



IBA Review of the FY 2015 Proposed Budget: Key Infrastructure Issues

Budget Review Committee Meeting
Capital Improvements Program, Part 1

Tuesday, May 6, 2013

FY 2015 Proposed Budget: Key Infrastructure Issues



- The City of San Diego owns and maintains a large and complex network of infrastructure assets.
- Underinvestment due to tight financial constraints in the City has resulted in deteriorating assets and a significant backlog of deferred maintenance and capital projects.

➤ Addressing infrastructure issues is clearly one of the highest priorities for the Mayor, Council, and citizens.

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

FY 2015 Proposed Budget: Key Infrastructure Issues



- Improvements in the City's financial situation since the Five-Year Financial Outlook was released in November enabled the Mayor to include some funding for important infrastructure programs in the Proposed Budget:
 - \$11.2 million for condition assessment for various assets.
 - \$10.8 million for SAP EAM.
 - \$4.2 million in debt service for an anticipated deferred capital bond issuance of about \$66.4 million (the 1st series of DC 3).
 - \$5.9 million to meet the Enhanced Option B FY 2015 goal of \$62.0 million for Maintenance & Repair (M&R).

FY 2015 Proposed Budget: Key Infrastructure Issues



- Providing funding for infrastructure programs like Asset Management, M&R, and Deferred Capital show the City's commitment and recognition of their importance.
- However, it is clear from the Proposed Budget that even with improved financial conditions, the City has significant, credible priorities competing for limited funds.
- Current infrastructure funding sources are not sustainable and do not generate enough funding to address the problem.

FY 2015 Proposed Budget:

Key Infrastructure Issues – Funding M&R



- Despite an increase of \$707,000 and 7.00 positions in FY 2015, annual M&R continues to be about \$30 million below the industry standard, based on Facilities Division's sustainability model.
- Underfunding M&R ultimately results in deteriorating assets and increases risks to public health and safety; the backlog of deferred capital projects; and future costs to repair the assets.
- M&R continues to be a challenge because it must be funded with cash, cannot be funded with bonds, and available sources have restrictions on how much can be used for M&R.

FY 2015 Proposed Budget: Key Infrastructure Issues – SAP EAM



- SAP Enterprise Asset Management (EAM) is another important infrastructure program that may require additional funding in FY 2015.
- Public Utilities is funding its \$10.3 million portion of the SAP EAM program with water and sewer funds, but only about \$526,000 from the General Fund is budgeted.
- This is \$1.4 million less than requested by the Department to enable General Fund department staff to participate in the program to ensure the system will be compatible with their departments' business needs.

FY 2015 Proposed Budget: Key Infrastructure Issues – DC 3 Bonds



- As part of Mayor Filner's FY 2014 budget balancing measures, the scheduled third deferred capital bond issuance (known as DC 3) of \$80 million was delayed from FY 2013 to FY 2014 to reduce General Fund debt service costs.
- As reflected in the Five-Year Outlook in November, the City anticipated increasing DC 3 from \$80 million to \$120 million to get back on track with Enhanced Option B.
- DC 3, approved by Council in January 2014, was planned to be issued in two series; however, the 1st series has been delayed due to litigation filed by a third party.

FY 2015 Proposed Budget: Key Infrastructure Issues – DC 3 Bonds



- This could also delay the second series of DC 3 which was planned for April/May 2015.
- Even in the best case scenario with both series being issued in FY 2015, the City will be \$85 million behind in funding the Five-Year Deferred Capital Funding Plan (known as Enhanced Option B) which was anticipated to slow the rate of deterioration of streets, facilities, and storm drains to 5-10% over the five-year period.

FY 2015 Proposed Budget: Key Infrastructure Issues – Important Year



- FY 2015 will be an important year for infrastructure as the City gains a more accurate and comprehensive understanding of the scope and magnitude of the problem.
- The Multi-Year Capital Improvements Plan will provide an overall, transparent view of where the City is with regard to infrastructure.
- The City will also update the deferred capital backlog and develop an M&R plan when ongoing condition assessments are completed.
 - All of this information will be important in taking the next step to identify an infrastructure financing strategy.

FY 2015 Proposed Budget:

Key Infrastructure Issues – Finding a Solution



- As discussed by the IBA at the hearing on Monday, even when the lease-revenue bond issue is successfully resolved in court, the ongoing use of lease-revenue bonds is not a sustainable or recommended solution to address the City's significant infrastructure needs.
- This is due to limitations on available leasable properties and more importantly the 30-year obligation placed on the General Fund which essentially locks down a large portion of the fund and significantly limits discretionary spending over the long term.

FY 2015 Proposed Budget:

Key Infrastructure Issues – Finding a Solution



- The Mayor has pledged to dedicate half of major General Fund growth to infrastructure and neighborhood repair efforts.
- However, this will likely provide relatively small funding compared with the City's significant infrastructure needs.
- For example, in FY 2015 the Mayor actually contributed 64% or \$22 million of the major General Fund growth (based on projections in the FY 2014 Mid-Year Report and excluding one-time revenues).

FY 2015 Proposed Budget:

Key Infrastructure Issues – Finding a Solution



- To comprehensively address infrastructure over the long term, it is clear that the City must consider pursuing alternative revenue sources.
- It is of paramount importance that the City begin now to discuss and develop a full-scale infrastructure financing strategy.
- A successful financing strategy will require commitment and united leadership among the Mayor, Council, community groups, public interests groups, business groups, and citizens.

FY 2015 Proposed Budget:

Key Infrastructure Issues – Finding a Solution



- One potential solution is a General Obligation (GO) Bond Program, which includes the ability to raise taxes to make debt financing payments.
- A GO Bond proposal requires a significant, strategic, and lengthy (12-18 month) effort, since two-thirds voter approval is required.
- Such initiatives often include Citizens' GO Bond Oversight Committees to help with development of community priorities and provide independent oversight of bond fund spending.

FY 2015 Proposed Budget:

Key Infrastructure Issues – Finding a Solution



- The benefit of such programs, as evidenced in cities like Phoenix, San Francisco, Austin, Denver, and San Antonio, is that they can provide significant new funding for high priority infrastructure for communities.