



Overview of Deferred Capital

Budget & Finance Committee

November 2, 2011

Background



- On July 11, 2011 the Audit Committee heard a Performance Audit of the City's Capital Improvement Program.
- Request to the IBA to review the Structural Budget Deficit Elimination Guiding Principle 11
- the Audit Committee also requested the IBA to develop recommendations for a five-year infrastructure budget and finance program that shows the City's current service level, the funding needed to maintain that service level, and a service level improvement objective for Council consideration.

Background



- Report responds to the Audit Committee's Request by:
 - Updating information previously provided by the IBA and the Mayor
 - Reviewing the Mayor's Deferred Capital Plan detailed in the recently released FY 2013-2017 Five-Year Financial Outlook
 - Providing an overview of alternative revenue sources that are already or could be considered for funding of Deferred Capital projects;
 - Providing an overview of other items to be considered such as the City's capacity to handle a large volume of projects;
 - And we provide recommendations for the Committee's consideration.

Key Concepts



- “Catch-Up” is funding required to address the backlog to reach a designated service level.
 - Capital in nature and can be funded by bonds
- “On-Going” funding is the annual, recurring funding required after “Catch-Up” to maintain the desired service level.
 - Includes both Capital and Non-Capital expense
- Funding of a Deferred Capital Program is a balance between the desired service level, available funding, and project management capacity.

Key Concepts



- In March staff presented two funding Alternatives (I&II) for both “Catch-Up” and “On-Going” funding.
- Alternatives were based on future funding availability in the context of the City’s total budget and also projected staffing.
- In March the Mayor recommended Alternative Service Level I as the appropriate funding level.
- To date, the City Council has not taken a formal action on the Mayor’s proposed alternatives.

“Catch-Up” Funding



"Catch-Up" Funding Required for High Service Level

Funding Amounts

Asset Class

(Millions)

Facilities

\$216.0

Streets

\$378.0

Storm Drains

\$246.0

Total:

\$840.0

“Catch-Up” Funding Facilities



Facilities "Catch-Up" Funding by Facility Type	
Facility Type	Total Needs in Dollars
Civic Center Plaza Bldgs	\$99.7
Park & Recreation	\$59.0
Library	\$16.4
Fire	\$12.7
Police	\$12.2
General Services	\$11.5
Engineering	\$2.5
Life Guard	\$2.0
Total:	\$216.0

“Catch-Up” Funding Facilities



Facilities Service Levels Alternatives						
Service Level (FCI)	Existing		Alternative I		Alternative II	
	% Facilities	# of Facilities	% Facilities	# of Facilities	% Facilities	# of Facilities
Good	45%	202	45%	202	60%	269
Fair	22%	99	40%	179	30%	134
Poor	33%	147	15%	67	10%	45
Funding Required for Alternatives (Millions)	N/A		\$47.0		\$70.0	

“Catch-Up” Funding Streets



Asphalt Streets Service Levels Alternatives						
Service Level	Existing		Alternative I		Alternative II	
	% Streets	Street Miles	% Streets	Street Miles	% Street	Street Miles
Good	38%	978	45%	1,158	60%	1,544
Fair	45%	1,158	40%	1,030	30%	772
Poor	17%	438	15%	386	10%	258
Funding Required for Alternatives (Millions)		N/A		\$57.0		\$157.0

“Catch-Up” Funding Storm-Drains



"Catch-Up" Storm Drain Service Levels		
Service Levels	Alternative I	Alternative II
Pipelines Rehabilitated		
Years:	45	35
Pipelines Replaced		
Years:	90	75
Pump Station Rehabilitation		
Years:	30	15
Structure Replacement		
Years:	90	75
Funding Required for Alternatives (Millions)	\$88.0	\$165.0

Assets not included in “Catch-Up” funding requirement



- Sidewalks
- Water and Sewer Infrastructure
- Convention Center
- Qualcomm Stadium
- Petco Park
- Alleys, Bridges, Drainage Channels
- Piers, Seawalls and other Park & Recreation managed Structures
- Right of Way Features.

Mayor's Plan to Address "Catch-Up" Funding



- The Mayor's FY 2013 – 2017 Financial Outlook outlines his plan to address the "Catch-Up" funding for the next five fiscal years.
- As detailed in the Outlook, the Mayor is recommending that the City bond for \$100 million per year for the next five years for a total of \$500 million. This would be in addition to the \$103 million in bonds issued in 2009.

Mayor's Plan to Address "Catch-Up" Funding



Mayor's "Catch-Up" Funding Plan (Millions)

Asset	Funding Required FY 2011	Funding Expended/Planned ⁽¹⁾	Funding Required FY 2012 ⁽²⁾	Projected Additional Bond/TransNet Funding FY 2013 - 2017 ⁽³⁾	Remaining Backlog after 2017
Facilities	\$216.0	\$10.5	\$205.5	\$108.0	\$97.5
Streets	\$378.0	\$82.5	\$295.5	\$228.0	\$67.5
Storm Drains	\$246.0	\$10.0	\$236.0	\$103.0	\$133.0
<i>Total:</i>	<i>\$840.0</i>	<i>\$103.0</i>	<i>\$737.0</i>	<i>\$439.0</i>	<i>\$298.0</i>

Mayor's Plan to Address "Catch-Up" Funding



- The Deferred Capital funding proposal in the Outlook is substantially more than what is required for the "Catch-Up" funding in Alternatives I (\$192 million) & II (\$392 million) as proposed by staff in their March 8, 2011 Report to the B&FC.
- Given the significant increase in bonds funds in the Outlook when compared to the Alternative Services Level recommendations, it is unclear what service level is now being recommended by the Mayor given the significant bond funding increases in the most recent Outlook.

Factors to Consider with future bond funds



- For each \$100 million in bond debt issuance, staff is estimating an annual debt service payment of \$7.2 – 7.5 million.
- If the City were to follow through with the five additional bond issuances then staff is projecting an annual debt service payment of \$44.5 million in Fiscal Year 2017.
- For comparison purposes, the Library Department's Fiscal Year 2012 operating budget is \$37.2 million.
- Negative Arbitrage – Difference between interest paid and interest earned on idle bond proceeds
- Bond Expenditure Requirements

“On-Going” Funding



- Once the City has achieved a required service level it is equally important that the “On-Going” expenditures are funded at a level to ensure that the City does not fall behind on maintenance.
- If the City does not meet the minimum annual required “On-Going” funding level, the “Catch-Up” funding requirement will grow.
- Without adequate “On-Going” funding, the City could find itself in a situation similar to today - a large “Catch-Up” funding requirement with limited resources to address the problem.

“On-Going” Funding



- Identifying funding for “On-Going” maintenance can be a challenge due to the restrictions that are placed on funding sources.
- Some “On-Going” maintenance is considered capital in nature and can be funded through bonds.
- Other items such as Slurry Sealing of streets and minor repairs of facilities (Painting, patching walls, minor plumbing) are considered maintenance (Non-Capital) in nature and do not qualify for bond funding.
- Some of the significant Deferred Capital funding sources such as TransNet are used for both capital and maintenance purposes but capped at 30% of annual funding for maintenance.

“On-Going” Funding



Required "On-Going" Maintenance Funding (Millions)				
Asset Class	Status Quo	Alternative	Alternative	FY 2012
		I	II	Budget
Facilities - Total	\$16.0	\$32.0	\$48.0	\$10.0
Facilities - Capital/Non-Capital ⁽¹⁾	\$16.0	\$32.0	\$48.0	\$10.0
Streets - Total	\$32.0	\$70.0	\$89.0	\$26.4
Streets - Capital	\$0.0	\$56.0	\$79.0	\$0.0
Streets - Non-Capital	\$32.0	\$14.0	\$10.0	\$26.4
Storm Drains - Total	\$10.0	\$45.0	\$45.0	\$9.0
Storm Drains - Capital	\$0.0	\$26.0	\$26.0	\$0.0
Storm Drains - Non-Capital	\$10.0	\$19.0	\$19.0	\$9.0
<i>Total:⁽²⁾</i>	<i>\$58.0</i>	<i>\$147.0</i>	<i>\$182.0</i>	<i>\$45.4</i>

(1) The split between Capital and Non-Capital was not available at the time this report was released.

(2) Reflects the total (Capital & Non-Capital) for the combined main asset classes.

"On-Going" Funding



"On-Going" Funding for Alternative I Compared to Outlook Projected Deficits

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Outlook Projected Deficit	(\$31.8)	(\$36.6)	(\$28.1)	(\$5.6)	\$22.7
Alternative I ⁽¹⁾	(\$101.6)	(\$101.6)	(\$101.6)	(\$101.6)	(\$101.6)
<i>Total:</i>	<i>(\$133.4)</i>	<i>(\$138.2)</i>	<i>(\$129.7)</i>	<i>(\$107.2)</i>	<i>(\$78.9)</i>

"On-Going" Funding for Alternative II Compared to Outlook Projected Deficits

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Outlook Projected Deficit	(\$31.8)	(\$36.6)	(\$28.1)	(\$5.6)	\$22.7
Alternative II ⁽¹⁾	(\$136.6)	(\$136.6)	(\$136.6)	(\$136.6)	(\$136.6)
<i>Total:</i>	<i>(\$168.4)</i>	<i>(\$173.2)</i>	<i>(\$164.7)</i>	<i>(\$142.2)</i>	<i>(\$113.9)</i>

"On-Going" Funding for "Status-Quo" Compared to Outlook Projected Deficits

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Outlook Projected Deficit	(\$31.8)	(\$36.6)	(\$28.1)	(\$5.6)	\$22.7
Status Quo ⁽¹⁾	(\$12.6)	(\$12.6)	(\$12.6)	(\$12.6)	(\$12.6)
<i>Total:</i>	<i>(\$44.4)</i>	<i>(\$49.2)</i>	<i>(\$40.7)</i>	<i>(\$18.2)</i>	<i>\$10.1</i>

Other Funding Sources to Consider



- Mission Bay Improvement
- San Diego Regional Parks Improvement Fund
- Environmental Growth Funds
- Fire and Lifeguard Facilities Fund

Project Management and Oversight



- A critical component of a successful deferred capital plan is adequate project management and oversight capacity.
- In their June 2011 audit of the City's Capital Improvements program, the Office of the City Auditor noted that the contract bid and award process for projects can take six to nine months to complete.
- Unless bond financing can be timed to coincide with the need for project funding, a lengthy contract bid and award process further idles bond proceeds.

Project Management and Oversight



- In 2006 the Engineer and Capital Projects Department underwent an extensive Business Process Re-engineering (BPR) study.
- As a result of the BPR, 89.50 positions, many of them engineers, were reduced from the budget.
- Since the implementation of the BPR, staffing has been relatively static.
- Total value of Capital Improvement Projects that has been awarded has grown from \$117.0 million in 2010 to \$498.0 million in FY 2011.

Transparency/Availability of Project Information



- Without access to staff to provide the requested information, it would have been very difficult to locate the critical information regarding the City's Deferred Capital program.
- With the Mayor proposing additional bond issuances in the future, it is essential that critical information such as the current backlog of projects, timelines, and funding sources are included in a central location on the City's website so that the public can review the status of the program.

Transparency/Availability of Project Information



- Once the City Council has identified services level goals, it is essential that staff report to a Council Committee semi-annually on the status of the *overall* Deferred Capital program, not just the projects associated with bond issuances. The updates should include:
 - Projects Status Reports - Once reviewed by a Council Committee this information should be posted on the City's website.
 - Update on recently completed condition assessment reports and how they impact "Catch-Up" and "On-Going" funding.
 - Update on funding changes including the status of bond expenditures.
 - Review of project capacity and the impacts of new service delivery

Recommendations



Actions Required to Facilitate Identifying Service Levels for the Three Main Asset Classes	
1	Review City staff resources to ensure adequate staffing for increased Deferred Capital funding.
2	Implement Project Deliver Methods to expedite Deferred Capital Projects.
3	Implement Office of the City Auditor's CIP Performance Audit Recommendations that City Staff has agreed with. Continue to review other City Auditor recommendations for future implementation.
4	Update "Catch-Up" funding requirements to reflect updated Streets Condition Assessment and the impacts of funding already expended.
5	Undertake comprehensive review of all funds that could be used for Deferred Capital expenditures either directly or leveraged for future bond issuances.
6	Develop prioritized project lists for each of the main asset classes.
7	Specifically identify how the proposed \$500 million in bond funds included in the FY 2013 - 2017 Outlook will be utilized between "Catch-Up" and "On-Going" capital expenditures.

Recommendations



Ongoing Monitoring of Deferred Capital Program	
1	Develop "Deferred Capital" webpage on City's website that provides critical information on project descriptions, time-lines, status updates, and funding.
2	Develop table for the City's website that details funding required for "Catch-Up" and "On-Going" maintenance expenditures for the three main asset classes. This should include the amount and funding source included in the annual budget.
3	Implement Semi-Annual reports to a Council Committee regarding the status of the Deferred Capital program.
4	During the Annual Budget process, review the required "On-Going" maintenance funding to ensure that an adequate funding level is included in the budget that is balanced against other service priorities and also that the Council is informed of the impacts to the "Catch-Up" backlog.
5	Include in Future Five Year Outlooks the required funding for staffing to match the approved Deferred Capital service level assumptions



Questions?