



IBA Review of the FY 2014 Proposed Budget: Infrastructure Overview

Budget Review Committee Meeting
Capital Improvements Program Part 1

May 1, 2013

FY 2014 Proposed Budget: Infrastructure Overview



- The City of San Diego owns and maintains a large and complex network of infrastructure assets.
- Underinvestment in infrastructure has resulted in deteriorating assets and an estimated \$898 million backlog of deferred capital projects for streets, facilities, and storm drains; the backlog is likely much higher.

	Estimated Backlog
Buildings	\$185 million
Streets	\$478 million
Storm Drains	\$235 million
Total	\$898 million

➤ Addressing infrastructure issues is clearly one of the highest priorities for the City.

FY 2014 Proposed Budget: Infrastructure Overview



- Over the past year and a half, City staff and the Council have made significant headway toward addressing infrastructure challenges, including:
 - approving the City’s first multi-year financing program for deferred capital;
 - adopting and implementing CIP streamlining reforms to help accelerate project implementation and provide transparency;
 - developing *A Citizen’s Guide to the CIP*;
 - establishing a community input process for the CIP budget; and
 - creating a City Council Infrastructure Committee in December 2012 to work towards identifying solutions.

FY 2014 Proposed Budget: Infrastructure Overview



- The Infrastructure Committee has been working with City staff to move forward on important next steps, including:
 - *Establishing Citywide Asset Management* – to provide key data and information on infrastructure assets so that decision makers can identify the most effective Maintenance and Repair (M&R) and capital investment strategies.
 - *Developing a Citywide Multi-Year Capital Improvements Plan* - to incorporate existing departmental capital plans; identify deficiencies or gaps; identify available funding; and assess strategies for financing priority unfunded needs.

FY 2014 Proposed Budget: Summary of Impacts



- The Mayor's Proposed Budget includes funding for debt service of \$2 million for the \$35 million CIP bond issuance expected to be completed in FY 2013.
 - \$20.5 million of this bond issuance will address deferred capital.
- The Proposed Budget also includes about \$1.2 million for much needed Facilities M&R staff and expenses:
 - 9.00 FTEs and \$873,000 in related expenses
 - a \$300,000 reduction in vacancy savings so that 8.00 vacant positions can be filled.

FY 2014 Proposed Budget: Summary of Impacts



- No funding is included for critical condition assessments for facilities/buildings (\$1 million), park assets (\$264,000), and sidewalks (\$1 million).
- Delay of the next \$80 million deferred capital bond issuance from spring/early summer of 2013 to January 2014 as well as delay of all subsequent planned issuances to achieve annual debt service savings of \$5.6 million over 5 years, but provides \$85.5 million less in bond funding than Enhanced Option B.
- Maintenance & Repair (M&R) (formerly Operations & Maintenance) funding reduced by \$1.0 million from \$50 million to \$49 million than was scheduled in Enhanced Option B. This is \$5.1 million less than FY 2013 funding.

FY 2014 Proposed Budget: Impact to Infrastructure



- Given the sheer size of infrastructure problems in the City, tight budgetary constraints, and valid and competing needs, it is critical that the City take a holistic and methodical approach to identifying Citywide priorities for infrastructure and public services.

FY 2014 Proposed Budget: Impact to Asset Management



Background:

Asset Management – A recommended process for effectively and sustainably managing assets at a desired level of service for the lowest life cycle cost.

➤ Knowing the current condition of assets is an important first step to determine the maintenance, repair, and replacement or capital projects that will be needed to meet desired service levels and provide a full picture of the current backlog.

Core Asset Management Questions:

1. What is the current state of my assets?
2. What is my required level of service?
3. Which assets are critical to sustained performance?
4. What are my best operations and maintenance and CIP investment strategies?
5. What is my best long-term funding strategy?

FY 2014 Proposed Budget: Impact to Asset Management



- The City has updated information on the condition of a limited number of its infrastructure assets, such as streets, storm drains, and certain water and wastewater assets.
- In our March report on Asset Management (IBA-13-16) we noted that the City's biggest gaps in identifying conditions of existing assets are for facilities/buildings, park assets, and sidewalks.
- These condition assessments are not funded in the FY 2014 Proposed Budget.

FY 2014 Proposed Budget: Impact to Asset Management



- **Facilities/Building** - The deferred capital for facilities/buildings is anticipated to be significantly higher than the estimated \$185 million since it is based on condition assessments conducted in 2007 and 2009 on 443 or 30% of the City's 1,600 facilities.
 - Public Works requested \$1.0 million for a comprehensive assessment of about 600 buildings.
 - Public Utilities requested \$600,000 to include water and wastewater facilities/buildings in the Facilities Condition Assessment.

FY 2014 Proposed Budget: Impact to Asset Management



- **Park System** – Park & Recreation is responsible for a significant number of assets and it has been recommended since 2002 that the City conduct a formal condition assessment of park assets.
 - Based on informal, limited staff assessments, deferred maintenance and capital backlog estimated at \$121 million.
 - No significant, dedicated funding source for capital projects (only about \$16.1 million or 6.3% of projects in the Proposed CIP Budget).
 - Park & Recreation requested \$264,000 and 0.53 FTEs for a Citywide parks and open space inventory and condition assessment to be performed by internal staff.

FY 2014 Proposed Budget: Impact to Asset Management



- **Sidewalks** – The City has not assessed the condition of sidewalks.
 - Per California Streets and Highway Code (5610 through 5618), sidewalks are owned and maintained by adjacent property owners.
 - City is often held liable when a citizen is injured due to sidewalk disrepair.
 - Transportation & Storm Water (TSW) estimates that the deferred maintenance backlog just for lifted/raised sidewalks to \$4-5 million.
 - TSW developed a \$1.0 million estimate for conducting a sidewalk assessment using in-house staff.

FY 2014 Proposed Budget: Impact to Asset Management



- **Water and Wastewater** - Public Utilities has a Five-Year Condition Assessment Program (FY 2013-2017) and is planning to spend about \$33.3 million over this period to assess various water and wastewater assets.
 - The Department requested \$7.6 million to fund various assessments of water and wastewater assets.
 - While these assessments were not funded in the FY 2014 Proposed Budget, Department staff have indicated that these assessments plus an additional \$1.9 million for water mains, reservoirs, and standpipes may be added as part of the May Revise.

FY 2014 Proposed Budget: Impact to Asset Management



Potential One-Time Expenditure Revisions:

- Provide One-time Funding for Condition Assessments (\$2.3)
 - Facilities/Buildings (\$1.0 million)
 - Park Assets (\$264,000)
 - Sidewalks (\$1.0)

FY 2014 Proposed Budget: Impact to Deferred Capital Bond Funding



Background:

- In March 2012, the City Council approved the City's first Five-Year Deferred Capital Funding Plan, known as Enhanced Option B, which includes a mix of bond and cash funding.
- While Enhanced Option B does not provide the level of funding desired by the Council or necessary to stop deterioration, it was determined through significant review and analysis to be the most realistic and fiscally responsible approach to begin to address the \$898 million deferred capital backlog for streets, facilities/ buildings, and storm drains.

FY 2014 Proposed Budget: Impact to Deferred Capital Bond Funding



Background (cont):

- The approved funding plan represents a significant new investment and is expected to slow the rate of deterioration of assets to 5-10%.
- Since we are not at the desired level of funding and the City's goal is to ramp infrastructure funding, it is imperative that the City stay on course and not backtrack on current funding plans.

FY 2014 Proposed Budget: Impact to Deferred Capital Bond Funding



- The Proposed Budget delays the next planned \$80 million bond issuance from spring/early summer 2013 by about six to nine months to January 2014. All subsequent planned bond issuances will also be pushed back.
 - Reduction of \$5.6 million in debt service from the General Fund for five years—one year of savings for each of the bond issuances for a total reduction of \$23.5 million.
 - Provides \$85.5 million less in bond and cash funding than Enhanced Option B and \$170.7 less than the Status Quo Option for preventing further deterioration of assets over the five-year period.

DEFERRED CAPITAL OPTIONS AND SCHEDULE

FY							
\$ in millions	2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
Status Quo/Preventing Further Deterioration (Staff analysis reported in March 2012)							
Deferred Capital Net Bond (Capital Projects)	\$ 105.5	\$ 105.2	\$ 105.2	\$ 105.2	\$ 105.2	\$ 105.2	\$ 631.5
Maintenance and Repair (previously called O&M)	59.1	53.8	54.9	56.0	57.1	58.2	339.1
Total	\$164.6	\$ 159.0	\$160.1	\$ 161.2	\$162.3	\$ 163.4	\$ 970.6
<i>Cumulative Debt Service</i>	\$ -	\$ 7.5	\$ 15.0	\$ 22.4	\$ 29.9	\$ 37.4	\$ 112.2
Enhanced Option B/Council-Approved Five-Year Deferred Capital Funding Plan (March 20, 2012)							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ 80.0	\$ 81.0	\$ 90.0	\$ 84.2	\$ 84.2	\$ 494.4
Portion of \$35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	50.0	62.0	66.0	79.0	370.2
Total	\$134.1	\$ 154.6	\$131.0	\$ 152.0	\$150.2	\$ 163.2	\$ 885.1
<i>Difference (Enhanced Option B minus Status Quo)</i>	\$ (30.5)	\$ (4.4)	\$ (29.1)	\$ (9.2)	\$ (12.1)	\$ (0.2)	\$ (85.5)
<i>Cumulative Debt Service</i>	\$ -	\$ 4.6	\$ 11.4	\$ 17.1	\$ 23.4	\$ 29.3	\$ 85.8
FY 2014 Budget Proposal							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ -	\$ 80.0	\$ 81.0	\$ 90.0	\$ 84.2	\$ 410.2
Portion of \$35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	49.0	62.0	66.0	79.0	369.2
Total	\$134.1	\$ 74.6	\$129.0	\$ 143.0	\$156.0	\$ 163.2	\$ 799.9
<i>Difference (FY 2014 Budget Proposal minus Status Quo)</i>	\$ (30.5)	\$ (84.4)	\$ (31.1)	\$ (18.2)	\$ (6.3)	\$ (0.2)	\$ (170.7)
<i>Cumulative Debt Service</i>	\$ -	\$ 4.6	\$ 5.8	\$ 11.4	\$ 17.1	\$ 23.4	\$ 62.3
<i>Difference (FY 2014 Budget Proposal minus Enhanced Option B)</i>	\$ -	\$ -	\$ (5.6)	\$ (5.7)	\$ (6.3)	\$ (5.9)	\$ (23.5)

FY 2014 Proposed Budget: Impact to Deferred Capital Bond Funding



Issues for Consideration:

In addition to the financial capacity of the General Fund, a number of factors should be considered when determining the best timing for issuing deferred capital bonds:

- urgency or need for the funds to conduct high priority projects in the \$898 million backlog,
- capacity of the Engineering & Capital Projects (E&CP) Department to implement these projects, and
- spend down of existing deferred capital bond proceeds.

FY 2014 Proposed Budget: Impact to Deferred Capital Bond Funding



- *Delays for High-Risk Projects* - Pushing back DC 3 and subsequent bonds will delay some high priority capital projects that do not have alternate funding sources.
 - For example, the replacement of 3 miles of corrugated metal pipes (part of the storm drain system) have been identified as high risk due to the existing condition of the pipes and potential for failure.
 - If the corrugated metal pipe fails, the cost for emergency repairs could be 35% higher than a typical planned repair, in part due to the additional damage to private property and slope or street repairs that need to be addressed.

FY 2014 Proposed Budget: Impact to Deferred Capital Bond Funding



- **Capacity** - The Department currently has the capacity to implement about \$100 million of bond-funded projects per year, according to staff.
 - Capacity is a balancing act for E&CP—if the Department takes on too much work too quickly, then projects cannot be implemented in a timely manner and bond funds spent expeditiously.
 - On the other hand, if the Department lacks sufficient funding for projects, then it will face challenges keeping staff working on projects and meeting revenue targets, since many E&CP staff are revenue reimbursable.

FY 2014 Proposed Budget: Impact to Deferred Capital Bond Funding



UPDATE ON DEFERRED CAPITAL BOND SPENDING (DC 1 AND DC2)		
	DC 1 (2009/2010)	DC 2 (2012)
Total Bond Proceeds (including accrued interest to date)	\$ 103,678,000	\$ 75,000,000
Expended	91,208,664	3,377,526
Encumbered	5,410,965	10,000,000
Pre-Encumbered (contracts to be awarded)	125,528	14,500,000
Total Draw Down	\$ 96,745,157	\$ 27,877,526
Percentage	93.3%	37.2%

- *Spend Down of Bond Funding*

- **DC 1 (2009/2010)** - \$96.7 million or 93% of the \$103 million has been expended, encumbered, or pre-encumbered.
- **DC 2 (2012)** - \$27.9 million or 37% of the \$75 million has been expended, encumbered, or pre-encumbered. E&CP received proceeds in August of 2012; goal is to spend down the bond within two years, although the bond requirements provide for three years for proceeds to be expended without a penalty.

FY 2014 Proposed Budget: Impact to Deferred Capital Bond Funding



Potential Service Additions to Proposed Budget:

- Catch-Up Option to come closer to achieving the original funding goals of Enhanced Option B through FY 2017, which includes increasing bonds from \$80 million to \$100 million for FY 2014 through FY 2017.
 - No FY 2014 budgetary impact.
 - Provides additional \$65 million in bond funding; only \$19.4 million less than Enhanced Option B.
 - Additional debt service totals \$7.5 million for FY 2015-2017.
 - Debt service savings can still be achieved, although by slightly lesser amount (FY 2014 -\$5.6 m, FY 2015 - \$4.2 m, FY 2016 - \$2.9 million, FY 2017 - \$2.2 million).

Potential Service Addition – Catch-Up Option

\$ in millions	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
FY 2014 Budget Proposal							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ -	\$ 80.0	\$ 81.0	\$ 90.0	\$ 84.2	\$ 410.2
Portion of \$35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	49.0	62.0	66.0	79.0	369.2
Total	\$134.1	\$ 74.6	\$129.0	\$ 143.0	\$ 156.0	\$ 163.2	\$ 799.9
<i>Difference (FY 2014 Budget Proposal minus Status Quo)</i>	<i>\$(30.5)</i>	<i>\$(84.4)</i>	<i>\$(31.1)</i>	<i>\$(18.2)</i>	<i>\$(6.3)</i>	<i>\$(0.2)</i>	<i>\$(170.7)</i>
Cumulative Debt Service	\$ -	\$ 4.6	\$ 5.8	\$ 11.4	\$ 17.1	\$ 23.4	\$ 62.3
IBA Catch-Up Option							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ -	\$ 100.0	\$ 100.0	\$ 100.0	\$ 100.0	\$ 475.0
Portion of \$35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	50.0	62.0	66.0	79.0	370.2
Total	\$134.1	\$ 74.6	\$150.0	\$ 162.0	\$ 166.0	\$ 179.0	\$ 865.7
<i>Difference (Catch-Up Option minus Status Quo)</i>	<i>\$(30.5)</i>	<i>\$(84.4)</i>	<i>\$(10.1)</i>	<i>\$ 0.8</i>	<i>\$ 3.7</i>	<i>\$ 15.6</i>	<i>\$(104.9)</i>
Cumulative Debt Service	\$ -	\$ 4.6	\$ 5.8	\$ 12.8	\$ 19.8	\$ 26.8	\$ 69.8
<i>Difference (Catch-Up Option minus FY 2014 Budget Proposal)</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ 1.4</i>	<i>\$ 2.7</i>	<i>\$ 3.4</i>	<i>\$ 7.5</i>

FY 2014 Proposed Budget: Impact to Deferred Capital M&R Funding



- Annual Maintenance & Repair (M&R) is vital for maintaining the condition of assets. When ongoing maintenance is not fully funded, it contributes to deferred maintenance and increases the deferred capital backlog.
 - As assets continue to deteriorate, the cost of repair will exponentially increase and can result in peripheral damage.
- The Five-Year Outlook included \$50 million for M&R for streets, facilities/buildings, and storm drains.
- The FY 2014 Proposed Budget reduces M&R to \$49 million, \$5.1 million less than the \$54.1 million funding level in FY 2013.

FY 2014 Proposed Budget: Impact to Deferred Capital M&R Funding



Facilities Division:

- Facilities Division provides M&R services for Park & Recreation facilities, the City Administration Build complex, and varying levels of support to the other General Fund departments.
- Public Works staff anticipate that the actual backlog of deferred capital for facilities/buildings is significantly higher than the current \$185 million estimate, and chronic underfunding of Facilities Division's M&R is a contributing factor.

FY 2014 Proposed Budget: Impact to Deferred Capital M&R Funding



- Current funding for Facilities Division is significantly below the level needed to keep up with necessary M&R of City facilities/buildings largely due to a 23.2% reduction in budgeted positions since FY 2004.
- The impact of chronic underfunding of the Division has resulted in:
 - Over 90% of work focused on reactive break-down repair rather than scheduled preventative maintenance;
 - A backlog of 1,759 M&R work order requests, up from 1,554 uncompleted works orders in January 2013; and
 - About \$2.5 million in deferred maintenance projects.

FY 2014 Proposed Budget: Impact to Deferred Capital M&R Funding



- Facilities' new sustainability model - Based on the premise put forward by the National Research Council that annual routine M&R should be between 2-4% of the current replacement value of City General Fund facilities.
 - Current funding of \$17 million across all General Fund departments as a percentage of current replacement value is 0.7%.
 - Annual funding at the lower end of 2% would yield a requirement of \$47 million for M&R annually—a \$30 million deficiency.
 - Based on this model, the City is underfunding M&R by about \$36 million.

FY 2014 Proposed Budget: Summary of Impacts



- Facilities proposed to address the \$30 million deficiency by ramping up funding over five years and requested 39.00 FTEs and \$6 million in related personnel and non-personnel expenses.
- The Proposed Budget funds about \$1.2 million for Facilities M&R staff and expenses:
 - 9.00 FTEs and \$873,000 in related expenses
 - a \$300,000 reduction in vacancy savings so that 8.00 vacant positions can be filled.
- This is a step in the right direction, but the City is still significantly below the minimum low end target of 2%.

FY 2014 Proposed Budget: Impact to Deferred Capital M&R Funding



Potential One-Time Expenditure Revisions:

- Increase FY 2014 M&R funding related to deferred capital from \$49.0 million to FY 2013 Funding level of \$54.1 million – (\$5.1 million).



FY 2014 Proposed Budget: Recap of Potential Revisions



- Provide One-time Funding for Condition Assessments (\$2.3 million) – Facilities (\$1 million), Park System (\$264,000), and Sidewalks (\$1 million).
- Increase FY 2014 M&R funding related to deferred capital from \$49.0 million to FY 2013 Funding level of \$54.1 million – (\$5.1 million).
- Consider the Catch-Up Option to come closer to achieving the original funding goals of Enhanced Option B through FY 2017 which includes increasing bonds from \$80 million to \$100 million for FY 2014 through FY 2017.

FY 2014 Proposed Budget: Recap of Potential Revisions



Questions?