



**Office of the Independent Budget Analyst**

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**San Diego Infrastructure:  
Status Report and  
Important Next Steps**

**Presentation to the  
Infrastructure Committee  
June 24, 2013**



# Introduction

- Given recent discussions on infrastructure during the FY 2014 budget hearings, we believe this is an opportune time to provide an update on the City's efforts to address infrastructure issues.
- Our report discusses:
  - important steps taken for addressing infrastructure problems over the past few years;
  - provides an update of key efforts underway or in the pipeline and what these efforts are intended to accomplish; and
  - highlights important future steps needed to identify a comprehensive, long-term solution.



# Background

- The City of San Diego owns and maintains a large and complex network of infrastructure assets.
- Underinvestment in infrastructure due to tight financial constraints in the City has resulted in deteriorating infrastructure and a significant backlog of deferred capital projects, currently estimated to be \$898 million.
- Infrastructure issues impact the public health, safety, and the quality of life for San Diego communities as well as the tourism industry.

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



# Important Steps Taken to Address Infrastructure

- After several years of underinvestment in infrastructure assets, the City has taken some important steps for addressing infrastructure challenges.
- City staff and Council have been able to build upon each step taken to gain a better understanding of infrastructure issues; however, this is just the beginning.
- This growing base of knowledge and experience will provide direction and focus for future efforts and will help as the City moves forward to identify a more comprehensive solution for addressing infrastructure needs.



# IMPORTANT STEPS TAKEN TO ADDRESS INFRASTRUCTURE

<i>March 2009</i>	Issuing the First Deferred Capital Bonds (DC 1) of \$103 Million
<i>Summer 2011</i>	Restructuring Public Works Contracting to Streamline and Reduce Time for Bid and Award Process
<i>Feb. 2012</i>	Estimating the Deferred Capital Backlog and Identifying Practical Solutions
<i>March 2012</i>	Adopting the Five-Year Deferred Capital Funding Plan to Begin to Address Backlog
<i>May 2012</i>	Approving Measures for CIP Streamlining and Transparency
<i>June 2012</i>	Issuing the Second Deferred Capital Bond (DC 2) of \$75 Million
<i>July 2012</i>	Training for Council on General Obligation Bond Program
<i>Aug.-Nov. 2012</i>	Obtaining Public Input for FY 2014 CIP Budget
<i>June 2013</i>	Formalizing the Public Input Process in Council Policy 000-32
<i>Sept. 2012</i>	Issuance of IBA's A Citizen's Guide to the CIP
<i>Dec. 2012</i>	Creating Council Infrastructure Committee
<i>March/June 2013</i>	Approving Additional Bond Issuance of \$35 Million for CIP Projects
<i>June 2013</i>	Funding Infrastructure in the FY 2014 Budget, Including Condition Assessments and Maintenance & Repair (M&R)



# Identifying the Magnitude of the Problem

- The City has an estimated \$898 million in deferred capital projects for buildings/facilities, streets, and storm drains.
- Deferred capital for buildings/facilities anticipated to be significantly higher than the current \$185 million estimate since based on limited, outdated assessments.
- The FY 2014 Adopted Budget includes funding for conducting important assessments, including facilities.

➤ This information will be critical to better understanding the magnitude of the City's deferred capital backlog, establishing priorities for limited funds, and developing a Multi-Year Capital Improvements Plan and future financing strategy.



# Adopting a Plan to Begin to Address Backlog

- Council approved the City's first Five-Year Deferred Capital Funding Plan in March 2012.
  - While this plan did not provide the level of funding desired by the Council or necessary to stop deterioration, it was determined to be the most practical approach.
  - The Plan represents a significant new investment:
    - DC 1 and DC 2 provided \$85 million for asphalt overlay of 120 miles of streets.
  - The Plan is anticipated to slow the rate of deterioration of assets to 5-10% compared with the "Do Nothing Option" which would result in a deterioration rate of about 37.5% over the 5-year period.
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# Adopting a Plan to Begin to Address Backlog

- The issuance of lease revenue bonds will continue to be an important source of funding for the City
- Revenue bonds add a long-term obligation in added to the City's General Fund.
- There is a limit to the General Fund-backed debt service as a percentage of available revenue—known as lease burden—that the City can carry; generally less than 10%.

➤ As the City moves forward to develop a Multi-Year Capital Improvements Plan and identifies a financing strategy, it will be important to consider the long-term impact of debt financing on the General Fund.





# Important Ongoing Efforts

- Effective and Sustainable Asset Management Efforts:
  - *Citywide Asset Management Practices* - Development of standard minimum guidelines for all departments for managing assets and developing an Asset Management plan.
  - *Asset Management System* - Public Utilities started an effort to replace its three existing obsolete and fragmented maintenance management systems with SAP EAM.
- Identifying Infrastructure Needs through Community and PFFP Updates
  - 10 Community Plans and 12 PFFPs are currently in various stages of the update process/development.
  - PFFP - prioritizes needed infrastructure, identifies funding sources, and provide fee structure commensurate with current costs of facilities.



# Important Ongoing Efforts

- Revised Priority Scoring for CIP Projects
- CIP Streamlining – New Decision Process for Site Development and Coastal Development Permits
- CIP Streamlining – Increase Thresholds for Tasks in Job Order Contracting (JOC)
- *Efforts in the Pipeline:*
  - Revision of Policy for Sidewalk Repairs
  - Potential Revision of Five-Year Deferred Capital Funding Plan (IBA “Catch-Up” Option)
  - Updates to Status Quo Funding Levels for M&R



# Important Next Steps

## Development of Multi-Year Capital Improvements Plan

- An overall, transparent view is needed for infrastructure:
  - what projects are planned;
  - what projects are needed (for new and existing infrastructure);
  - what revenue is projected from existing funding sources;
  - what priority projects lack a funding source.
- Similar to other cities, San Diego can use its Multi-Year Plan to identify priority unfunded needs and develop strategies for financing these needs, such as General Obligation Bond Programs.



# Important Next Steps

## Development of Multi-Year Capital Improvements Plan

- Our office identified some key components that other cities include in their Multi-Year Capital Plans.
- Recent and ongoing efforts to address infrastructure will provide some of these key elements needed for the development of such a plan.

### Key Elements of Other Cities' Multi-Year Capital Improvement Plans:

- Solid knowledge and information on the condition of capital assets;
- Annual Maintenance & Repair (M&R) needs, any deficiencies in funding M&R, and a plan/schedule to achieve full funding;
- Significant public input on community needs;
- Transparency over the capital process, including how projects are prioritized and selected as well as the status of ongoing projects;
- Revenue projections for existing funding sources;
- Priority unfunded needs; and
- A strategy for financing capital needs that cannot be funded with available annual revenues.





# Important Next Steps

## Development of Infrastructure Financing Strategy

- The City ultimately will need to develop a financing strategy to address priority unfunded capital projects identified in the Multi-Year Capital Improvements Plan.
- For example, several cities use General Obligation (GO) Bond Programs to fund infrastructure needs.
  - GO bonds require two-thirds voter approval and are typically the least expensive type of debt available to municipalities.
  - Lower rates will significantly reduce the final costs of capital improvements projects as the bonds are paid off over a 20 to 30 year period.



# Important Next Steps

## Development of Infrastructure Financing Strategy

- Important factors to consider for a successful strategy:
    - Stable and united leadership among the Mayor, City Council, Business Groups, Public Interest Groups, and Citizens.
    - Strong long-term financial capacity for both debt service and operating budget costs.
    - Strong staff capacity to deliver future projects on time and within budget (PW/E&CP and other depts.).
    - Solid track record of delivering past and current funded deferred capital projects.
    - Strategic analyses of potential competing issues.
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# Conclusion/Recommendations

- After years of underinvestment, the City has taken important steps and has efforts underway and in the pipeline for addressing infrastructure challenges.
- City staff and Council have been able to build upon each step to gain a better understanding of infrastructure issues, but this is just the beginning.
- This growing base of knowledge and experience will provide direction and focus for future efforts and will help as the City moves forward to develop a more comprehensive solution.
- Important next steps include developing a Multi-Year Capital Improvements Plan and financing strategy for priority unfunded needs, such as a GO Bond Program.



# QUESTIONS ?

Infrastructure Committee  
June 24, 2013