THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: February 10, 2023 **IBA Report Number:** 23-03

City Council Docket Date: February 13, 2023

Item Number: 200

IBA Review of the FY 2024-2028 Five-Year Capital Infrastructure Planning Outlook

OVERVIEW

On January 25, 2023, the Engineering & Capital Projects Department (E&CP) presented the City's FY 2024 – 2028 Five-Year Capital Infrastructure Planning Outlook (CIP Outlook) to the Active Transportation and Infrastructure (ATI) Committee. This report will be presented to the full City Council for discussion on February 13, 2023. As stated in *Council Policy 000-02: Budget Policies*, the CIP Outlook provides a five-year citywide assessment of infrastructure needs and outlines the proposed capital priorities in compliance with the Charter.[1] The CIP Outlook is developed to closely follow the annual release of the Five-Year Financial Outlook to assist in accurately forecasting future available funding for capital projects, and serves as the basis for development of the annual Capital Improvement Program (CIP) budget.

This is the City's ninth CIP Outlook; the first was issued in January 2015, and covered FY 2016-2020. A long-term capital plan was first recommended by the City Auditor in its June 2011 performance review of the CIP, to provide an overall citywide perspective on asset and funding needs to support informed financial decisions on infrastructure investments.

The CIP Outlook is a planning tool to identify capital needs and available funding within the five-year outlook period. As shown in the CIP Outlook, the City's capital needs far exceed available funding, and the Mayor and Council must therefore make strategic decisions regarding capital infrastructure investments during the annual budget process. Absent new resources, many needs identified in the CIP Outlook will remain unfunded. As the City deals with budgetary and resource constraints, aging and deteriorating infrastructure, and increasing urgency to achieve strategic goals, officials must make wise investments. Ultimately, the City will need a large-scale and holistic financing strategy with new revenue sources to address the growing backlog of unfunded needs and ensure the City's strategic goals, initiatives, and policies are fully implemented.

[1] Charter, Article VII, Section 71.

How this Report Is Organized

This report provides additional analysis and issues for Council to consider as it reviews the CIP Outlook and the upcoming proposed FY 2024 Budget. This report is organized into the following sections:

- *High-level Overview of the CIP Outlook*, including projected capital infrastructure needs, available funding, and the funding gap over the five-year period.
- *Comparison with Prior CIP Outlooks*, including total needs, funding, and the funding gap for the nine years of CIP Outlooks.
- *Projected Funding Over the Outlook Period*, including restrictions on use of funding sources.
- *CIP Outlook Projections for Needs, Funding, and Funding Gap by Asset Managing Department (AMD)*, including each department's approach to identifying capital needs, key projects and maintenance for key assets.
  - *Enterprise Departments*
    - Department of Real Estate and Airports Management (DREAM)
    - Environmental Services Department (ESD)
    - Public Utilities Department (PUD)
  - *General Fund Departments*
    - Fire-Rescue
    - General Services – Facilities
    - General Services – Fleet
    - Homelessness and Housing Strategies
    - Library
    - Park and Recreation
    - Police
    - Stormwater
    - Transportation
- *City Council Infrastructure Budget Priorities*
- *Key Findings and Recommendations*

Note, our Office also annually prepares [A Citizen's Guide to Infrastructure] which may further assist the public in understanding the CIP budget process. This report is currently being updated and is expected to be issued in March 2023.

Our Office would like to thank staff from E&CP, Department of Finance (DOF), and asset managing departments (AMDs) for responding to our questions and providing information in preparing this report.

FISCAL/POLICY DISCUSSION

Over the past nine years, the City has come a long way towards understanding capital needs as the AMDs have learned more about the condition of the City's assets. Having a well-supported understanding of capital needs, revenues, and the backlog of projects is critical so that the City can develop a holistic plan for identifying new revenue sources needed to address the significant and growing capital funding gap, which totals $5.2 billion in this CIP Outlook.

E&CP officials have noted that this is a transition year for the CIP Outlook. The CIP Outlook does not provide priority and discretionary needs categories or include some key information that had been included in previous Outlooks. The change in approach is primarily due to the timing of recently implemented initiatives and policies, including Council Policy 800-14: Prioritizing CIP Projects, which was updated and approved by Council in December 2022. Given timing, staff indicated that they could not both meet the timeline for issuing the CIP Outlook of January 13th and apply new criteria for prioritizing needs and allocating funding. Additionally, an important aspect of the City's Outlook process is to help support budget development for the upcoming CIP budget. In this case staff do not have the full benefit of that process.

We also note this CIP Outlook does not include some additional details that past Outlooks included, such as projected revenue or funding gaps for each asset type. Having this level of detail in previous years has enabled our office to monitor trends and track growth in asset-specific funding gaps, and to better understand which project types are prioritized for funding.

As highlighted throughout this report, data-driven Asset Management practices, such as establishing service level goals (or levels at which assets are to be maintained), conducting condition assessments, prioritizing projects based on risk, and using Asset Management systems to support planning provide a sound basis for identifying capital needs for the CIP Outlook.[2] However, the City does not have citywide guidance or requirements for consistent Asset Management across all AMDs. As a result, the extent, sophistication, and quality of Asset Management practices vary by department. Departments with strict legal requirements and/or dedicated funding generally have accurate information on the condition of assets and use Asset Management systems to identify capital needs. Other departments - especially those that have been chronically underfunded - often lack the resources to update their condition assessments or fully utilize their asset management systems. This has impacted the City's ability to accurately identify capital needs.

E&CP staff intend to improve the CIP Outlook in future years. We support that effort and emphasize, given the significant and growing funding gap, that it will be critical to ensure the consistency and accuracy of data, and to include information such as projected funding per asset type in future years. The *Key Findings* section in this report includes recommendations for future CIP Outlooks, including providing a longer (10-year or more) planning horizon and realistic plan of what projects can be implemented given the City's internal and external capacity.

Our review of the CIP Outlook includes assets and projects for both General Fund as well as enterprise funded departments. Although the CIP Outlook does not include revenues or funding gap by asset type, in response to our request, E&CP did provide supplemental data to us with projected revenue by AMD, and we include that information in our assessment of the funding gap. Note that some key funding sources are included in the total gap assessment, but have not yet been

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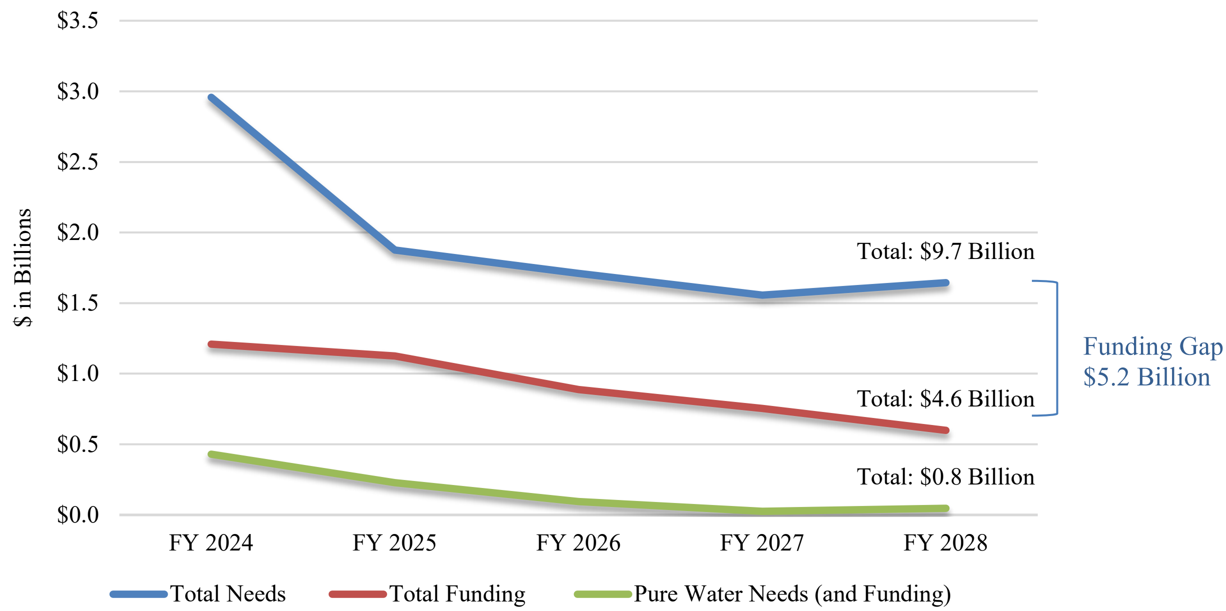
[2] Condition-based Asset Management is a recommended best practice for sustainably managing assets at a desired level of service for the lowest lifecycle cost. Given the significant amount of information and data needed for effective management of assets for a large City like San Diego, an Asset Management system is required to support work management and planning to maximize investment strategies.

allocated to projects, such as the Infrastructure Fund and Climate Equity Fund (CEF), which have not yet been allocated to projects.

High-level Overview of the CIP Outlook

The following figure reflects projected capital infrastructure needs, available funding, and the funding gap over the five-year CIP Outlook period. The CIP Outlook estimates total capital needs of $9.75 billion from FY 2024 to FY 2028, and projected funding available to support these needs of $4.58 billion, resulting in a $5.17 billion funding gap for General Fund. Projected capital needs are at their highest in FY 2024 (the last year of major construction for Pure Water Phase 1[3]) and then decline until FY 2028. The increase in FY 2028 is primarily due to an increase for parks needs related to their condition assessment and community input, as well as the OB Pier replacement. Also contributing to the increase in FY 2028 is the planning and design phase of Pure Water Phase 2.

FY 2024 – FY 2028 Projected Capital Needs and Available Funding



Comparison with Prior CIP Outlooks

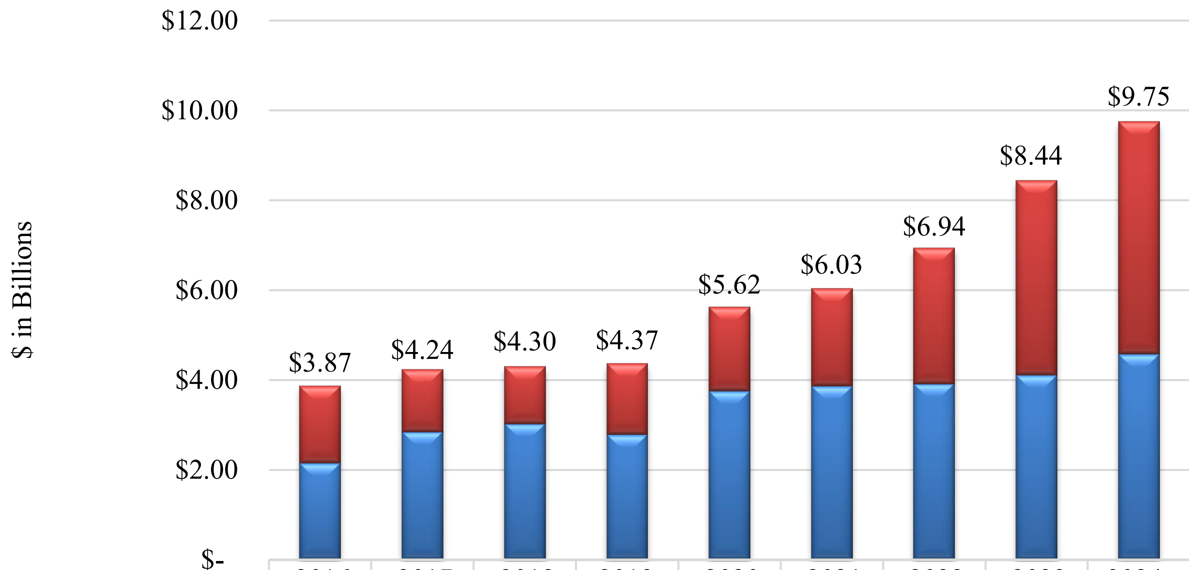
Since the City's first CIP Outlook in January 2015, the Outlook has been expanded to include more asset types and has evolved as AMDs have learned more about the state of the City's assets. While not apples to apples, a comparison of prior years is helpful to identify trends.

The following figure shows total needs, funding, and the funding gap for the nine years of CIP Outlooks. If we compare this CIP Outlook to the first Outlook (FY 2016-2020), total capital needs have increased by 152% from $3.87 billion to $9.75 billion. Funding has also increased over the same period by 112% from $2.16 billion in the first CIP Outlook to $4.58 billion today. The

[3] The Pure Water project is intended to provide a safe, secure, and sustainable local drinking water supply for San Diego through use of advanced water purification technology. Phase 1 is anticipated to deliver its full capacity of water in FY 2027. Upon completion of Phase 2, anticipated in 2035, Pure Water will provide nearly half of the City's drinking water supply.

funding gap represents a dramatic increase of 202% from $1.71 billion to $5.17 billion in this Outlook, essentially tripling since 2015. Compared with the prior CIP Outlook (FY 2023-27), this represents a 16% increase in estimated total capital needs, 11% increase in funding, and 20% increase in the funding gap. This is the largest year-over-year increase in the funding gap since this report was first created.

Year-over-Year Total Needs, Funding, and Gap for Nine CIP Outlooks



	2016-20	2017-21	2018-22	2019-23	2020-24	2021-25	2022-26	2023-27	2024-28
Funding Gap	$1.71	$1.39	$1.27	$1.58	$1.86	$2.16	$3.02	$4.32	$5.17
Available Funding	$2.16	$2.85	$3.03	$2.79	$3.76	$3.87	$3.92	$4.12	$4.58

Fiscal Years

Available Funding Funding Gap

Note: The methodology to develop the CIP Outlook has evolved over the years, and expenditure and revenue assumptions may vary by Outlook Period.

As discussed throughout this report, the significant gap is largely due to competing priorities for limited resources and a lack of new or dedicated funding sources for capital infrastructure. This has led to ongoing deferral of needed projects, and resulted in continued aging and deterioration of existing assets, which ultimately increases costs. This also has resulted in the City spending funds on emergency repairs when assets fail.

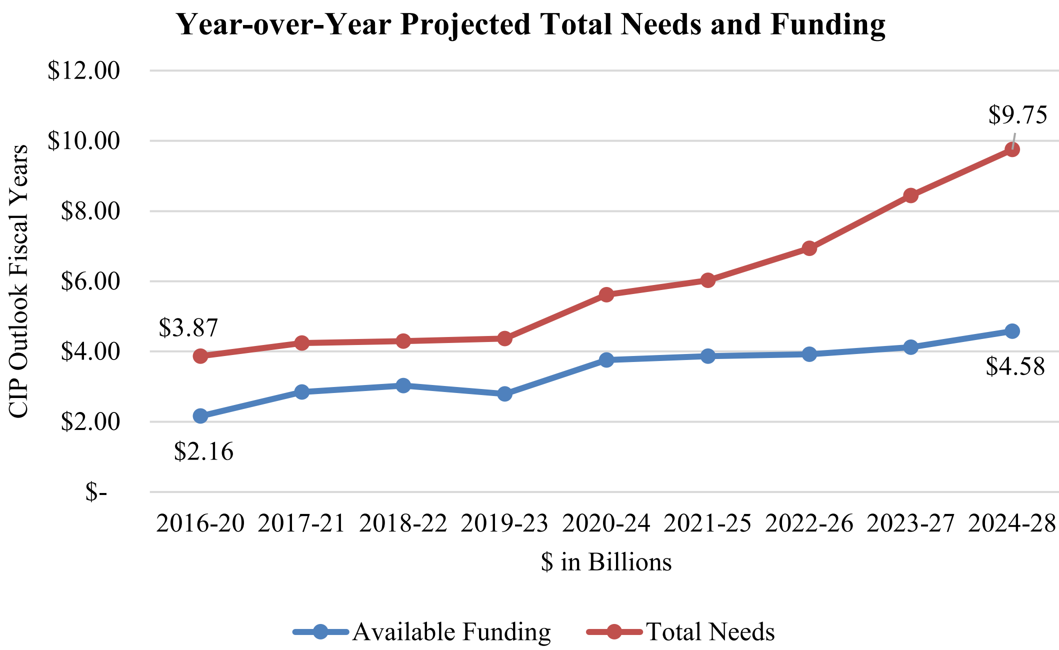
Projected Funding Over the Outlook Period

Revenue projections in the CIP Outlook are developed by DOF, in some cases in concert with fund administering departments. For the revenue sources included in both the FY 2024-28 Five-Year

Financial Outlook and the CIP Outlook, such as Development Impact Fees (DIF) and the Infrastructure Fund, the same assumptions were used.[4]

The CIP Outlook revenue projections reflect the continuance of the economic recovery in FY 2023, where projected revenues grow at an increased rate over the relatively flat years of the pandemic, as shown in the following figure. However, similar to last year, challenges related to the pandemic have significantly increased project execution costs and timelines, as the time needed to secure materials has increased and contractor and consultant labor costs are increasing.

Overall, the funding projected in the CIP Outlook increased by about 11% from the prior year, and totals $4.58 billion. The following figure shows that, while CIP revenues have generally increased since the first CIP Outlook in 2015, they are increasing at a lesser rate than total capital needs.



Restrictions on Use of Funding Sources

To fund CIP projects and meet capital needs, a variety of ongoing and one-time funding sources are appropriated based on DOF's specific fiscal year revenue forecasts. The available funding is from various sources, many of which have specific spending restrictions. There are two important related concepts when discussing CIP funding sources – whether (1) an asset is enterprise funded or reliant on the General Fund and (2) a funding source has use restrictions. The use restricted categories are generally based on the type of project and may include geographic locations.

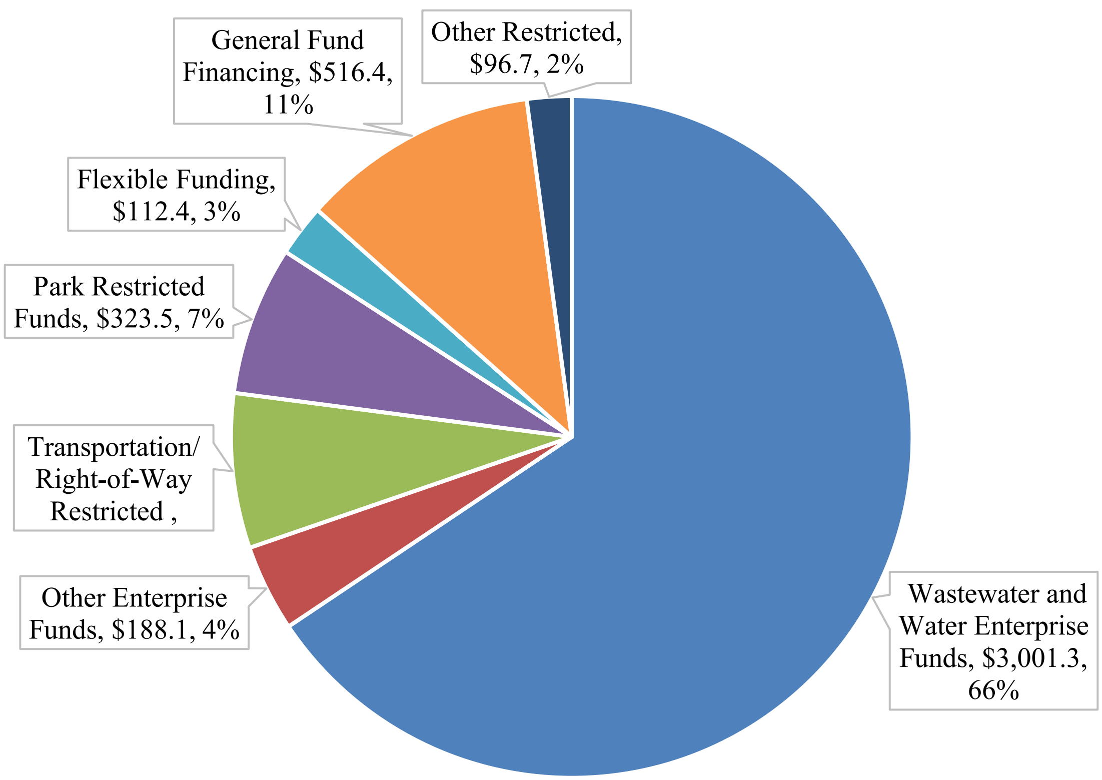
Enterprise assets are considered self-supporting, as they have dedicated funding sources generated from fees or rates charged to customers. Enterprise funds support airports, golf courses, recycling, water, and wastewater, and enterprise funds can only be used to support the services from which they generate revenue. This CIP Outlook assumes enterprise assets are fully funded.

[4] One exception to this approach is for the Climate Equity Fund (CEF), in which DOF made the change for the $1.1 million that was treated as ongoing in the Five-Year Outlook that should have been treated as one-time.

In contrast, non-enterprise assets such as many city parks, libraries, police facilities, and fire-rescue facilities, do not have dedicated funding sources and must compete for the City's limited unrestricted funding. Assets without dedicated funding sources account for 100% of the funding gap.

The following figure shows projected funding from various sources in the CIP Outlook, broken out by the use restrictions of those funding sources. As in previous years water and wastewater restricted funding accounts for a significant majority ($3.0 billion or 66%) of projected funding. Flexible funding sources which generally have few or no restrictions on use, account only for $112.4 million or 3% of total funding over the Outlook period. Note that we are not including General Fund Financing under flexible funding since the only issuances planned during the Outlook period are dedicated to WIFIA Stormwater projects, as discussed in the *General Fund Financing* section of this report.

Percentage of Projected Funding by Use, *$ in Millions*



Total Projected Revenue $4.6 Billion

<u>Water and Wastewater Funds</u>

A significant majority, or approximately 66%, of funding for the CIP comes from water and wastewater fees and can only be used to support improvements to water and wastewater infrastructure. This represents an increase from $2.9 billion in the prior year Outlook to $3.0 billion in this Outlook. The Water and Wastewater Funds support the Pure Water Project as well as baseline CIP water and wastewater projects.

The CIP Outlook assumes sufficient rate capacity to support this amount of capital funding will be obtained throughout the five-year projection. For wastewater, this is based on rate increases approved by the City Council in September 2021 which went into effect January 1, 2022, which cover FY 2024-2025, as well as projected rate increases as depicted in the Public Utilities Department FY 2024-2028 Five-Year Financial Outlook. For water, this is based on the rate projections also contained within the PUD Outlook, for which rate increases impacting FY 2024 and FY 2025 are currently being proposed in the latest Water Cost of Service Study. Water and wastewater capital funds are discussed in more detail in our Review of the Public Utilities Department FY 2024-2028 Five-Year Financial Outlook.

Transportation/Right-of-Way Funds

The CIP Outlook also projects $335.8 million in funding restricted for transportation/right-of-way projects, such as street modifications and pavement, sidewalks, streetlights and traffic signals. These funds include the Bus Stop Improvement Funds ($500,000), TransNet ($121.8 million), Trench Cut/Excavation Fee ($10.0 million), Regional Transportation Congestion Improvement Program Funds ($26.5 million) and the Utilities Undergrounding Program Fund ($50 million). Note that the Transportation Department has proposed revisions to the Street Preservation Ordinance which would make the current street damage fee fully cost recoverable. If approved by Council, this could increase amounts projected from the Trenchcut/Excavation Fee Fund. This proposal is anticipated to go to Council in late February 2023.

Other Restricted Funds

The Other Restricted Funds category includes funds that have restrictions by asset type, geographic area, or type of community. Funding sources here include the Climate Equity Fund (CEF), Facilities Benefits Assessment (FBA), Development Impact Fees (DIF), and donations for libraries. The City began implementing the Parks for All of Us and Build Better San Diego Citywide Initiatives with the passage of related ordinances in 2021 and 2022. This included a change from community- or geographic-based DIF where funds must be spent in the community in which development occurs to asset-based Citywide DIF where funds can be spent Citywide for certain assets including: fire stations, libraries and assets that facilitate transportation like bike facilities.

Flexible Funding Sources

General Fund assets generally do not have dedicated funding, and many do not meet specific use restrictions and therefore must rely on flexible funding sources. General Fund financing and the Infrastructure Fund are two flexible funding sources with few restrictions on how they can be used for infrastructure investments. We discuss the Infrastructure Fund in more detail in our review of the FY 2024-28 Five-Year Financial Outlook.[5]

Historically, the City's flexible funding sources have been small relative to other funding sources. In the prior year's CIP Outlook, flexible funding sources totaled $535.9 million or 13% of projected funding. Flexible funding in this Outlook is projected to be $112.4 million or 3% of total funding, which is almost entirely from the Infrastructure Fund. General Fund financing in this

[5] The Infrastructure Fund was put in place after passage of Proposition H in 2016, which required the City to dedicate a portion of revenue increases to infrastructure spending.

year's Outlook is associated with WIFIA/stormwater projects and is therefore considered use-restricted.

General Fund Financing
Financing is a key source of funding to support General Fund capital projects such as street resurfacing, new or improved parks, fire stations, and libraries. The City's current approach to financing these types of projects is through the use of its $88.5 million General Fund Commercial Paper Program that is used like a line of credit. Once Council approves appropriations to spend on capital projects, staff borrows when funds are needed using commercial paper notes (a short-term borrowing tool) until they begin to approach the $88.5 million authorization limit. At that point, they return to Council with a request to issue long-term lease revenue bonds to pay off outstanding commercial paper notes, which restores available capacity to issue additional commercial paper notes up to the $88.5 million authorization amount until they have financed all approved appropriations. The benefit of commercial paper financing is that it allows for debt to be issued when it is needed, rather than paying interest on long-term bonds that sit idle before the proceeds can be spent down. It also allows the City to borrow at short term interest rates, which are typically lower than long term interest rates.

Unlike previous CIP Outlooks, this year's CIP Outlook does not include anticipated General Fund financing to support additional projects for General Fund assets beyond stormwater projects. We provide additional information on financing for stormwater in Attachment 1 of this report.

As reflected in the Five-Year Financial Outlook, there are two $90 million lease revenue bond issuances anticipated to occur in FY 2025 and FY 2027. These proceeds (along with a bond issuance anticipated this fiscal year), however, will not support new appropriations, but rather, appropriations already approved by the Council in FY 2022 and FY 2023. Specifically, they will pay down outstanding commercial paper notes used to spend the previously approved appropriations. CIP related appropriations include $160.4 million for various projects approved in August 2021 as well as $68 million to backfill CIP projects that relinquished cash to purchase the 101 Ash building, as approved in July 2022.

While it is reasonable to wait for substantial spend down of existing appropriations supported by prior financing proceeds to occur before issuing more debt, it is also important to understand any negative impacts this could have on existing programs or currently partially funded projects. CIP programs like street resurfacing have traditionally received a significant portion of financing when appropriations have been brought forward in the past. It is unclear how this program or other big ticket standalone projects, such as the San Carlos Library and the Fire and Police Training Facility, will be supported in the next five years without additional financing, as revenue available to support General Fund CIP projects on a pay-as-you-go basis is very limited.

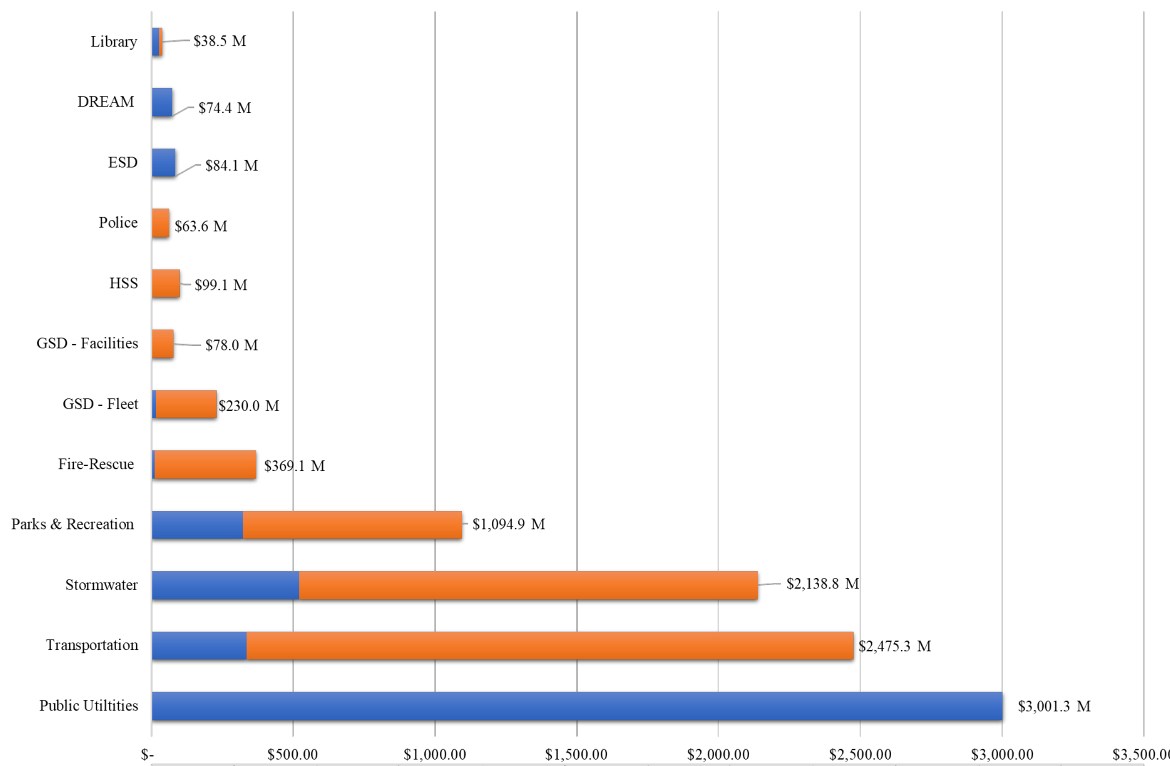
CIP Outlook Projections for Needs, Funding, and Funding Gap by AMD

Identifying Capital Needs for the Outlook
As part of the process for developing the CIP Outlook, E&CP project managers provide needs for budgeted, active projects that the department is delivering. Capital needs for future projects are identified by AMDs and provided to E&CP for inclusion in the CIP Outlook. E&CP officials told us they try to guide departments in developing capital needs submissions, but needs are

independently determined and submitted for inclusion by the AMDs and each department has their own unique requirements and approaches in identifying needs.

The CIP Outlook projects that all enterprise assets will be fully funded, and the $5.2 billion total funding gap is entirely attributed to General Fund assets. We note that $176.8 million is included in the funding gap but has not yet been allocated to specific departments or projects, primarily from the Infrastructure Fund and CEF. The following figure shows the projected funding gap by department. Transportation represents the largest funding gap with $2.1 billion, followed by Stormwater with $1.6. billion, and Parks with $771.4 million.

Total Needs, Available Funding, and Funding Gap by AMD



	Public Utiltities	Transportation	Stormwater	Parks & Recreation	Fire-Rescue	GSD - Fleet	GSD - Facilities	HSS	Police	ESD	DREAM	Library
Total Funding	$3,001.3	$335.8	$522.3	$323.5	$12.9	$15.3	$0.0	$0.0	$0.0	$84.1	$74.4	$27.6
Funding Gap	$0.0	$2,139.5	$1,616.5	$771.4	$356.2	$214.7	$78.0	$99.1	$63.6	$0.0	$0.0	$10.9

$ in Millions

The following sections discuss capital needs, funding, and funding gaps by AMD. We also include each department's approach to identifying capital needs, key projects and maintenance for their key assets to provide a more comprehensive view of lifecycle needs for assets.

Enterprise Departments

Department of Real Estate Assets and Airports Management (DREAM) – Airports

Capital needs for Airports include both long-term and short-term asset needs. Long term needs are determined by the Airport Master Plans for the City's two regional airports – the Brown Field Municipal and the Montgomery-Gibbs Executive Airports. DREAM is updating the Master Plans for both airports, with anticipated dates of completion in November 2023. Asset needs in the near term are driven by the Pavement Maintenance and Management Plan (PMMP) completed for each airport in 2018 and daily airfield visual inspections conducted by staff. The PMMP provides a Pavement Condition Index, which is a numerical score rating for the general condition of a pavement. Staff use PMMPs and daily inspection results to track the life cycle of the pavements to ensure safe operations and prioritize capital needs. The Department is actively seeking grant funding to conduct new PMMP studies.

Airport CIP relies heavily on federal and State grants, with most projects funded 90% by the Federal Aviation Administration and 5% by the State's Caltrans Division of Aeronautics. Accordingly, grant funding opportunities and the Airport Management Enterprise Fund grant match availability also play a major role in shaping airport capital needs. The federal Infrastructure Investment and Jobs Act (IIJA) provides competitive grant opportunities for airport terminal development projects. According to DREAM, the Brown Field Municipal Airport is a viable candidate for IIJA funding to have its Terminal Building replaced, a project preliminarily estimated to cost $32.4 million, representing the largest need in the Airports CIP Outlook. However, since funding availability will not be determined until 2025, grant funding was not included in Airport revenue projections for this CIP Outlook. We note that since airports are enterprise funded assets, all airport capital needs, including the terminal replacement at the Brown Field, are projected to be fully funded with fees and charges. This means that should grant funding became available for the terminal replacement project, a significant portion of enterprise funds originally planned to support this project could be freed up to support additional Airport capital needs.

Compared to the prior CIP Outlook period, Airport capital needs included in the current Outlook increased by $43.4 million, or 140%. While the increase was partially driven by the terminal replacement project at the Brown Field, the inclusion of costs to be incurred by E&CP for airport related capital projects also contributed to the increase in need, by up to 40% of the original cost estimates. Additionally, as with other asset types, inflation has impacted the overall cost for Airport capital projects. According to the Department, the inflation rate for airport related projects has more than doubled in the last year as reflected in the Consumer Price Index.

Environmental Services Department (ESD)

For the Environmental Services Department (ESD), all projected capital needs are tied to improvements required at the landfills operated by ESD. Most needs are small and routine, but the largest need at $65 million in FY 2024 is funding for the new Organics Processing Facility (OPF). This is a new facility that the City needs to comply with SB 1383, which now requires all haulers to collect organic waste from customers. The OPF will be the processing facility for this waste at the Miramar Landfill for all haulers, including City trucks.

Funding for improvements at the landfill, including for the OPF, comes from tipping fees paid by haulers who deposit waste at the landfill. These fees are then deposited into the Refuse Disposal Fund, which is the enterprise fund that pays for landfill operations.

Public Utilities Department

For the Public Utilities Department (PUD), all non-Pure Water capital projects are considered the department's baseline CIP for water and wastewater assets. PUD has an Asset Management program to sustainably maintain, repair, and replace infrastructure assets, which helps to ensure critical water and sewer assets are functioning properly and do not fail. Consequences of failing

PUD infrastructure – such as water main breaks – can be significant, resulting in damage to private property, service outages, flooding, road closures, and other negative impacts.

The PUD Baseline CIP includes: regular, ongoing predictive maintenance to keep water and sewer systems running smoothly and reduce pipeline breaks and emergency repairs; condition assessments for dams;[6] and enhancements of treatment and distribution process technology. The baseline CIP also includes expansion and upgrade of the Water System to accommodate growth and maintain compliance with federal and State requirements.

Additionally, the CIP Outlook also contains significant funding for Pure Water. This includes significant construction funding in FY 2024 and 2025 for Phase 1, and some initial planning funding for Phase 2 in the later years of the Outlook. Phase 1 is anticipated to be delivering its full capacity of potable water in FY 2027, and Phase 2 is expected to be completed by FY 2035.

General Fund Departments

Fire-Rescue Department

The CIP Outlook identifies $357.1 million in new fire facility needs and $12.0 million for a new lifeguard station. New fire station needs are primarily based on, and prioritized by, the Standards of Response Coverage Study that was prepared by Citygate Associates, LLC in 2010 and subsequently updated in 2017. In total, the CIP Outlook includes nine new fire stations, of which the Fairmont Avenue Fire Station is the Department's highest priority, as recommended by the Citygate report. A $23.2 million funding need in FY 2026 for the Fairmont Fire Station project is identified in the CIP Outlook and currently unfunded.

Other fire facility needs include a new Emergency Command and Data Center (ECDC) to accommodate increased fire dispatch staff, a new Air Operations Facility at the City's Montgomery-Gibbs Executive Airport and a new joint Fire and Police Training Facility.

The joint Fire and Police Training Facility is a significant priority for the Fire-Rescue Department given that the current training facility located at the Naval Training Center (NTC) Station will be repurposed as a part of the Pure Water program in FY 2027. The CIP Outlook anticipates a $177.1 million need for the project, including $2.1 million to finalize Phase III of the Feasibility Study in FY 2024 and $175.0 million estimated to complete construction in FY 2026.

Lifeguard facility improvement needs are prioritized by the Fire-Rescue Department based on facility condition assessments and any gaps in lifeguard service coverage. The CIP Outlook includes one new lifeguard station in North Pacific Beach with an estimated cost of $12 million in FY 2026. According to the Fire-Rescue Department, there are two additional lifeguard facility improvements not included in the CIP Outlook. These include $12.0 million for the Ocean Beach Lifeguard Station and $360,000 for the Santa Clara Lifeguard Facility. The latter is anticipated to be funded from Junior Lifeguard Program funds.

With the transition from the prior community-based DIF structure to an asset-based DIF funding approach, a total of $12.9 million in Citywide Fire DIF funding is anticipated over the CIP Outlook

[6] The Baseline only includes funding for condition assessments of dam infrastructure, which are anticipated to be completed in FY 2027. Needs for Dam rehabilitation projects are expected to be significant, with a preliminary estimated cost of $1 billion. As condition assessments are completed, PUD indicated additional needed capital projects will be included in future Outlooks.

period. The resulting funding gap, including both fire and lifeguard needs is $356.2 million. Though it is not explicitly assumed in the CIP Outlook, General Fund contributions and/or financing (e.g., commercial paper/lease revenue bonds) are likely to be required, especially considering the size and time sensitivity concerning the Fire and Police Training Facility Project.

In addition to new Fire Facilities needs in the CIP Outlook, there is $7.2 million needed for various Fire-Rescue capital improvements managed by the Department of General Services, Facilities Services Division at existing fire stations and lifeguard facilities which were identified and prioritized by the Fire-Rescue Department.

General Services Department – Facilities Services

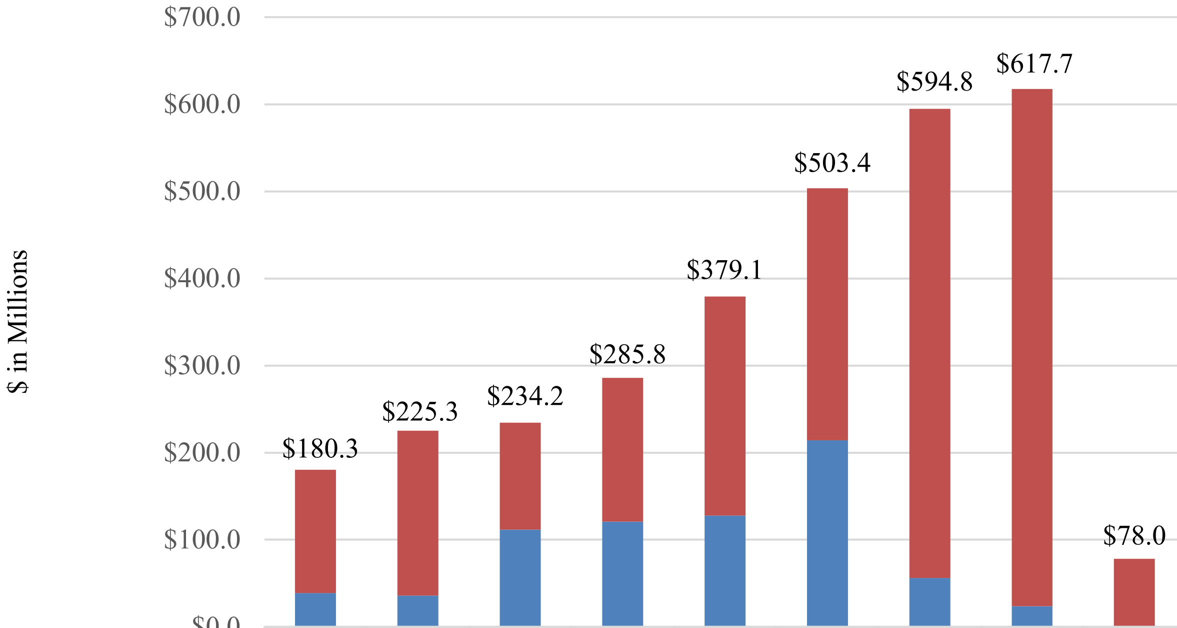
This CIP Outlook represents a shift in approach for identifying needs for existing facilities and due to this change, there is a significant decrease in reported needs from the prior year Outlook from $617.6 million to $78.0 million. In previous CIP Outlooks, capital needs for Existing Facilities were identified in condition assessments conducted between 2014 and 2016 and inflation was added each year to the condition assessment baseline.[7] The prior year CIP Outlook identified about $500.0 million in capital needs related to this backlog for existing City facilities, which was not included in the current year CIP Outlook.

Facilities Division staff indicated they did not include the $500.0 million backlog because the condition assessment data is out of date (industry standards recommend conducting building condition assessments every five years), and a robust analysis needs to be conducted to provide more accurate, up-to-date projections. This will require conducting a new facilities condition assessment and assessing impacts from new requirements like Climate Action Plan (CAP) and Zero Emissions Municipal Buildings & Operations Policy (ZEMBOP). Facilities Division has requested about $3.2 million for condition assessments in the FY 2024 budget process. As stated in the Outlook, once updated, funding need amounts are expected to increase based on the continual deterioration of facilities and the new requirements.

For this CIP Outlook, the $78.0 million in total needs was based on AMD requests for facility-related projects that prioritize improvements related to health, safety, and regulatory compliance issues. For example, this includes repairs or replacements for HVAC and roofs, security upgrades, parking lot lighting, and general rehabilitation for various Library, Police, Fire-Rescue, Parks & Recreation facilities. Projects that meet prioritization guidelines are projected in earlier years of the CIP Outlook, while other projects (not related to health, safety, and compliance) were programmed in later years. No funding is allocated for existing facilities needs in the Outlook, so there is a $78.0 million funding gap. The following figure shows needs, revenues, and the funding gap for existing facilities over the nine years since the first CIP Outlook (FY 2016-20).

[7] At that time, the assessment identified a need to invest an estimated $828.7 million in City facilities to bring them up to a "good" condition. Previous Outlooks included five years of funding needs from a draft Facilities Asset Management Plan that was developed to address the backlog of existing facilities projects.

Existing Facilities Capital Needs, Funding, and Funding Gap Over Nine CIP Outlooks



	2016-20	2017-21	2018-22	2019-23	2020-24	2021-25	2022-26	2023-27	2024-28
Funding Gap	$141.3	$189.3	$122.8	$165.1	$251.5	$289.3	$538.8	$593.9	$78.0
Available Funding	$39.0	$36.0	$111.4	$120.6	$127.6	$214.1	$56.0	$23.8	$0.0

CIP Outlook Fisical Years

Available Funding Funding Gap

No funding has been allocated thus far because, as noted earlier in this report, there are several flexible funding sources previously used for facilities like the Infrastructure Fund that have not been allocated. Commercial paper and lease revenue bonds have also been a source of funds for existing facilities in previous years, but no issuances are projected in the Outlook period beyond those related to WIFIA/Stormwater. Despite the change in approach and decrease shown for FY 2024-2028, it is clear that the unfunded backlog for existing facilities is significant. In addition to deferring capital projects, chronic underfunding of the Facilities Division, which provides maintenance for existing facilities, has allowed the continued aging and deterioration of existing facilities, ultimately further increasing costs. Deferring projects also has resulted in the City spending funds on emergency repairs as assets fail and cause collateral damage, resulting in the inefficient use of limited resources.

As discussed in our Review of the FY 2024-28 Five-Year Outlook, Facilities Division staff currently spends about 84% of their work doing reactive maintenance to fix breakdowns and make emergency repairs, compared with only 16% of their work being dedicated to preventative maintenance. Best practices suggest that preventative maintenance should account for at least 70% of repairs.

Maintenance of existing facilities has been chronically underfunded and deferred so much so that the City no longer has accurate data on needs of existing City facilities. The Facilities Division has not had the needed budget or staff to conduct condition assessments or fully use the EAM system to support data-driven asset management practices. We recommend that existing facilities be prioritized within a Citywide infrastructure funding strategy for both preventive maintenance and capital needs and Facilities Division should receive FY 2024 budget for conducting a new condition assessment.

General Services Department – Fleet Services

Electric vehicle (EV) infrastructure is a new component of CIP Outlook capital needs. Fleet needs are driven by the City's Climate Action Plan (CAP) goals to reach 100% electrification of passenger cars and light duty vehicles, and 75% electrification of medium and heavy-duty vehicles by 2035. Furthermore, the California Air Resources Board is developing an Advanced Clean Fleets regulation, which will require State and local government fleets to ensure 50% of vehicle purchases are zero-emission vehicles (ZEVs) starting in 2024, with limited exceptions for Police and Fire-Rescue vehicles. To meet these goals and requirements, the City needs to build out its infrastructure to support EV charging needs. Due to the City's aging infrastructure, this would require significant investment in installing charging infrastructure and upgrading existing facilities while ensuring the City is compliant with other requirements such as building codes and the Americans with Disabilities Act (ADA).

The $230 million projected need in the CIP Outlook is an initial estimate for fleet capital needs over the next five fiscal years. The Fleet Operations Division has engaged a consultant to help develop a City Vehicle Replacement and Electrification Strategy for the development and expansion of the City's EV and infrastructure which is anticipated to conclude and provide a more refined cost estimate by Summer 2023. As the consultant study is complete, the Fleet Division will be better equipped to identify funding sources to meet the City's EV targets.

As of January 2023, the City has 28 EVs, with 30 more on order, and 87 plug-in hybrids in the City fleet. Based on the City's current purchase and vehicle replacement needs, approximately 150 EVs would need to be purchased each year to reach the CAP targets. Fleet Division identifies vehicles for replacement based on factors including age, milage, condition, and repair history. The City also has 54 in ground or fixed charging ports available including 46 for City vehicles and 8 for City employee vehicles. Additionally, two solar powered off grid chargers with 10 charging ports are also available for City vehicles.

Homeless and Housing Strategies – Emergency Shelters

The CIP Outlook includes projected funding needs for the creation of 2,322 new homeless shelter beds over the next four years, totaling $99.1 million. [8] About 45% of these needs represent the replacement of existing shelter beds that are considered makeshift in nature. Of the remaining total beds, 970 bed would be in non-congregate settings, with 715 beds serving families, youth, and seniors, and the remaining 255 beds would be bridge housing. Estimates of additional shelter bed needs are based on the annual Point in Time Count from January 2022, with an overarching goal of meeting revised estimates of shelter capacity needs recommended in the 2019 Community Action Plan on Homelessness, which is currently being updated.

[8] Although the CIP Outlook has a five-year outlook period, the Homeless Strategies and Solutions Department only provided estimated costs for four years. Staff indicated that actual spending was unlikely during the first year of the outlook period.

The $99.1 million included in the Outlook is an estimate, and actual costs will depend on various factors such as whether the facility is built or acquired and rehabilitated, or otherwise improved, and other specific details about the site. The estimated cost is likely an underestimate since no costs were assumed for the 255 bridge housing beds throughout the outlook period. The Outlook does not assume additional tent structures, because these are not considered by staff to be a good long-term option. As indicated in the report, staff intends to pursue state and federal resources to support these capital costs. We note that $2 million from the federal HOME Investment Partnerships Program-American Rescue Plan Program (HOME-ARP) was approved and made available starting late December 2022 for non-congregate shelter beds for families, youth, and seniors.

Notably, any additional shelters that come online will require significant resources to be operated and maintained. For illustrative purposes, the existing three emergency bridge shelters are expected to cost $19.3 million to operate in FY 2023 and provide 938 shelter beds. Staff noted that creating shelter beds in City-owned facilities would likely decrease operations and maintenance costs, when compared to operating in leased properties, which have associated ancillary costs and may require more security services to secure. However, we note that although there might be additional efficiencies associated with operating out of City-owned facilities relative to leased properties, the addition of new shelters above current capacity would still increase operation and maintenance costs overall.

Library Department – Libraries

Three new Library projects are included in the CIP Outlook totaling $38.5 million, including the Oak Park Branch Library, the Ocean Beach Branch Library, and the San Carlos Branch Library. We note that operational expenditures for both the Oak Park Library and the Ocean Beach Library were included in the FY 2024-28 Financial Outlook.

The Oak Park Library is the Department's highest priority given current space limitations of the facility it will be replacing. A $6.4 million funding need in FY 2024 is identified in the CIP Outlook to complete construction; however, according the Department, an additional $5.0 million is required due to rising construction costs.

The San Carlos Library replacement project is in the early design stage with a total of $29.0 million identified in the CIP Outlook in FY 2024-2027. Similar to the Oak Park Library project, rising construction costs have increased the funding need by an additional $4.2 million above what is identified in the CIP Outlook.

With the transition from the prior community-based DIF structure to an asset-based DIF funding approach, a total of $24.6 million in Citywide Library DIF funding is anticipated over the CIP Outlook period. Additionally, $3.0 million in donations for the completion of the Ocean Beach Library is assumed in the CIP Outlook. The resulting funding gap after accounting for available funding amounts to approximately $10.9 million.

Existing facility improvements identified by the CIP Outlook and managed by the General Services Department – Facilities Services total $6.8 million. These improvements are largely based on Library Branch Managers reporting facility issues, such as leaking roofs, faulty HVAC systems, etc. Phase 2 of the Library Master Plan is currently underway and anticipated to include a condition assessment of all library facilities. Once complete, the Library Master Plan will guide the City's capital investments going forward. It is very likely that, following Library Master Plan condition assessments results, funding needs for existing library facility improvements will be significantly higher than what is identified in the CIP Outlook.

Parks and Recreation

The CIP Outlook identifies needs for assets managed by the Parks and Recreation Department totaling $1.1 billion over the CIP Outlook period. Included are new park projects and improvements to existing park facilities and amenities. Of the overall total, $142.1 million is necessary over the CIP Outlook period for priority projects that have a legal mandate (e.g., ADA improvements), resolve a public safety issue, or otherwise require accelerated funding.

In contrast with the prior CIP Outlook (FY 2023-2027) which identified park needs totaling $833.1 million, this year's CIP Outlook includes new projects that were identified through survey results which asked City Council offices and Community Planning Groups about their park improvement priorities. This is a notable factor driving the overall growth in park infrastructure funding needs in the CIP Outlook. While the survey results provide valuable information concerning community needs and wants, it is unlikely that the funding need and assumed timing identified for these projects in the CIP Outlook is realistic given the preliminary nature of these projects. Ultimately, these needs will be evaluated and prioritized by the Parks Master Plan and the recently updated Council Policy 800-14: Prioritizing CIP Projects.

In 2021, the Park and Recreation Department completed a Park Amenity Condition Assessment of all existing developed park amenities/assets (for example, playgrounds, athletic fields and courts, parking lots, roads, etc.) which identified $43.6 million (in 2021 dollars) in capital needs to improve each park to the proposed service level of the Park Condition Index (PCI) 15, which is in the "Good" range. Note, the park PCI is based on replacing those amenities within the park that were assessed, not the full replacement value of the park. While some improvements identified in the Park Amenity Condition Assessment have been completed, the overall net-funding need for the remaining improvements has increased in the CIP Outlook to $53.7 million based on increased construction/improvement costs.

In total, $323.5 million is projected to be available to fund parks improvements over the CIP Outlook period resulting in a net funding gap of $771.4 million. Approximately $194.0 million of this funding estimate is projected from new Citywide Parks DIF. The balance is largely restricted funding from the Mission Bay Improvement Fund ($83.0 million) and the Regional Parks Improvement Fund ($44.7 million) pursuant to Charter Section 55.2.

Parks and Recreation Department building capital improvements are managed by the Department of General Services – Facilities Services. In total, $19.5 million in needed park building improvements are included in the CIP Outlook which were identified and prioritized by the Parks and Recreation Department.

Police Department – Police Stations

Three projects managed by the Police Department are included in the CIP Outlook totaling $63.6 million. These projects include the renovation and remodel of Police Plaza (formerly the Chargers Training Facility located in Kearny Mesa), a new Firearm Training Facility, and a feasibility study to explore replacement or expansion options for the Norther Division Police Station.

The largest project is the Police Plaza Remodel totaling $31.7 million, including $4.5 million assumed in FY 2024 for design and planning expenditures and $27.2 for construction in FY 2028. This remodel would allow for the permanent relocation of the Department's Traffic Division which was a priority for several Councilmembers in their FY 2024 budget priority memoranda.

We note that the CIP Outlook assumes a new Firearm Training Facility is to be constructed on existing City property at an estimated cost of $30.8 million; however, the Police Department has indicated that other options, including the purchase or leasing of an existing firing range, are still under consideration. The Police Department has been leasing a private firing range located in the City of Poway since mid-2022 after the Department's longtime firing range was shut down. Finding a more permanent solution is a high priority for the Department given State mandated firearm training requirements for police officers.

There are no specific funding sources identified for any Police Department projects included in the CIP Outlook. General Fund contributions or financing (e.g., commercial paper/lease revenue bonds) are likely to be required, though this is not assumed in the CIP Outlook.

With respect to existing police facilities, the CIP Outlook identifies $33.6 million in various capital improvements managed by the Department of General Services, Facilities Services Division. The projects were identified by the Police Department and generally consist of improvements to Police Headquarters, parking lot lighting improvements at each police division substation, and a Computer Aided Dispatch (CAD) system replacement project.

Stormwater Department

The Stormwater Department has a mature and robust Asset Management program and stormwater needs are driven by the Watershed Asset Management Plan (WAMP), which was recently updated in 2021. This long-range plan takes into account all of the City's stormwater needs (operating and capital), including the flood risk management system as well as infrastructure needed to comply with water quality improvement targets set by the Regional Water Quality Control Board's (RWQCB). Stormwater also uses it current database to support asset investment planning and currently is working to expand into the City's Enterprise Asset Management (EAM) system, which will help provide a more consistent approach for identifying needs across asset types in the system.[9]

Capital needs, at a level of $2.1 billion, have grown by $340.6 million since the prior CIP Outlook, mostly due to carrying forward the backlog from prior years to the new Outlook period. This extremely high level of need is driven by most of the City's stormwater infrastructure being beyond its useful life and the chronic underfunding of maintenance and capital projects for the storm drain system. This has resulted in high rates of failure within the existing infrastructure resulting in about $65.5 million in emergency repairs for FY 2020 through FY 2022. Additionally, the City is facing increasing needs to comply with the Regional Water Quality Control Board (RWQCB) requirements for water quality, as nearly all of the City's rivers and streams are considered impaired under the federal Clean Water Act.

[9] The new work manager (BlueWorx) for the City's EAM System is being rolled out to stormwater operational crews in FY 2023. Also, the capital planning component of EAM (known as AMP) is being reconfigured to include all stormwater assets and provide updated data connections to GIS and SAP.

The WAMP includes all of the City's stormwater needs (operations, maintenance, and capital), and reflects a plan to provide for both the maintenance and improvement of the flood risk management system as well as the development of additional infrastructure to comply with water quality improvement targets, which are set by the RWQCB. Taken together, the WAMP provides the City's commitment to meeting all of its storm water needs over the long term, with the current WAMP projecting almost $5.5 billion in needs through FY 2040 (in constant 2020 dollars without escalation). Of the $5.5 billion in projected needs through FY 2040, $2.9 billion is for CIP projects, with operational needs totaling $2.6 billion over that same time frame.

Stormwater infrastructure needs in the CIP Outlook are primarily categorized as flood resiliency infrastructure and green infrastructure. Flood resiliency infrastructure[10] needs total $592.1 million, or 28.6% of the total need over the five-year period, while green infrastructure needs[11] are $1,526.4 million, or 71.4%.

Attachment 1 to this report provides more detail on financing costs through WIFIA loans and the stormwater strategy for closing the funding gap. Also, our previous analysis of the Storm Water Funding Strategy is provided in IBA Report 21-04.

Transportation Department

The Transportation Department manages seven asset types that are included in the CIP Outlook, including bridges, bike facilities, sidewalks, streetlights, streets and roads – modifications, streets and roads – pavement, and traffic signals and intelligent transportations systems (ITS).[12] Transportation generally uses Asset Management practices, such as condition assessments, and systems to identify capital needs and support planning. Specific service level standards and approaches to identifying capital needs vary by asset type, as discussed later in this section.

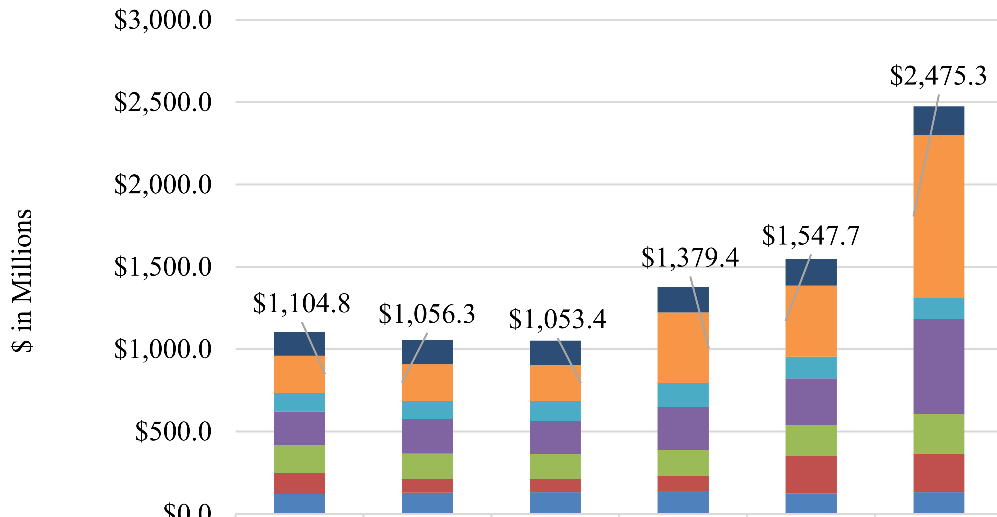
The following figure shows the trends for Transportation asset needs over six years. Capital needs for Transportation assets included in the CIP Outlook total approximately $2.5 billion. Based on the supplemental revenue projections provided by E&CP, projected revenues for the Transportation Department over the Outlook period total $335.8 million. This represents an increase of $927.5 million for total capital needs, or 60% over the prior year CIP Outlook. The significant increase is primarily attributed to increases in needs for streetlights and streets and roads - pavement due to increasing needs as well as increasing costs. We discuss some key asset types in the sections below. A significant trend is the increased project costs.

[10] Flood resiliency infrastructure is the more traditional stormwater infrastructure that the City has been developing for a number of years and includes assets such as corrugated metal pipes (CMP), pump stations, and storm drains.

[11] Green infrastructure projects focus more on improving the water quality within the storm drain system so that when the stormwater flows to its receiving waters, it is not polluting those waters in a way that is overly detrimental to the surrounding environment.

[12] The Transportation Department also manages street tree assets, which are not included in the CIP Outlook.

Transportation Department Year-over-Year Capital Needs by Asset Type, *$ in Millions*



	FY 2019-23	FY 2020-24	FY 2021-25	FY 2022-26	FY 2023-27	FY 2024-28
Traffic Signals and ITS	$144.2	$147.1	$148.5	$156.0	$161.5	$175.5
Streets and Roads - Pavement	$225.5	$222.5	$219.5	$429.9	$429.9	$987.2
Streets and Roads - Modification	$114.0	$110.9	$121.5	$142.4	$132.7	$130.1
Streetlights	$204.1	$209.0	$199.3	$263.6	$281.5	$574.2
Sidewalks	$166.4	$153.4	$152.8	$157.4	$190.0	$244.7
Bridges	$129.0	$84.3	$80.1	$91.0	$227.4	$231.8
Bike Facilities	$121.6	$129.3	$131.7	$139.1	$124.7	$131.8

Sidewalks

Capital needs for sidewalks are driven by the Transportation Department's goals: (1) to replace all defective sidewalks within ten years; (2) install 330,000 linear feet (or about 62 miles) of new sidewalks by the end of Fiscal Year 2033; and (3) upgrade facilities in the public right-of-way to meet obligations under the ADA, including curb ramps and sidewalks. Over the five-year Outlook period, needs total $244.7 million, $54.7 million or 29% above the prior year Outlook due to increased needs and higher costs for sidewalk replacement projects.

Underfunding of sidewalk projects contributes to unaddressed sidewalk defects that have resulted in sidewalk-related injuries and created significant public liability for the City, as outlined in the 2020 City Auditor Public Liability Management Audit.

Streetlights

Capital needs for streetlights are driven by the following service levels standards:

- Installing 5,144 targeted new streetlights by the end of Fiscal Year 2033, which is about 500 streetlights per year. Approximately 150 additional streetlights are installed annually through the Utilities Undergrounding Program.
- Replacing the remaining 43 obsolete streetlight series circuits to meet modern electrical standards over the next 25 years (through FY 2048).
- Replacing 2,700 streetlight poles and fixtures per year over 20 years (by FY 2043) which represents approximately 5% of the City's total streetlight poles annually.

The total need included in the CIP Outlook increased by $292.7 million or 104% over last year primarily due to both an increase to the number of new streetlights added to the needs list as well as higher cost per streetlight. Department staff told us the average cost to install new streetlights has increased due to supply chain issues and inflation. The following table shows increasing costs to install new streetlights since FY 2020. Rising costs for projects coupled with limited funding generally means that fewer streetlights can be installed.

Costs for Installation per Streetlight			
FY 2020	**FY 2021**	**FY 2022**	**FY 2023**
$ 25,000	$ 44,000	$ 50,000	$ 100,127

Streets and Roads
Street improvements include two types of projects—modifications and pavement improvements. Streets and Roads - modifications includes traffic calming and other road repurposing and/or reconfiguration projects. Needs for modifications in the CIP Outlook total $130.1 million, or about $2.7 million or 2% less than the prior year.

Streets and Roads - pavement improvements, include asphalt overlay and concrete and asphalt reconstruction efforts. Note that slurry seal is another pavement treatment which is considered to be maintenance and was discussed in the FY 2024-28 Five-Year Outlook.

The Transportation Department's long-term goal is to maintain the City's street network in good condition (an average network pavement Overall Condition Index of 70 or above). According to the CIP Outlook, this service level standard requires an estimated 98 miles of asphalt overlay or concrete street reconstruction and 370 miles of slurry seal annually, based on the most recent pavement condition assessment (conducted in 2015-16). However, the CIP Outlook notes that this need was not fully funded which caused further deterioration of the City's streets, and the Transportation Department predicts that the OCI has decreased since the previous street network assessment. A new assessment is planned to begin in winter 2023, and until that is completed the actual OCI is not known. Delaying key investments in asset management practices like condition assessments, leads to the City not having accurate information on asset condition and needs.

Based on these mileage targets, total contractual expenditures over the period are projected to be $1.21 billion, including $222.8 million for slurry seal (maintenance) in the Five-Year Financial Outlook and $987.2 million for asphalt overlay in the CIP Outlook. Asphalt overlay needs have increased by 130% over the prior CIP Outlook. The average cost per mile for streets has increased significantly at least in part due to challenges related to the COVID-19 Pandemic, such as supply chain issues and inflation. The following table shows paving costs increasing since FY 2020. Note that street overlay costs have almost quadrupled since FY 2020.

Cost per Mile since FY 2020

Update on Pavement and Reconstruction Costs				
	FY 2020	**FY 2021**	**FY 2022**	**FY 2023**
Slurry Seal	$ 100,000	$ 100,000	$ 130,000	$ 180,000
Street Overlay	$ 400,000	$ 600,000	$ 800,000	$ 1,500,000
Concrete	$ 1,000,000	$ 1,200,000	$ 1,500,000	$ 1,500,000
Reconstruction	$ 1,500,000	$ 6,000,000	$ 6,000,000	$ 6,000,000

Note: Prior to FY 2021, the Department had not done a road construction project so did not have a frame of reference for the related costs.

City Council Infrastructure Budget Priorities

As discussed in our Office's report on the FY 2024 Updated City Council Budget Priorities, Councilmembers expressed strong support for a wide range of infrastructure needs. All nine Council members were unanimous in prioritizing transportation and mobility safety, streets, sidewalks, and stormwater maintenance and capital projects, as well as Fire-Rescue, Library, and Parks & Recreation facilities. The following table includes the infrastructure priorities supported by a majority of Councilmembers, with capital needs from the CIP Outlook for FY 2024. As noted earlier, the Outlook does not include projected revenue or the funding gap by asset type and we are not able to show this information as we have in previous years. We will include this information in our review of the FY 2024 Proposed CIP Budget.

City Council FY 2024 Budget Priorities Needs, *$ in Millions*

Asset Type *($ in Millions)*	**Needs**	**Note - Prior Year Funding Sources**
Transportation and Mobility Safety		
Pedestrian and Bicycle Safety	$22.5	Transnet
Traffic Calming	$1.4	Infrastructure Fund , General Fund, Climate Equity Fund (CEF), TransNet
Traffic Signals	$46.4	General Fund, TransNet
Streetlights	$96.4	Infrastructure Fund, CEF, TransNet
Streets - Modifications		
Modifications (minus traffic calming)	$26.2	Development Impact Fee (DIF), Facilities Benefits Assessment (FBA), TransNet
Pavement	$185.9	Gas Tax, Trench Cut Fee, TransNet, General Fund
Sidewalks	$41.3	TransNet, Infrastructure Fund
Stormwater	$1,206.6	Infrastructure Fund, General Fund
Facilities		
Fire-Rescue	$6.0	Infrastructure Fund, DIF
Library	$13.7	General Fund
Park & Recreation	$146.4	Infrastructure Fund, General Fund Capital Outlay, CEF, Mission Bay Park Improvement Fund, San Diego Regional Parks Improvement Fund
Police	$16.1	Facilities annual allocations - Infrastructure Fund, General Fund
Total	**$1,808.7**	

The Mayor will set his priorities for General Fund assets through the allocation of funding sources with the most discretion, such as Infrastructure Funds and financing. If the proposed budget does not adequately address Council priorities, Council could consider reallocating funds in the proposed budget to better align with its infrastructure priorities.

Key Findings and Recommendations

CIP Outlook Approach and Transition Year

The FY 2024-28 CIP Outlook was developed using a different approach due to staff not having sufficient time to reflect recently approved policy changes, such as updated criteria for prioritizing projects. Therefore, it does not provide some key information that had been included in previous Outlooks which is used to monitor trends and track change in asset-specific funding gaps as well as to better understand which project types are prioritized for funding. While we were not able to provide the same level of detailed gap analysis as we have in previous years, we conducted gap analysis at the AMD level using supplemental data provided by E&CP.

E&CP ultimately decided that it was better to deliver the report per the published schedule and to use this year as a transition year. In addition to applying the new prioritization criteria for capital needs and existing projects, E&CP also wanted to use this CIP Outlook to reassess how needs were determined by each AMD with the goal of greater consistency in the future.

Additionally, an important aspect of the City's Outlook process is to help support development of the upcoming budget. With the approach and lack of detail in this current Outlook, staff do not have the full benefit of that process.

Inconsistencies across AMDs with Identifying Capital Needs and Lack of Citywide Guidance

A sound basis for identifying capital needs for the CIP Outlook is to use data-driven Asset Management practices, such as establishing service level goals, conducting condition assessments, prioritizing projects based on risk, and using Asset Management systems to identify investment strategies. However, there are no citywide requirements for consistent Asset Management across all AMDs, either generally or for submitting needs for the CIP Outlook. As a result, the extent, sophistication, and quality of Asset Management practices varies by department. For example, departments with strict legal requirements or oversight and/or a dedicated funding, such as PUD and Stormwater, generally have accurate information on the condition of assets and use their asset management plans and systems to identify capital needs.

Other departments, especially those that have been chronically underfunded, like GSD/Facilities Division, do not have the staff or budget needed to update their condition assessments (conducted 2014-16) or fully utilize their Asset Management systems Delaying investments in key Asset Management practices like condition assessments leads to the City not having accurate information on asset condition and needs.

- To enhance and build on Asset Management practices that provide valuable information and cost-effective management of assets, we recommend the following. Providing citywide guidance or requirements for consistent Asset Management practices and revising Council Policy 800-16: Asset Management Guidelines and Plan Steps to reflect that guidance, as was recommended in the 2018 Strategic Asset Management Plan (SAMP).
- Supporting AMD's request for resources to conduct and update condition assessments.
- Supporting current efforts to enhance functionality and expand the EAM system to include stormwater assets.
- Assessing the need to further enhance functionality and/or expanding the City's EAM system to include additional assets and departments to support consistent, effective asset investment planning.

Our Office will be discussing these in more detail in a future report on the City's Asset Management practices.

General Fund Financing Has Limitations and Underscores the Need for New Revenue Sources to Address Gap

General Fund financing has been a key source of funding for General Fund capital projects such as street resurfacing, new or improved parks, fire stations, and libraries. Although this year's CIP Outlook does not include anticipated revenue from financing to support additional projects for

General Fund assets, other than $516.4 million in additional appropriations for stormwater projects.

Reliance on General Fund financing has limitations. As indicated in the CIP Outlook, projections (as of December 2022) show that with additional projected debt, the City's debt ratio goals will stay within the Debt Policy guidelines through Fiscal Year 2028, reaching highs of approximately 6% for debt service as a percentage of General Fund revenues and 23% when accounting for pension and retiree healthcare costs. It will be important to continue to monitor debt ratios because as the City's annual long-term fixed costs grow as a percentage of the City budget, it limits the City's ability to address other public service needs going forward. As noted in the CIP Outlook, in addition to significant capital needs, there are likely to be future demands for General Fund financing that have not been factored in, such as Climate Action Plan implementation and/or the downtown civic core revitalization projects.

Given the magnitude of the City's infrastructure needs, revenue options outside of General Fund financing should be considered, such as a ballot measure for a dedicated funding source or a General Obligations (GO) bond program, which have been successful in San Francisco and Los Angeles.[13] If one of these measures was passed that explicitly for CIP, it would not only help to reduce the funding gap, but would alleviate pressure on the General Fund and level off or reduce debt ratios over time.

The urgency of identifying new revenue to address the funding gap is exacerbated by the current environment of higher costs for projects due to long term economic impacts of the COVID-19 pandemic, including supply chain and inflation. This is evidenced by significant cost increases for asphalt overlay, streetlights, as well as library facilities.

Without a financing strategy, however, the City will continue to defer capital needs, resulting in continued aging and deterioration of existing assets, increased costs and liability, as well as inefficient allocation of resources to address emergency repairs. A financing strategy must be backed by a well-developed, systematic, and viable plan to execute projects. This would require, among other things, Asset Management and strategic project prioritization, a multi-year plan to complete projects once initiated, and support to expand the City's capacity to deliver these projects in addition to its existing portfolio.

Improving the CIP Outlook for Future Years and Developing a Plan to Fund the Gap

As the AMDs have learned more about the condition of their assets since the first CIP Outlook in 2016, the City has made progress towards understanding capital needs. This is a critical foundation so that the City can develop a holistic plan for identifying new revenue sources needed to address the significant and growing funding gap.

Given that this is a transition year, E&CP officials noted that they intend to improve the CIP Outlook in future years. We support this effort and emphasize, given the significant and growing

[13] GO bonds offer the City a possible alternative to the use of lease revenue bonds. GO bonds are secured by the city's promise to levy additional property tax sufficient to pay annual principal and interest on the bonds. Since GO bonds require an increase in property tax, they must achieve two-thirds voter approval. They are also typically the least expensive type of debt available to municipalities and can reduce financing costs for CIP projects. For more information, see Comparative Information about other Cities' Bond and Revenue Measures.

funding gap, it will be critical next year and in future years to ensure the consistency and accuracy of data and to include previous levels of analysis.

We look forward to working with staff on these improvements and recommend the following for future CIP Outlooks to provide a more holistic, long-term view of the CIP with additional financial planning:

- Reinstating the funding gap analysis by asset type.
- Providing a longer (10-year or more) planning horizon.
- Showing a full picture of City infrastructure needs, while also providing a plan for projects that can realistically be delivered given the City's capacity over the Outlook period. This could include smoothing of needs over years, such as for stormwater.
- Including other key asset types, such as information technology (IT) related to capital infrastructure to reflect our current high technology environment, including CAP smart building solutions.
- Assessing and including new revenue options to address the funding gap, such as a ballot measure for a dedicated funding source or a General Obligation (GO) bond program.

CONCLUSION

The CIP Outlook is a planning tool to identify capital needs and available funding within the five-year outlook period. As shown in the CIP Outlook, the City's capital needs far exceed available funding, and the Mayor and Council must therefore make strategic decisions regarding capital infrastructure investments during the annual budget process. Absent new resources, many needs identified in the CIP Outlook will remain unfunded. As the City deals with budgetary and resource constraints, aging and deteriorating infrastructure, and increasing urgency to achieve strategic goals, officials must make wise investments. Ultimately, the City will need a large-scale and holistic financing strategy with new revenue sources to address the growing backlog of unfunded needs and ensure the City's strategic goals, initiatives, and policies are fully implemented.

E&CP officials have noted that they intend to improve the CIP Outlook in future years. We support that effort and emphasize, given the significant and growing funding gap, that it will be critical to ensure the consistency and accuracy of data, and to include information such as projected funding per asset type in future years. The *Key Findings* section in this report includes recommendations for future CIP Outlooks, including providing a longer (10-year or more) planning horizon and realistic plan of what projects can be implemented given the City's internal and external capacity. The section also includes recommendations for consistent citywide Asset Management practices to support effective asset investment planning.

As Council prepares for the upcoming budget season, we emphasize that it can ultimately choose to amend the Proposed Budget to fund different priorities, provided the budget remains balanced. Council will have the most discretion over allocation of flexible funding sources to fund priority CIP projects. However, because flexible funding is limited, prioritizing infrastructure needs will likely come with difficult tradeoffs.

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Attachment 1: Stormwater Funding

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Financing Stormwater CIP Costs through Water Infrastructure and Finance Innovation Act (WIFIA) Loans

In order to finance stormwater needs, the Debt Management and Stormwater Departments recently secured WIFIA loan agreements from the federal Environmental Protection Agency (EPA) to finance stormwater CIP activities. These agreements cover a financing plan for $733 million worth of stormwater projects, with $359 million (49%) coming from the WIFIA program and $374 million (51%) coming from other sources, including additional grants, state loans, or City Lease Revenue Bonds (LRBs). The funding included in the Outlook associated with this plan includes $231.2 million in WIFIA financing, which in addition to the FY 2023 amount of $128.0 million represents the entirety of the WIFIA loan. Additionally, the Outlook includes $200.2 million in other financing sources, mostly additional lease revenue bonds, and $85 million in State Revolving Loan (SRF) distributions that may be counted as matching funds for the WIFIA program. These amounts are all in line with anticipated funding related to the overall WIFIA financing plan.

However, our Office notes that WIFIA financing is debt that will need to be repaid by the City following the conclusion of the drawdown of funds, which staff estimates would total $29.5 million (including for WIFIA repayment as well as LRB repayment) by FY 2028 according to the FY 2024-2028 Five-year Financial Outlook. If an additional funding mechanism for stormwater is not secured, these repayments will come from the City General Fund.

Closing the Gap – Stormwater Funding Strategy

In January 2021, the Transportation and Stormwater Department released a Funding Strategy Report in response to the June 2018 Performance Audit of the Stormwater Division. Within that report, the Department identified an unmet need of $4.5 billion out of the total of $5.5 billion of need through FY 2040. This is an average funding gap of $225.1 million per year, but at that time only included very minimal levels of CIP support for stormwater projects ($1.0 million per year). The report also concluded that, if the Department were to maximize all of the existing resources that are either under the direct control of the Department or City as a whole, it would yield between $3.8 million and $5.7 million per year in additional departmental revenue. The conclusion of the report was that the City needed to investigate the development and implementation of a new funding mechanism for stormwater activities.

February 2022, the Stormwater Department presented its final analysis of a potential stormwater funding mechanism to the Environment Committee. That analysis focused on a measure that would tax the impermeable surface area of properties within the City at a rate between 4 to 5 cents per square foot of impermeable surface. Such a measure, which would cost the typical single-family residence between $128 to $160 per year, would generate between $74 million to $93 million per year for stormwater activities. For reference, the current storm drain fee within the City costs single family residences less than $12 per year, and generates approximately $5.7 million, all of which supports stormwater activities that would otherwise be supported by the General Fund.

Polling conducted by a consultant noted that a majority of voters would support such a measure, but that support was within the margin of error of the two thirds threshold that would be required for the passage of the measure. The Department indicated that they will continue their educational efforts, including through the Think Blue program, to improve the public's perception on the importance of stormwater funding, as well as continue to pursue outside financing mechanisms.

The decision on whether and when to place a stormwater funding measure on the ballot is a policy decision for the Council to consider as they go through the ballot measure development process as well as when discussing the larger picture of the $5.2 billion funding gap in the CIP Outlook. While City staff have recommended one type of funding measure, there are other ways for the City to increase funding for stormwater needs and raise revenue. The three methods that the City would need to follow to increase a fee include:

- *Special Tax:* This would require a two-thirds majority approval of registered voters within the City that voted at a general or special election. This method, while requiring a high approval rate, also provides more flexibility for funding than a property related fee since it does not have to meet proportionality or benefit nexus requirements. This is the method currently recommended by the Stormwater Department.

- *Property-related Fee:* This method requires both a protest vote, and then subsequently the approval by fifty percent, plus one, of the property owners who respond to the ballots mailed to them. However, a property-related fee would have to meet certain requirements mandated by Proposition 218, including that the fee shall not exceed the funds required to provide the service, and that the amount of the fee imposed shall not exceed the proportional cost of the service attributable to the parcel.

- *Additional Sewer Fee (SB 231):* Effective January 1, 2018, the legislature through SB 231 amended the definition of a "sewer" fee under Proposition 218 to include the work and structures necessary to collect and dispose of storm water. Under this change, the City could increase the storm water fee utilizing the same process that the City would use to increase water and sewer fees. However, as this is a relatively new law, there is some question as to whether an increase under this new law would withstand a potential court challenge.

If the Council desires to consider a measure further, our Office would recommend that the Council also consider some of the issues we raised on the Stormwater Funding Strategy in Report 21-04 Analysis of the Stormwater Division Funding Strategy Report, which included discussions on project prioritization, using new funds to cover existing expenditures, and the capacity of E&CP to deliver the amount of projects required for stormwater needs.