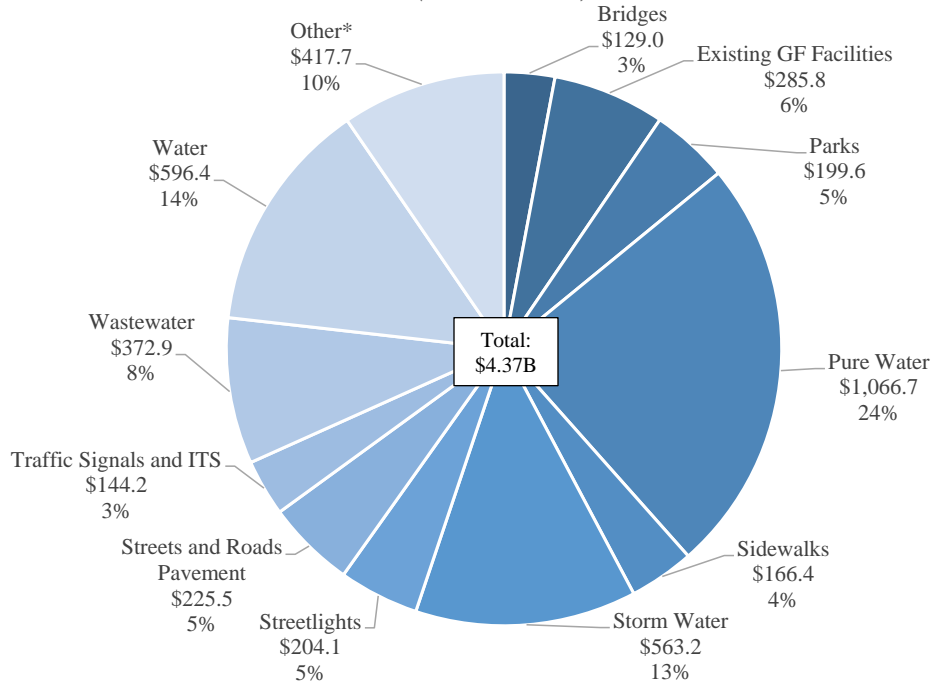
Among the *new* needs included in the CIP Outlook, 79.1% of the expenses are associated with General Fund-supported assets and 20.9% are attributed to Enterprise assets such as water, wastewater, and airports. The largest additional capital needs identified over the outlook period include: expenses related to the City's General Fund facilities condition assessment (\$208.1 million); expenses derived from the park amenities condition assessment (\$25.0 million); and expenses related to Fire Station 1 (\$18.6 million).

The figure on the next page reflects *total* projected expenditures on both existing and new capital needs. As shown, the most significant projected expenditures are on Public Utilities assets (water, wastewater, and the Pure Water program), which comprise 46.6% of total projected needs. These expenditures are expected to be fully supported by water and sewer rates paid by customers.<sup>3</sup> The second largest capital need projected is for storm water projects, totaling \$563.2 million over the outlook period, or 12.9% of total projected needs.

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<sup>3</sup> As stated in the CIP Outlook, this assumes that additional rate capacity is obtained to sufficiently support capital needs throughout the five-year projection.

**FY 2019 - 2023 Projected Expenditures on Needs by Asset**  
 (\$ in millions)



\* The “Other” category includes asset needs that individually represent less than 3% of total needs. These include: Airports; Bike Facilities; Landfills; New Fire Stations; New Libraries; New Lifeguard Stations; Parks – Golf Courses; Parks – Mission Bay Improvements; Streets and Roads – Modification; and Stadium.

Projected expenditures on capital needs for individual asset types increased and decreased over last year’s CIP Outlook, but in aggregate there was a net increase of \$72.4 million over the outlook period. The largest increases in capital needs over last year’s CIP Outlook are in the following asset types: storm water (\$124.4 million); water (\$69.3 million) existing General Fund facilities (\$51.6 million); sidewalks (\$50.5 million), and street and road modifications (\$30.4 million).

Projected Available Funding

The figure on the next page reflects the various funding sources and projected funding levels to support the needs discussed above. The CIP Outlook identifies a total of \$2.79 billion in available funding over the outlook period. This is a net decrease of \$231.4 million, or 7.7% from last year’s CIP Outlook.

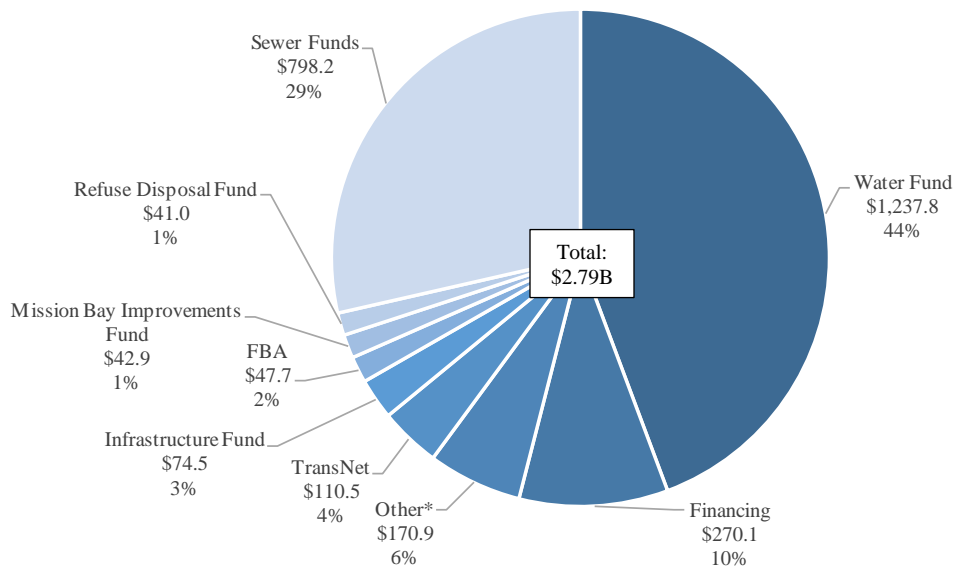
The decrease in available funding over last year’s CIP Outlook can largely be explained by the following:

- 1) The Community Development Block Grant is only projected for FY 2019 and FY 2020 due to the uncertainty of the funding source;
- 2) The \$20.7 million federal grant for the El Camino Real to Via de la Valle bridge project is significantly lower than the \$103.5 million federal grant included in last year’s CIP Outlook for the West Mission Bay Drive bridge project in FY 2018 (which is now

outside the outlook period);

- 3) Significantly more conservative facilities benefit assessment (FBA) revenue projections were used. This revenue source is contingent upon development and developers submitting their fees, which has not been realized as forecasted.
- 4) Public Utilities Department revenue projections decreased by a net of \$54.2 million.

**FY 2019 - 2023 Projected Funding by Source**  
(\$ in millions)



\* The “Other” category includes funding sources that represent less than 1% of total projected revenue. These include Airport Funds; Bus Stop Capital Improvement Fund; Community Development Block Grant; Development Impact Fees; Donations; Golf Course Enterprise Fund; Grants; Mission Trails Regional Park Fund; Other Park Funds; Prior Year Continuing Appropriations; Regional Park Improvements Fund; Road Maintenance and Rehabilitation Fund; Stadium Fund; Sunset Cliffs Natural Park Fund; Trench Cut/Excavation Fee Fund; and Undergrounding Utilities Fund.

As seen above, numerous funding sources support the CIP, all with unique legal spending restrictions. Many funding sources are restricted for certain asset types: the Water and Sewer funds are enterprise funds that can only be used to support improvements to water and sewer infrastructure; Developer Impact Fees (DIFs) and FBAs are fees assessed on developers and are required to be spent on public facilities within the community that they were generated. Consistent with prior year CIP Outlooks, DIF revenue is not projected past FY 2019 due to the uncertainty of funding received from private development activity in communities that are at or near full development. DIF revenue will likely be generated in out years, but to what level is unknown.

The Infrastructure Fund and Financing fund sources are among the most flexible in the CIP. They can be used across all General Fund-supported asset types. Flexible funding is valuable within the CIP because there are many asset types that do not have a dedicated funding source and are significantly underfunded, as reflected in the table on page 6.

Because enterprise assets are self-supporting, they are allocated more funding as compared to their needs within the CIP Outlook. To illustrate, General Fund assets comprise 51.2% of the projected expenditure needs over the outlook period, while only being supported with 23.6% of the available funding sources. Enterprise assets comprise 48.8% of the projected expenditure needs, while taking up 76.4% of the available funds.

### Projected Funding Gap

The CIP Outlook identifies \$4.37 billion of total projected expenditures on capital infrastructure needs and \$2.79 billion in funding available to support these needs over the next five fiscal years. This leaves a funding gap of \$1.58 billion – an increase of \$303.8 million, or 23.8% over last year’s projected funding gap. As with last year, the funding gap is associated entirely with General Fund-supported assets, or those without a dedicated funding source. This can be seen in the table below. Storm water remains the largest General Fund-supported capital need with the largest funding gap, followed by streetlights, and existing General Fund facilities. Streetlights have the second largest funding gap, but the second lowest percentage of needs funded. Also among the largest funding gaps are parks with 22.4% needs funded and sidewalks with 8.6% of needs funded.

### **Summary of Total Projected Capital Asset Need, Funding, and Gap in FY 2019-FY 2023**

<b>Asset Type</b>	<b>Need</b>	<b>Funding</b>	<b>Gap</b>	<b>Percent of Needs Funded</b>
Storm Water	\$ 563,249,030	\$ 104,384,826	\$ 458,864,204	18.5%
Streetlights	204,100,000	1,419,100	202,680,900	0.7%
Existing GF Facilities	285,789,324	120,646,961	165,142,363	42.2%
Parks	199,611,687	44,721,636	154,890,051	22.4%
Sidewalks	166,366,076	14,350,900	152,015,176	8.6%
Traffic Signals and ITS	144,217,600	10,915,000	133,302,600	7.6%
Bike Facilities	121,627,047	5,900,000	115,727,047	4.9%
Bridges	128,991,685	28,104,658	100,887,027	21.8%
Streets and Roads - Modifications	113,993,993	59,546,569	54,447,424	52.2%
New Fire Stations	69,121,532	39,679,916	29,441,616	57.4%
New Lifeguard Stations	6,319,967	0	6,319,967	0.0%
New Libraries	8,342,000	4,212,410	4,129,590	50.5%
New Police Stations	-	-	-	0.0%
Streets and Roads - Pavement	225,500,000	225,500,000	-	100.0%
<b>General Fund Asset Total</b>	<b>\$ 2,237,229,941</b>	<b>\$ 659,381,976</b>	<b>\$ 1,577,847,965</b>	<b>29.5%</b>
Pure Water	\$ 1,066,663,576	\$ 1,066,663,576	-	100.0%
Water	596,436,670	596,436,670	-	100.0%
Wastewater	372,928,921	372,928,921	-	100.0%
Parks - Mission Bay Improvements	42,904,661	42,904,661	-	100.0%
Landfills	41,000,000	41,000,000	-	100.0%
Airports	9,611,111	9,611,111	-	100.0%
Parks - Golf Courses	4,000,000	4,000,000	-	100.0%
Stadium	750,000	750,000	-	100.0%
<b>Enterprise Fund Asset Total</b>	<b>2,134,294,939</b>	<b>2,134,294,939</b>	<b>-</b>	<b>100.0%</b>
<b>Asset Total</b>	<b>\$ 4,371,524,880</b>	<b>\$ 2,793,676,916</b>	<b>\$ 1,577,847,965</b>	<b>63.9%</b>

*Totals may not add due to rounding.*

## Mayoral CIP Priorities

The Mayor’s CIP priorities can be identified through the allocation of key flexible funding sources, such as future financing and the Infrastructure Fund. The only General Fund-supported asset that is fully funded is street and road pavement which was done by allocating future financing proceeds and Infrastructure Fund monies. Pavement needs are also supported by resources dedicated to right-of-way improvements, such as TransNet and Road Maintenance and Rehabilitation Fund.<sup>4</sup>

Because financing and the Infrastructure Fund have the fewest funding restrictions, they can be targeted to asset types with the greatest need. The next two tables below reflect how the Mayor intends to allocate these limited resources over the outlook period.

**Future Financing Proceeds Allocations for FY 2019-FY2023**

<b>Asset Type</b>	<b>Total Funding Over Outlook Period</b>	<b>Distribution</b>
Streets and Roads - Pavement	\$ 106,019,027	39.3%
Existing General Fund Facilities	104,248,696	38.6%
Storm Water	45,871,601	17.0%
New Fire Stations	13,960,676	5.2%
<b>Total</b>	<b>\$ 270,100,000</b>	<b>100.0%</b>

The CIP Outlook includes funding from future financing totaling \$270.1 million which could take the form of issuing lease revenue bonds as well as issuing commercial paper notes. Both financing methods would be used to support General Fund asset needs. Commercial paper is a short-term borrowing tool that allows the City to borrow when funds are needed for projects instead of issuing the full amount of project costs upfront using long-term bonds. The borrowing plan provided in the FY 2019-2023 Five-Year Financial Outlook assumes that \$75 million of commercial paper notes will be issued in FY 2019 to provide as-needed funding for existing projects through FY 2021.

The Fiscal Year 2018 CIP Mid-Year Budget Monitoring Report approved by Council on December 11, 2017, provided various recommendations for an anticipated commercial paper borrowing program. One recommendation is that no new projects be considered for this funding and instead use the funding to complete existing projects.

The table above reflects the intent to support “new fire stations” with future financing. This is associated with construction of the Fairmount Avenue Fire Station, which was listed in a study as the number one priority fire station in both the 2010 Citygate report and the updated study released in 2017.<sup>5</sup> On December 13, 2017 the City Council approved two items related to the restructuring of Tobacco Settlement Asset-Backed Bonds estimated to generate tax-exempt proceeds for eligible

<sup>4</sup> TransNet Funds come from a one-half cent local sales tax and must be used for improvements to the right-of-way, with the primary goal to reduce traffic congestion. TransNet funds can be used for other asset types aside from streets. The Road Maintenance and Rehabilitation Fund is a new revenue source included in the CIP Outlook. It was established due to the enactment of Senate Bill 1 in 2017 and is supported by increases in gas taxes. Funds may be used for either road maintenance or capital projects.

<sup>5</sup> This report is discussed further in the Fire-Rescue Department Needs section below.

capital projects. One of the items was an increase in the CIP budget of \$23.5 to \$25.0 million<sup>6</sup> for three projects to expend the bond proceeds. The Fire-Rescue Air Operations Facility was among the projects appropriated funding.

Our office raised issues regarding the prioritization of the Fire-Rescue Air Operations Facility ahead of previously identified high-need fire stations such as Fairmount Avenue Fire Station. Additional research showed that due to challenges with the project site it was unlikely that funds would be able to be sufficiently spent within the three-year IRS deadline for these bond proceeds. The CIP Outlook reflects the intent to support the construction phase of the Fairmount Avenue Fire Station which is estimated to begin in September 2020. Commercial paper is a just-in-time borrowing tool which should be issued as expenses are incurred. Therefore, before approving a project list for the General Fund commercial paper borrowing program, anticipated for this spring, Council may wish to receive an update on this project’s schedule and ability to spend these funds in the appropriate amount of time.

Approved by voters in June 2016, the Infrastructure Fund receives a portion of unrestricted General Fund revenues to support acquisition of real property, construction, reconstruction, rehabilitation, and repair and maintenance of General Fund infrastructure. Although the Infrastructure Fund can support both maintenance projects through the operating budget as well as capital projects through the capital budget, the CIP Outlook assumes all monies received in the fund will be allocated to capital improvement projects in the asset types reflected in the table below.

**Infrastructure Fund Projected Allocations for FY 2019-FY2023**

<b>Asset Type</b>	<b>Total Funding Over Outlook Period</b>	<b>Distribution</b>
Storm Water	\$ 58,513,225	78.5%
Streets and Roads - Pavement	15,986,775	21.5%
<b>Total</b>	<b>\$ 74,500,000</b>	<b>100.0%</b>

The CIP Outlook reflects the intent to make significant allocations using future financing and the Infrastructure Fund for two General Fund-supported asset types that have among the largest projected expenses as well as the largest funding gaps – storm water and existing General Fund facilities. Though identified as the highest priority fire station by the Citygate report, completion of the Fairmount Avenue Fire Station and street and roads pavement projects are prioritized over other asset types with larger funding needs or funding gaps, such as sidewalks and streetlights. By looking at capital needs from a Citywide perspective through the CIP Outlook, Council can assess whether the planned uses of limited resources are the most appropriate.

### **Notable General Fund-supported Asset Needs**

#### Americans with Disabilities Act Projects

On June 5, 2017 Council approved the requests made in the FY 2017 CIP Year-End Budget Monitoring Report. One approved action authorizes the Chief Financial Officer to transfer all budget, expenditures, and encumbrances from the Americans with Disabilities Improvements

<sup>6</sup> Funding range depends upon the level of bond proceeds received.



annual allocation to the respective asset's annual allocation – City Facilities Improvements, Sidewalk Repair and Reconstruction, and Traffic Signals Modification. Therefore, unlike previous years, this year's CIP Outlook does not include a separate display for Americans with Disabilities Act (ADA) projected capital needs and funding sources for the outlook period.

However, the CIP Outlook does include a narrative providing an update on outstanding complaints as well as costs to implement a transition plan that identifies structural changes to facilities and public rights-of-way to provide accessibility. The City's ADA complaint process for grievances against the City has 231 open and unfunded complaints, and associated costs to address those complaints totaling \$18 million (a \$3.4 million reduction from prior year). In addition, the City has 119 high-use public facilities that require funding for structural changes estimated at \$35 million (unchanged from last year's update).

According to the Office of ADA Compliance and Accessibility, transition plan facilities are reflected in the Existing General Fund Facilities asset type and complaint costs are included within multiple asset types within the Transportation and Storm Water Department, depending on the nature of the complaint. The Parks and Recreation Department also indicated that ADA transition plan park projects were included within the department's needs for FY 2019 – FY 2021 but are largely unfunded.

### Bike Facilities

The bike facilities (e.g. bike paths and bike lanes) needs are driven by the department goal to improve or install at least 50 bike lane miles per year to implement the Bike Master Plan by FY 2038. The projected needs average about \$18.7 million for minor bike facilities annually to meet this goal. In addition, two projects drive the significant projected needs reflected in FY 2019: the Coastal Rail Trail project and the State Route 56 Bike Interchanges project. Out of the \$121.6 million in capital needs identified, \$5.9 million or 4.9% are funded.

### Existing City Facilities – General Fund

The Existing General Fund Facilities asset category reflects capital needs for existing General Fund facilities, regardless of which asset-managing department the facility belongs. New facility needs and estimated costs will appear in the specific asset-managing department, such as the Fire-Rescue Department for new fire stations as discussed below. The basis for the projected needs for existing General Fund facilities is a draft asset management plan created by the Public Works Department, which incorporates condition assessment data from all City-owned facilities.<sup>7</sup>

Between FY 2014 and FY 2016, the City conducted condition assessments on 693 leased and non-leased City buildings that are supported by the General Fund. The assessment resulted in a need to invest an estimated \$828.7 million to restore and raise the buildings to a “good condition” as defined by a facility condition index (FCI). Scores ranging from 0 to 20 signify good condition. On March 14, 2017 Council approved a service level standard of an FCI score of 15 for public and semi-public General Fund facilities and 20 for buildings such as a leased storage space or a commercial facility. Setting an improved service level standard for those facilities would require more funding to bring them to the desired condition.

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<sup>7</sup> In last year's CIP Outlook, only a portion of City General Fund facilities condition data were available.

The condition assessment data was used in the development of a draft fifteen-year asset management plan for Police, Fire-Rescue, Lifeguard, Library, Park and Recreation, and Public Works. At the end of the fifteen-year period, City facilities should all have reached the service level standard adopted by Council. The asset management plan also includes future capital renewal costs, which are costs to replace systems that are anticipated to reach the end of their useful life. Investments in capital renewal allows the City to sustain the targeted service level standard. With this long-term outlook on facility needs, the City can plan and budget appropriately for facility systems as they expire.

The CIP Outlook identifies \$285.8 million in capital needs over the outlook period of which \$120.6 million, or 42.2% are funded.

### Fire-Rescue Department Needs

On January 30, 2018, Council received a presentation on a report entitled “San Diego Fire-Rescue Department Standards of Response Cover Review” (Citygate Report) authored by Citygate Associates, LLC. This report is an update to a similar study, also conducted by Citygate, from 2010. The Citygate reports evaluated the ability of the Fire-Rescue Department to meet response time standards using the City’s current number of fire stations and fire engines.

Among the report’s recommendations was adding a total of 12 fire stations, including six stations currently in the CIP budget, and six additional infill stations. The CIP Outlook does not include stations for additional gaps in service identified in the updated Citygate report beyond existing CIP projects.<sup>8</sup> Council could consider the recommendations in the updated Citygate report and adopt a service level standard for fire stations. If the recommendations are approved, the six additional infill fire stations would be considered for inclusion in next year’s CIP Outlook.

Though the CIP Outlook reflects \$75.4 million in needed expenses for fire and lifeguard stations, \$39.7 million, or 57.4%, of fire station needs are funded and none of the lifeguard needs are funded. It is important to note that needs in this asset type exclude existing Fire-Rescue facility needs which are captured under the Existing General Fund Facilities asset category.

### Parks

Park needs fluctuate significantly over the outlook period, ranging from \$67.8 million at the highest point in FY 2019 to \$16.4 million at the lowest point in FY 2021. Several notable projects driving the needs identified in FY 2019 include:

- \$17.6 million for Mira Mesa Community Park Improvements;
- \$12.8 million for Pacific Highlands Ranch Community Park;
- \$5.0 million for the Ocean Beach Pier condition assessment; and
- \$4.0 million for Bay Terrace Senior Center.

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<sup>8</sup> As stated in the CIP Outlook, the following Fire-Rescue needs are included: Fire-Rescue Air Operations Facility; Fire Station Fairmount Avenue; Fire Station No. 54 - Paradise Hills; Fire Station No. 51 - Skyline Hills; Fire Station No. 49 - Otay Mesa; Fire Station No. 48 - Black Mountain Ranch; and North Pacific Beach Lifeguard Station.

Other significant project costs over the outlook period include \$25.0 million derived from park amenities condition assessment and \$40.0 million for ADA-related projects. It is important to note that project costs that drive capital needs in the CIP Outlook are high-level and are subject to significant change.

The CIP Outlook appropriately accounts for the additional needs identified through the park amenities condition assessment. Between FY 2014 and FY 2016, an assessment of the condition of 76 out of the City's 249 developed parks was conducted. This assessment was limited to the condition of park amenities, which include assets such as playgrounds, playing fields, courts, parking lots, and roads. The assessment estimated that \$24.8 million is necessary to bring the condition of the amenities existing within the 76 assessed parks to "good condition," as defined by a condition index similar to that which is used for facilities. Upon completion of assessments, Council will have the opportunity to approve a service level standard for park amenities as it did with City General Fund facilities. The service level that Council approves will drive future capital needs for park amenities.

The Parks and Recreation Department anticipates completing condition assessments on the remaining developed park amenities by the end of FY 2019 and will expand assessments to include joint use and open space parks, as well as irrigation systems, after FY 2020. As more assessments are completed, it is expected that newly identified capital needs will continue to be incorporated into the CIP Outlook. The department anticipates being able to develop a long-term asset management plan once all park condition assessments are complete.

### Sidewalks

Capital needs for existing sidewalks is driven by the department goal to repair and replace all damaged sidewalks under the City's responsibility by the end of FY 2024. A sidewalk condition assessment was completed in FY 2015 which identified 85,503 locations that needed repair. The total estimated cost to address capital repairs was \$46.1 million in 2015, though this amount includes estimated costs to address all identified locations, not only those under the City's responsibility. Since the assessment, \$7.4 million has been allocated to address capital needs, which leaves a balance of \$38.7 million to be funded.

To meet the department's goal, the CIP Outlook assumes \$7.4 million annually in capital sidewalk repair and replacement needs. Sidewalk expenses have increased since last year's CIP Outlook largely due to unfunded needs being carried forward from previous years. Prior to making funding decisions for sidewalks, it is important to note that the annual allocation for sidewalk replacement and repair includes \$4.5 million in funds carried over from previous years, and have yet to be spent. Whatever is not spent in FY 2018 will continue and rollover into FY 2019.

In addition, the assessment identified 650 miles of missing sidewalk. The department has a goal of installing 330,000 linear feet of new sidewalks in ten years (by the end of FY 2028), which equates to about 62.5 miles. In other words, the goal is to address about 10% of the total current needs over ten years. In order for the department to achieve this goal, the CIP Outlook identifies a need to install 33,000 linear feet, or about 6.3 miles, annually at a cost ranging from \$21 million to \$23 million. These new sidewalks also address ADA complaints. Finally, the assessment inventoried all curb ramps. The CIP Outlook includes \$3 million annually to make them ADA compliant.

Of the \$166.4 million in identified sidewalk needs, \$14.4 million or 8.6% are funded. In addition to these capital costs, operational costs of \$1.1 million annually over the next five years and \$1.1 million for one-time equipment purchases may be needed to achieve the department's goal for sidewalks, according to department submissions for the FY 2019-2023 Financial Outlook.

### Storm Water

Storm water needs are driven by storm water permit regulations set by the California Regional Water Quality Control Board. Storm water needs represent the single largest contributor to the CIP Outlook's funding gap, totaling \$563.2 million. About 56.1% of the total costs during the outlook period is associated with projects that fix storm water drains. About 43.9% are attributed to watershed projects which either remove pollutants from storm water before it enters public waterways, or reuse the water to keep it from entering into public waterways. The CIP Outlook states that storm water needs are significantly higher than those identified in last year's CIP Outlook, primarily due to carrying forward unfunded needs from the previous year.

The CIP Outlook reflects \$104.4 million, or 18.5% of storm water capital needs funded over the outlook period. In addition to these capital needs, \$108.4 million in operational costs may be required over the next five years based on department submissions for the FY 2019-2023 Financial Outlook.

### Traffic Signals and Intelligent Transportation Systems (ITS)

The needs for traffic signals and ITS is driven by the Traffic Signal Communication Master Plan and the goal to upgrade all traffic signal communication components and technology by FY 2028. In addition, the department has a goal to complete all 35 projects identified on the current needs list for signal installation by FY 2028. Costs for installation of accessible pedestrian signals at intersections where a disability complaint has been made are included within this asset type.

According to the Traffic Signal Communication Master Plan, developed in December 2014, modernization of the traffic signal system will allow traffic signals throughout the City to be coordinated. This will increase public safety, shorten commutes, reduce greenhouse gases consistent with the Climate Action Plan, and increase mobility at intersections for all modes of travel, including emergency vehicles. The plan provides a guide to implement traffic signal communications and ITS technology improvements.

Most of the capital needs included in the CIP Outlook for this asset type are associated with installation of traffic signal interconnect systems, averaging about \$23.8 million annually. The remaining needs are divided among annual allocations for traffic signal installation in high priority areas and traffic signal upgrades. Of the \$144.2 million identified needs, \$10.9 million, or 7.6% are funded.

### *Continued Refinement of Infrastructure Needs through Asset Management Strategies*

The CIP Outlook discusses the Citywide initiative of implementing asset management business practices which will likely lead to refinement of the City's capital infrastructure needs. As part of this effort, the City is rolling out a software solution called Infrastructure Asset Management San

Diego Project (I AM San Diego Project). The solution will enable staff to use information on assets, such as current conditions, geographic locations, project budget and scheduling, and maintenance history to guide maintenance and capital investments.

This information is expected to be used to develop departmental asset management plans which will identify the projects and funding needed to maintain assets at a targeted service level standard in the most cost-effective way. The Public Works Department plans to come to the Infrastructure Committee in the summer to discuss a framework for the facilities asset management plan. The framework is anticipated to include a methodology used to prioritize projects and identify the most appropriate action for each building (e.g. rehabilitation, disposing, expanding, etc.). These plans will also support the development of future CIP Outlooks and the annual CIP budget.

Another related effort is the development of a strategic asset management plan, or SAMP. The SAMP is intended to set a Citywide strategy for asset management and provide standards for departmental asset management plans. The Infrastructure/Public Works Branch plans to come to the Infrastructure Committee in the spring to update the committee on the I AM San Diego Project and the SAMP.

#### Opportunities for Council to Determine Capital Priorities

Going into the budget review process, the priorities reflected in the CIP Outlook are an indicator of the priorities that will be reflected in the Proposed CIP Budget. Council can set its own CIP priorities in a variety of ways, such as through its review and approval of the FY 2019 Proposed CIP Budget and through City Council Budget Priority memoranda submitted to our office and revised memos in the spring. Council is also asked to approve appropriations in individual City Council meeting items throughout the year, as well as a consolidated request of many appropriation adjustments included in semi-annual CIP budget monitoring reports.

City Council Budget Priority memoranda were recently submitted to our Office and are represented in [IBA Report 18-01, “FY 2019 City Council Budget Priorities”](#). Council input has also been collected by the Public Works Department through an online survey conducted this past fall. In prior years, Councilmembers were asked to submit CIP priorities at different times for several funding sources. In preparation of the FY 2019 CIP budget, the Public Works Department asked Councilmembers to submit CIP priorities once; not specific to any funding source.

As discussed earlier in this report, Council will also have the opportunity to weigh in on CIP projects to be funded by future financing. A proposed list of projects for commercial paper funding is expected to be presented to Council for approval this spring. Council CIP priorities as expressed through the online survey and budget priority memoranda recently submitted to our Office will be taken into consideration in developing the project list.

Finally, Council can influence capital needs and planning by adopting the service level standard at which an asset should be maintained. Council will have the opportunity to approve a service level standard for park amenities when condition assessments are completed. It could also consider setting a standard for fire stations in light of the updated Citygate report.

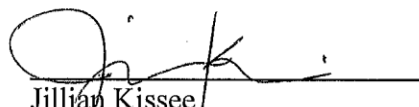
## CONCLUSION

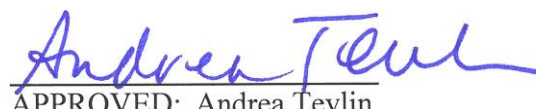
The CIP Outlook is a valuable tool for identifying the City's most significant capital needs and the funding sources available to meet those needs. This year's CIP Outlook identifies a larger funding gap of \$1.58 billion as compared to prior year's gap of \$1.27 billion. Consistent with last year's CIP Outlook, the funding gap is associated entirely with General Fund-supported capital expenses; therefore, the funding gap remains a General Fund issue.

The CIP Outlook includes \$4.37 billion in capital needs, of which \$415 million are newly identified needs. With the City facing deficits and an uncertain economy in the years to come, the City's ability to take on the costs of additional new facilities needs to be carefully weighed. This applies primarily to General Fund-supported assets which typically require new staff and other related costs to open, operate, and maintain. Similarly, operational impacts need to be considered when investing in particular assets, such as storm water or sidewalks, as additional personnel may be needed to carry out a higher volume of projects.

Although the CIP Outlook is not a budget, it highlights Mayoral CIP priorities that are likely to be reflected in the FY 2019 Proposed CIP Budget. Council has a variety of tools available to influence CIP priorities as well. Approving future financing and associated funded projects will result in the largest revenue source for General Fund projects over the outlook period. With a \$1.58 billion funding gap associated with these asset types, many capital needs will be competing for this funding. In addition, setting service level standards for park amenities and fire stations is an opportunity to influence capital needs. However, this should be done in the context of funding constraints.

Continued implementation of asset management strategies is anticipated to improve the identification of the most critical capital needs and help the City understand the consequences of not adequately addressing maintenance and capital backlogs that exist for certain asset types. Until this information is available, the CIP Outlook provides the most comprehensive look at Citywide capital needs alongside available funding and serves as a good resource for Council to inform CIP budget decisions in the spring.

  
Jillian Kisse  
Fiscal & Policy Analyst

  
APPROVED: Andrea Tevlin  
Independent Budget Analyst