THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Ballot Scenarios for Infrastructure Funding

OVERVIEW

On January 21, 2015, the Infrastructure Committee heard presentations from the Public Works Department on the City's FY 2016-2020 Multi-Year Capital Planning Report (MYCP) and the Independent Budget Analyst (IBA) on Revenue Options to Address Critical Infrastructure and Affordable Housing Needs. The Committee directed the IBA to report back with potential revenue and financing plans the City could pursue to support City infrastructure.

After that meeting, our office met with each Council office to gather ideas and priorities, and with staff in various City departments and agencies to discuss potential uses of additional revenue. Additionally, the Public Works and Transportation & Storm Water Departments have completed additional condition assessments on City facilities and sidewalks that more accurately detail infrastructure needs.

This report includes an overview of the City's currently known infrastructure needs and what the City has done to date, and a high-level overview of asset classes that additional revenue could support that is based on our discussions with Councilmembers and City staff. These asset classes include City streets and sidewalks, fire stations, storm water infrastructure, and affordable housing. We include additional detail on revenue that could be realized through issuance of General Obligation bonds, increased sales taxes, and elimination of the People's Ordinance. We also include a discussion of Enhanced Infrastructure Financing Districts (EIFDs), though we do not believe that EIFDs represent an appropriate financing tool for a City-wide infrastructure program. Additionally, we include a brief discussion of the Quality of Life initiative that is being contemplated by the San Diego Association of Governments (SANDAG), which could also provide additional funding for City infrastructure projects.

Finally, we provide potential scenarios that lay out how additional revenues could be allocated among potential asset classes, an overview of additional considerations, and a timeline for putting together an associated ballot measure. Should Council elect to move forward with a ballot measure, it should elicit additional input from the public and City departments to determine the final makeup of that proposal.

FISCAL/POLICY DISCUSSION

BACKGROUND

> ***"…Decades of underinvestment in infrastructure have resulted in significant deterioration of assets and a backlog of new capital projects..."***

Addressing the City's extensive infrastructure needs remains the most significant financial challenge facing the City of San Diego. Decades of underinvestment in infrastructure have resulted in significant deterioration of assets and a backlog of new capital projects. While the City has dedicated increased resources towards its infrastructure over the last several years, the list of needs continues to grow as the City learns more about the condition of existing assets, and as the City's growing population calls for expanded services and new facilities.

The City's first MYCP, released earlier this year, identified a $1.7 billion gap in funding necessary to maintain and repair City infrastructure. Funding needs facing the City include repair of existing assets such as streets and sidewalks (referred to as deferred capital) as well as the need for new infrastructure such as fire stations.

Until FY 2012, the City's focus was addressing a number of critical issues, including reforming the City's pension system, fully paying the City's annual required pension payment, responding to the economic recession, and addressing major operating budget deficits. Additionally, while many other cities have turned to bond issuances to fund public infrastructure, the City's downgraded bond rating and lack of ability to issue bonds during this time left little funding available to maintain the City's existing infrastructure. A lack of updates to Development Impact Fees and the end of Redevelopment in 2012 exacerbated the lack of funding for infrastructure in historically under-served communities.

Significant Headway Made in Recent Years

Since 2012, the Mayor, City Council, and City staff have made progress in addressing infrastructure challenges. Significant developments include:

- Developing the City's first MYCP, which identifies five-year funding needs for all City asset types, resources expected to be available, and the resulting funding gaps
- Implementing Enhanced Option B, a multi-year funding plan for infrastructure that uses lease revenue bond financing
- Implementing several streamlining reforms to accelerate project execution and increase efficiency
- Improving cash management processes to ensure available funds are spent expeditiously
- Establishing a City Council Infrastructure Committee committed to addressing infrastructure matters at the highest policy level
- Implementing Citywide Asset Management, a best practice for effectively managing assets at a desired level of service and at the lowest cost
- Investing in and carrying out numerous condition assessments for facilities, streets, and sidewalks to fully understand the magnitude of the problem

- Making significant investments in the Public Works Department by adding over 100 new Engineering staff in FY 2016 to ramp up for a higher level of project delivery

> ***"…The critical missing piece to solving the City's infrastructure puzzle is a sufficient and dedicated funding source…"***

These actions – along with strong leadership, a healthy operating budget, and a growing economy – have put the City in the best position it has been in for decades to take a holistic, strategic and effective approach toward addressing the City's infrastructure needs. The critical missing piece to solving the City's infrastructure puzzle is a sufficient and dedicated funding source.

Multi-Year Capital Plan Identified Funding Gap

The MYCP, released in January, identified known capital needs and funding sources projected to be available over the next five years. This critical planning tool significantly advanced the City's knowledge about the size of the funding gap.

> ***"…The MYCP identified $3.9 billion in capital needs and a potential $2.2 billion in available resources… leaving a funding gap of $1.7 billion…"***

The MYCP identified $3.9 billion in capital needs and a potential $2.2 billion in available resources for capital projects through FY 2020, leaving a funding gap of $1.7 billion. These figures include both Public Utilities needs – which are funded fully through utility rates, grants and State Revolving Fund loans – and General Fund infrastructure needs, which must be paid for through general tax revenue. As shown below, the funding shortfall of $1.7 billion identified in the MYCP pertains entirely to General Fund infrastructure needs (such as streets, fire stations, park and recreation facilities, etc).

MYCP Five-Year Funding Shortfall *(billions)*

	Needs	Resources	Shortfall
Utilities	$ 1.4	$ 1.4	$ -
Other/General Fund	$ 2.5	$ 0.8	$ 1.7
Total	**$ 3.9**	**$ 2.2**	**$ 1.7**

Attachment 1 presents a summary of infrastructure needs, funding available, and the funding gap by asset class for FY 2016 through FY 2020 as identified in the MYCP. Of the $1.7 billion shortfall, $1.6 billion is attributable to four major asset classes:

- Facilities - $141 Million
- Storm Water - $675 Million
- Street Lights - $225 Million
- Streets and Roads/ Pavement - $269 Million

Due to the timing of the MYCP's release, it only included the results of condition assessments for half of City facilities, and did not include costs necessary for existing or new parks, street repaving to meet the Mayor's goal of an Overall Condition Index (OCI) of 70 in 10 years, a portion of sidewalk repairs, facilities leased to outside entities, new recreation facilities, and a majority of new fire stations identified as priorities in the Citygate study.

Since the release of the MYCP, the Mayor announced an expanded street repair program, and condition assessments for facilities and sidewalks have been completed; these have increased the City's infrastructure needs and funding gap. We have included details on updated funding needs for corresponding asset categories in Attachment 2 to this report. Assessments for nearly all of the City's developed parks and playgrounds are still underway.

ASSET CLASSES FOR FUNDING

Based on our discussions with Councilmembers and department staff, we have identified several asset classes and programs that the City has already committed to support, that need additional funding, and that could conceivably receive broad-based public support. We focus on asset classes that have existing plans that have already been vetted by Council, including asset classes that are necessary to meet regulatory mandates, that have historically received broad community support, and that have substantial unfunded needs. These include street and sidewalk repair, additional fire stations, storm water and flood control mandates, and affordable housing. The total funding gap for these assets – *not* including affordable housing – totals $687 million over the next five years.

A new funding source could be used to support any or all of these assets and programs; funding gaps based on condition assessments, the MYCP, program plans, and the Five-Year Outlook are identified for each asset class.

City Streets and Sidewalks – *Estimated $240 million funding gap through FY 2020*

Streets

On April 21, 2015, the City Council approved the Mayor's Five-Year Street Pavement Repair Program, which proposed 1,000 miles of street repairs over the next five years and an increase in the OCI of City streets to 70 over the next ten years. An OCI of 70 represents the threshold at which streets are considered to be in good condition. The commitment to repair City streets to a good condition is laudable, and streets remain one of the most vital pieces of City infrastructure used by City residents every day.

In our review of the Pavement Repair Program (IBA Report 15-14), we identified a potential funding gap in what is necessary to increase the OCI of City streets to 70 by 2025. Substantially increased repaving levels will likely be necessary to bring City streets up to an OCI of 70, and funding for increased paving has yet to be identified. Based on the current OCI of 54.6 for City streets, over the next five years a total of $108.2 million per year – with $83.1 million of that amount dedicated to repaving – is necessary to keep the City on track for meeting the 2025 OCI goal, as shown on the table below.

FY 2016-2020 Streets Repair Funding Needed for an OCI of 70 vs. Proposed						
	FY16	**FY17**	**FY18**	**FY19**	**FY20**	**Total**
OCI 70 Need *(millions)**	$ 108.2	$ 108.2	$ 108.2	$ 108.2	$ 108.2	$ 541.0
Mayor's Plan *(millions)***	$ 73.6	$ 89.3	$ 84.8	$ 87.0	$ -	$ 334.7
Shortfall *(millions)*	**$ 34.6**	**$ 18.9**	**$ 23.4**	**$ 21.2**	**$ 108.2**	**$ 206.3**

*Needs are based on 2011 streets assessment and may be less depending on results of updated assessment planned for completion in Fall 2015

**Includes combination of cash for Gas Tax, Prop 42, Transnet, General Fund, as well as lease revenue bonds

As reflected in the chart, funding for increased street repairs through FY 2019 has been identified, but the amounts identified are not sufficient to ensure that the OCI of 70 target is reached without substantially increasing funding during outer years. Additional funding dedicated towards this goal is essential if the OCI target is to be reached.

Sidewalks

> ***"…On April 23, 2015, the Infrastructure Committee heard a report on the recently completed Sidewalk Condition Assessment, which identified 78,382 sidewalk locations in the City that had significant deficiencies…"***

On April 23, 2015, the Infrastructure Committee heard a report on the recently completed Sidewalk Condition Assessment, which identified 78,382 sidewalk locations in the City that had significant deficiencies. The total cost to repair those deficiencies totals $46.4 million. While responsibility for sidewalk repair in the City is shared between the City and abutting property owners, the City has included $4.5 million in the FY 2016 Adopted Budget to fund sidewalk repair in the City. This is expected to address 9% of identified deficiencies. Additional funding for sidewalk repair could accelerate the pace of repair, and could thereby result in decreased trip-and-fall liability exposure faced by the City.

FY 2016-2020 Sidewalk Repair Funding Needs		
Damage Treatment	**Damaged Locations**	**Total Cost Estimate**
Maintenance - Slice/Grind	40,039	$ 6,000,000
Tree-related Replacement	7,585	$ 23,500,000
Non Tree-related Replacement	30,758	$ 16,900,000
Total Sidewalk Damage Repair	**78,382**	**$ 46,400,000**

Fire Stations – *Minimum $67.9 million funding gap through FY 2020*

Existing Fire Stations – Maintenance and Capital Backlog through FY 2020

The San Diego Fire-Rescue Department is the asset owner and operator of 47 fire stations, an air operations base, a communications center, and a training facility. In FY 2016, the Department will expand its operations at the new Eastside Mission Valley Fire Station (FS 45) and the Skyline Temporary Fire Station (FS 51). Because FS 45 will replace an existing temporary facility and FS 51 will be a new additional facility, the Department will own and operate 48 fire stations by the end of FY 2016. Over half of the Department's fire facilities have been in service for more than 25 years. Many of the major components of the facilities have exceeded their expected service life and need to be replaced. Additionally, the Department's operational needs have changed over time and several fire stations require upgrades to technology, energy capacity, and overall facility configuration.

In the most recent Facilities Condition Assessment, which was presented to the Infrastructure Committee on June 3, 2015, condition assessments for 17 fire stations were included. Of those 17 stations, 10 were rated with a Facilities Condition Index of 30 or greater, which is considered poor. The report identified a total maintenance and capital backlog of $24.0 million for the 17 assessed fire stations. Of that amount, the backlog for the 10 stations in the worst condition, "poor," is currently $17.3 million. As the Facilities Condition Assessment is updated to include the remaining fire stations, the backlog is expected to continue to grow.

"…The [Facilities Condition Assessment] identified a total maintenance and capital backlog of $24.0 million for the 17 assessed fire stations…"

New Fire Stations (Based on Citygate Report) – Unidentified Capital Needs

In addition to capital needs for the City's existing fire stations, there is also a significant need for new fire stations. The City Council approved the Citygate Working Group Five-Year Implementation Plan (CWG Plan), which addresses the most critical Fire-Rescue Department needs, in November 2011. The CWG Plan is based on the 2011 Citygate Report, which identified critical service gaps and recommended that the City construct 19 additional fire stations ranked in priority order.

Presently, none of the Citygate-recommended new fire stations have been completed. The FY 2016-2020 Five-Year Financial Outlook included funding for the operation of six new fire stations over the next five years. Two of those new fire stations, Eastside Mission Valley Station (FS 45) and Bayside Fire Station (FS 2), are not Citygate-recommended facilities but are nonetheless critical to the City's life safety needs. Those stations are currently fully funded. Four additional stations included in the Outlook are Citygate-recommended fire stations and are the highest-priority facilities listed in the report. These four fire stations, however, have significant remaining capital needs. The four Citygate-recommended fire stations anticipated to be operational in the next five years, along with their capital needs, are described in detail in the table below.

Citygate-Recommended Fire Stations Included in Five-Year Outlook

Fire Station Name	Remaining Capital Needs (in Millions)	Status
FY 2017		
Skyline Hills Permanent Fire Station (FS 51)	$11.0	$1.0 million in DC3 bond funds has been identified for the design of the station out of a total estimated construction cost of $12.0 million. Funding for the Skyline Temporary Fire Station was provided in FY 2014 and the station is anticipated to open in July 2015. The FY 2016 Adopted Budget includes funding for a full year of operations. In FY 2017-2020, the Outlook continues to fully fund operations but classifies Skyline as a permanent fire station.
FY 2019		
Home Avenue (No FS#)	$10.1	$1.9 million in DC3 bond funds has been identified for land purchase and design of the station out of a total estimated construction cost of $12.0 million.
Paradise Hills Fire Station (FS 54)	$11.1	No funding has been identified in the CIP for this station. Estimated construction costs are $11.1 million.
FY 2020		
College Avenue Fire Station (No FS#)	$11.7	$270,000 has been identified for a planning report and feasibility study out of a total estimated construction cost of $12.0 million.
Total Remaining Capital Needs	**$43.9**	

Should the City decide to accelerate the pace of Citygate-recommended fire station construction above and beyond what is included in the FY 2016-2020 Five-Year Financial Outlook, the corresponding capital needs would also increase. Currently, most remaining Citygate-recommended fire stations do not have cost estimates. For informational purposes, the Fire-Rescue Department has provided data on the average cost for new fire stations. As shown in the following table, the estimated capital cost of new fire stations ranges from about $10.8 million to $11.9 million, depending on whether an aerial ladder truck or a fire engine is required at the site. Note that the cost to purchase land, included in the $2.0 million estimate along with planning and design, is significant and varies by location.

New Fire Station Components	Estimate
Land, Design, and Planning	$ 2,000,000
Construction	8,000,000
Fire Engine (required at every station)	850,000
Total	**$ 10,850,000**
Fire Truck (aerial ladder truck, required at about 20% of stations)	1,100,000
Total	**$ 11,950,000**

Storm Water – *$379.4 million funding gap through FY 2020*

In May 2013, the San Diego Regional Water Quality Control Board (RWQCB) adopted a new Municipal Storm Water Permit that mandates stringent storm water pollution control measures. These measures require the City implement Best Management Practices (BMPs) to eliminate specified pollutants in City waterways and the ocean, and are necessary to comply with the RWQCB's permit and the Federal Clean Water Act.

The City's Transportation & Storm Water Department prepared a Storm Water Watershed Asset Management Plan (WAMP) that details the BMPs and associated costs that are necessary for compliance with the new storm water permit. Costs are substantial; based on the Jurisdictional Runoff Management Plan which was presented to the City Council on June 18th, an updated WAMP shows total compliance costs through FY 2040 of $3.4 billion. Costs in the updated WAMP from FY 2016-2020 are anticipated to total $723.8 million. Only $344.4 million of funding for storm water compliance was identified in the FY 2016-2020 Five-Year Financial Outlook.

If the City does not comply with storm water permit requirements, the City could incur penalties per violation of up to $10,000 per day from the State and $27,500 per day from the Federal EPA, and the City could also be subject to third-party lawsuits.

Additional funding for storm water permit compliance could help the City meet the mandates it faces, and demonstrate its commitment to ensuring clean waterways and beaches. Additionally, storm water BMPs included in the WAMP such as green streets and rain barrels may coincide with or augment the City's street repair program and the City's drought response efforts.

Affordable Housing – *38,680 Housing Units Needed through 2020*

In March 2013, the San Diego City Council adopted the *General Plan Housing Element for 2013-2020*. As part of that plan, the City proposed a goal of producing 10,300 new affordable housing units for extremely low to moderate income households by December 31, 2020. However, the need for affordable housing in San Diego is much greater. For instance, there are approximately 58,000 households in San Diego who are on a waiting list to obtain Section 8/Federal Housing Choice Vouchers, and the average wait time to secure a voucher is 8-10 years. There are 59,250 renter households in San Diego paying more than 50% of their income towards rent, and escalating housing prices and low vacancy rates are pushing rents even higher. It currently requires 2.5 minimum wage jobs to afford the average rent in San Diego. The SANDAG Regional Housing Needs Assessment (RHNA) projects very-low and low income housing need through December 31, 2020, to be 38,680 units.

In an effort to help address this need, the City Council adopted an increase in housing impact fees in November 2014, and is working on regulatory reforms to help increase production. The San Diego Housing Commission, through the City's Affordable Housing Fund, administers fees collected from commercial and residential development to provide gap financing for affordable housing development. Housing impact fees for FY 2016 are projected to total $2.4 million, and when combined with funding from the Inclusionary Housing Fund, a $1 million grant from the State of California Housing Trust Fund, and other program funds, it will help provide gap financing for 332 rental housing units.

While the units produced through the Affordable Housing Fund will add to the City's affordable housing production goal, it still falls far short of the projected need of 38,680 units over the 9-year RHNA period. As proposed in the Memorandum of Understanding on Workforce Housing between the Housing Commission and the Jobs Coalition, additional sources of revenue should be identified in order to better meet affordable housing needs. The adoption of a bond measure that includes funds for affordable housing could significantly help the City meet its proposed 10,300 new affordable housing unit production goal.

Were the City to include $100 million in new revenue for affordable housing, it could support the development of approximately 1,000 additional affordable housing units for low to moderate income households. The San Diego Housing Commission would administer and deploy the funds on behalf of the City of San Diego with a focus on multifamily workforce housing that is near transit, and affordable to San Diegans with incomes at or below 120% area median income, currently $87,600 a year for a family of four.

This funding would help meet the needs of families and individuals, including but not limited to veterans, seniors, and disabled persons in all levels of the workforce, from service industries to bio-tech, science, education, hospitals and public safety. The acquisition of single resident occupancy units can help serve the lowest income wage earners. Bond funds would supplement the City's local affordable housing resources and help support new construction as well as the acquisition and rehabilitation of existing housing units. These units would remain affordable for at least 55 years.

The affordable housing needs in San Diego are large, but including $100 million for affordable housing in a larger City infrastructure bond program would help the City leverage its resources to provide an additional 1,000 affordable housing units.

REVENUE OPTIONS

Based on input from the Infrastructure Committee and discussions with Councilmembers, we have narrowed potential new revenue sources to increased sales tax rates, General Obligation bonds, and repeal of the People's Ordinance. These sources could generate sufficient amounts to begin to address the City's needs more fully. Additionally, SANDAG has indicated that it is considering placing a half-cent sales tax on a county-wide ballot in November 2016; should that measure go forward and be approved, some associated revenue could be used for City infrastructure. We also examined Enhanced Infrastructure Financing Districts in greater detail, but determined that they are an inappropriate mechanism to provide funding for Citywide infrastructure support.

> ***"…we have narrowed the potential new revenue sources to increased sales tax rates, General Obligation bonds, and repeal of the People's Ordinance…"***

We also discuss existing funding sources that are being used to support necessary infrastructure programs, though we note that existing sources of funding are not sufficient to address the City's infrastructure backlog.

Sales Taxes

State law allows cities and counties to impose district sales tax rates in quarter-percent increments provided they do not exceed an aggregate of 2.0% in addition to the Bradley-Burns sales tax. The City and County of San Diego currently have a district tax of 0.50% for the SANDAG administered TransNet transportation improvement program (extended by voters in 2004, this is a forty-year tax that began in 2008). Given the 2.0% limit, any additional sales tax increase would therefore have to be 1.50% or less. Two-thirds voter approval would be required for a sales tax increase dedicated to funding infrastructure projects in the City.

If the City were to raise the sales tax by the minimum increment (an additional quarter-percent or 0.25%), it would generate approximately $68 million annually to fund infrastructure needs. The City's sales tax rate would increase from 8.00% to 8.25%. Looking at other cities in San Diego County, no city has a sales tax rate lower than 8.0%. Four cities in the County have higher sales tax rates (El Cajon – 9.0%; La Mesa – 8.75%; National City – 9.0%; and Vista – 8.5%) and the other cities are at 8.0%. The other three largest cities in California have higher sales tax rates (Los Angeles – 9.0%; San Jose – 8.75%; and San Francisco – 8.75%).

Were a quarter-percent increase in the City's sale tax for infrastructure to be approved by the voters, the resulting annual funds (estimated to be approximately $68 million) could be used to issue $500 million of sales tax revenue bonds. The Debt Management Department estimates that annual debt service for a 15-year sales tax revenue bond without a cash debt service reserve fund, and assuming 120% debt service coverage, would be approximately $42 million. The remaining $26 million of annual sales tax proceeds (the difference between $68 million total and $42 million debt service) could either be used to cash fund other needed infrastructure projects or to increase the annual maintenance and repair of infrastructure. Increasing maintenance and repair expenditures can significantly extend the useful life of assets and delay the need for more expensive replacement.

Potential Quarter-Cent Sales Tax Increase	
Required Voter Approval Threshold:	Two-Thirds
Potential 15-year Increase in City's Sales Tax:	0.25%
If approved, new City Sales Tax:	8.25%
Total Additional Revenue Generated:	$68 million/year
Annual Debt Service on 15-year Revenue Bond:	$42 million/year
Additional Funds available to Cash Fund Projects and/or increase annual Maintenance & Repair:	$26 million/year

The aforementioned combination of issuing 15-years bonds to finance projects and cash funding other projects and/or increasing maintenance and repair work on a cash basis may be an appealing option. A shorter bond term requires less interest be paid over time and therefore allows more efficient use of tax proceeds to address more infrastructure needs. The Council could alternatively decide to extend the term of the bond term, increase the amount of the bond or use the entire $68 million to cash fund projects and/or increase repair & maintenance. The IBA understands that numerous factors can influence this policy decision; however, a quarter-cent sales tax increase allows some time and flexibility to optimally use resulting tax revenues in way that maximizes the infrastructure benefit for the City. Any sales tax ballot measure should be written to explicitly allow for cash or bond funding to support infrastructure projects.

General Obligation Bonds

In 1986, California voters approved Proposition 46, which allows cities and counties to issue General Obligation bonds (GO bonds) upon the approval of voters in order to finance large capital projects and acquire real property. Unlike other potential revenue sources that recur annually, a GO bond is a one-time funding source. GO bond proceeds cannot be used to fund the operations and maintenance of new projects or infrastructure, and can only be used for capital costs.

The City typically issues GO bonds for a term of 30 years with equal annual debt service payments over the term. GO bonds are secured by the City's obligation to annually levy property taxes in an amount sufficient to pay debt service on the bonds. Property taxes are levied on an ad valorem basis whereby the amount of additional tax assessed to each property owner is determined by applying a GO bond tax factor against the assessed value of the home.

Based on current market conditions, the Debt Management Department estimates annual debt service for a $500 million GO bond to be approximately $27 million. The associated additional property tax factor for a $500 million is estimated to be 0.0001369492. Applying this factor to the assessed value of a home provides the estimated additional tax a homeowner would pay for 30 years in support of a $500 million GO bond that addresses infrastructure needs in the City. For example, the Greater San Diego Association of Realtors reports the median sales price of a home sold in the County in May 2015 was $470,500 and the associated additional property tax for a home of that value is estimated to be $64.43.

Successful GO bond programs in other cities are typically designed to meet the funding needs of a specified list of necessary projects and capital improvements. For a $500 million dollar bond, the City should at a minimum identify the specific asset classes to be funded (e.g., streets, fire stations, storm water and affordable housing), and ideally would identify specific infrastructure projects to be funded in those asset classes. Additionally, voters should be informed of the estimated timeframe for the completion of identified projects. In order to avoid unnecessary financing costs, the City can elect to issue $500 million in GO bonds in one or more bond series as needed to ensure that funds are available when projects are ready to be undertaken.

It is important to emphasize GO bonds represent one-time funding sources for capital projects. Bond funds cannot be used to fund the ongoing operation and maintenance of existing capital facilities or new infrastructure. For example, a fire station could be financed with bond proceeds but the associated operating costs cannot. Should the Council elect to pursue a bond measure, it should also consider identifying funding sources for the annual operation and maintenance of new financed facilities.

Potential $500 Million General Obligation Bond	
Required Voter Approval Threshold:	Two-Thirds
Estimated Property Tax Factor:	0.0001369492
Median Home Price – May 2015:	$ 470,500
Estimated Additional Tax for a Median Home:	$ 64.43
Term of the Bond/Additional Tax	30 years

Repeal of the People's Ordinance

As we stated in our initial report on potential revenue sources, San Diego is the only major California city that does not recover at least a portion of its refuse collection expenses from those who receive collection services. The City uses its General Fund to support black bin refuse collection from eligible single and multi-family homes in the City. Residents of multi-family homes such as condos and apartments pay the same taxes that single-family home residents do, but most are not eligible to receive refuse collection services by the City, and must contract with and pay private waste-haulers for those services.

In the FY 2016 Adopted Budget, the General Fund is providing a $32.2 million subsidy to the Environmental Services Department (ESD) to provide trash collection services to eligible residences. Therefore, should the People's Ordinance be repealed and the City complete a corresponding Cost of Service Study, the $32.2 million that is currently subsidizing the ESD's collection services could be freed up to be used to cash-fund other City projects or programs, or be used to support debt-service payments on approximately $500 million of lease-revenue bonds. This would address our concerns about lease-revenue bonds requiring additional General Fund revenues to support the debt service. However, continued use of lease-revenue bonds requires the City to make a long-term commitment of additional properties for each bond.

Additionally, the Recycling Fund is budgeted to provide $16.6 million for ESD’s collection services. Only $4.0 million of revenue is generated through those services, so if the City were to move to fully recover collection costs, $12.6 million could be freed up to support other recycling programs, or to help meet the City’s zero waste goal.

Potential Repeal of People's Ordinance	
Required Voter Approval Threshold:	Majority
Revenue Saved for General Fund:	$32.2 million/year
Revenue Saved for Enterprise Funds:	$12.6 million/year

SANDAG Quality of Life Measure

SANDAG has indicated that it is considering putting a half-cent sales tax measure on the November 2016 ballot. This measure would generate roughly $300 million annually county-wide. SANDAG proposes that the $300 million would be used to fund regional transportation projects and environmental and open-space preservation projects, with an additional portion going directly to cities in the County on a per-capita basis. SANDAG has yet to determine how the total amount would be split up among the three uses. The City of San Diego represents roughly 42% of the County. Some of the City's infrastructure needs – including transportation, storm water, and flood control infrastructure – could be partially addressed on a regional basis, and may be eligible for funding from the regional portions of SANDAG's proposal.

While the split discussed above has not been finalized, if each use is given a third of the $300 million, the City's share of the amounts allocated directly to participating jurisdictions for local projects would be approximately $42 million a year. SANDAG has indicated that it can issue bonds on behalf of cities backed by the sales tax revenue collected by SANDAG.

If the City does move forward with seeking a new source of revenue, our office would encourage the City to avoid having competing revenue measures on the same ballot; having a City-only revenue ballot measure in addition to a SANDAG ballot measure on the same ballot makes both less likely to succeed.

“…If the City does move forward with seeking a new source of revenue, our office would encourage the City to avoid having competing revenue measures on the same ballot…”

Additional details on SANDAG's proposal should be forthcoming as it is developed; if the City ultimately determines that it should support a county-wide SANDAG revenue measure, it should actively participate in the development of that measure to ensure that the City receives a fair share of any associated revenue, and that such revenue can be used to address identified City needs.

Enhanced Infrastructure Financing Districts

Legislation authorizing the creation of Enhanced Infrastructure Financing Districts (EIFDs) was signed into law by Governor Brown on September 29, 2014. EIFDs provide local governments with a new tool to replace funding sources lost with the elimination of redevelopment agencies in 2011. Envisioned to support economic redevelopment, EIFDs are empowered to provide financing for a broad array of public capital infrastructure and other specified projects that provide significant benefits to the district and/or the surrounding community. Although other sources of capital (Residual Property Tax Trust Fund [RPTTF] distributions, government or private loans, grants, etc.) may be available to EIFDs, they are primarily financed through tax increment generated from the growth in property taxes collected within the district.

Once formed, EIFDs may use a public finance authority to initiate proceedings to issue tax increment bonds by adopting a resolution of intention describing the proposed bond issuance and by providing public notice of the resolution in a newspaper. Tax increment bonds to finance EIFD projects can be issued with the approval of 55% of voters living within EIFD boundaries. This reduced voter approval requirement (55% as opposed to a two-thirds requirement) confers a significant advantage to EIFDs that is equivalent to the reduced voter approval requirements for school bonds. It is important to note that proposed EIFD bonds must be submitted to qualified voters within the district either at the next general election or at a special election held at least 90, but not more than 180, days after the resolution of intention is adopted.

While some EIFD formation efforts are currently underway, an EIFD has yet to be established in California. This may be partly due to a challenging and somewhat onerous EIFD formation process that requires: several procedural steps; cooperation from participating taxing agencies; a clear vision of the infrastructure/projects to be financed and their associated benefits; and the ability to reasonably estimate in advance the growth in property values attributable to financed projects and/or growth that is likely to occur over time. The following steps are sequentially required to form an EIFD:

1) Establish a public finance authority with a specified membership comprising both public members and members from the legislative body of participating taxing entities (e.g., City and County).

2) Adoption of a Resolution of Intention to form an EIFD. The resolution must: state a time and place for a public hearing on the proposal; delineate the proposed district's boundaries; define the types of infrastructure and/or projects to be financed; and state that incremental property tax revenues may be used to finance contemplated EIFD activities.

3) Develop a comprehensive infrastructure financing plan (IFP). This task requires professional financial analysis to reasonably estimate both project timing/costs and the timing/amount of future property tax increment. The IFP must contain: a map and legal description of the EIFD; description of the public facilities and other forms of development or financial assistance proposed; the amount of tax increment each agency proposes to allocate to the EIFD; revenue projections; a plan for financing the public infrastructure or project; a limit on the total revenues that may be allocated to the EIFD; a date on which the EIFD would cease to exist – up to 45 years from approval; and fiscal analyses of the estimated impact of the EIFD on the participating entities.

4) The City Council must hold the noticed public hearing. At the end of the hearing, the Council may abandon the proceedings, or may adopt a resolution to adopt the IFP and form the EIFD.

As bonds must be issued no later than 180 days from adoption of the Resolution of Intention to form the EIFD, it is critical that there be advance planning for the bond issuance process that will need to be underway immediately following EIFD formation given the extremely short timeframe. It will also be important to plan in advance for the costs and timing of a general or special election. Finally, if voter approval is obtained and bonds are issued, EIFDs require an independent financial and performance audit be conducted every two years after the bonds are issued in accordance with guidelines issued by the State Controller.

The principal advantage of EIFDs when compared to the other financing options being considered is a lower voter approval threshold (55%). Offsetting this advantage are significant procedural requirements, infrastructure improvements that may not be mutually beneficial for participating agencies and uncertainty associated with estimating future tax increment. The type of citywide infrastructure envisioned for this financing plan (street improvements, fire stations and affordable housing) makes it particularly challenging to estimate the resulting tax increment and develop a reasonable financing plan as is required for an EIFD. Given these significant offsetting factors, the IBA recommends EIFDs not be considered for this financing plan, and alternatively be considered for other types of infrastructure project proposals where there is mutual interest between participating agencies and private sector participation is envisioned (e.g., the stadium concept outlined by the Mayor's Citizens Stadium Advisory Group).

"…the IBA recommends EIFDs not be considered for this financing plan and alternatively be considered for other types of infrastructure project proposals…"

Existing Funding Sources for Deferred Capital and Infrastructure

As discussed earlier, in January 2015 the MYCP identified General Fund infrastructure needs over the next five years at $2.5 billion and projected available resources for this same period at $800 million. This $800 million is comprised of the following sources.

"…existing sources of funding are not sufficient to address the City's infrastructure backlog…"

Lease Revenue Bonds

Since 2009, the City has relied on lease revenue bonds as a major funding source for General Fund infrastructure. Between FY 2009 and FY 2012 the City issued lease revenue bonds totaling $213.0 million, known as DC 1, DC 2, and DC 2A. Over the next four years, through FY 2019, the City plans to issue an additional $270 million in lease revenue bonds, only $168 million of this is reflected in the MYCP. There are currently no plans to extend the use of lease revenue bonds beyond FY 2019.

Lease revenue bonds are backed by General Fund revenue, and require the City to pledge City-owned property to serve as a leased asset to secure financing. They are typically issued for a term of thirty years. Each time the City issues this type of bond, it adds a long-term obligation to the already constrained General Fund.

> ***"…continuing to annually issue lease revenue bonds over the next decade is neither a sufficient nor sustainable long-term method to address the City's infrastructure needs…"***

As we have noted in previous reports, there is a finite number of City assets that can sustain continued use of lease revenue bonds**.** While we are comfortable with the plan for this financing through FY 2019 as currently proposed by the Mayor, continuing to annually issue lease revenue bonds over the next decade is neither a sufficient nor sustainable long-term method to address the City's infrastructure needs.

TransNet Funding

Approximately $100 million of Transnet funds are included in the MYCP as a resource for infrastructure over the next several years. The TransNet Fund includes revenue from the City's share of a one-half cent local sales tax that can only be used to provide roadway improvements, bicycle facilities, bridges, pedestrian facilities, and traffic signals in the City's right-of-way. Of this amount, 70% must be used for capital projects and 30% for maintenance projects. Funds vary from year to year as they are contingent on revenue that fluctuates with the economy, and are limited to being used for transportation-related expenditures

Mayor's Commitment to Allocate 50% of New Revenue Growth to Infrastructure- $90 Million (Projected)

The Mayor has committed to allocate at least half of new growth in major revenues to infrastructure and neighborhood repair efforts through FY 2020. Based on the Five-Year Financial Outlook, the total amount of the commitment projected for FY 2016-2020 is $90 million; annual projections are shown in the table below.

$ in millions	**FY 2016 Outlook**	**FY 2017 Outlook**	**FY 2018 Outlook**	**FY 2019 Outlook**	**FY 2020 Outlook**	**TOTAL**
Commitment in Outlook - 50 percent Major Revenue growth	$ 28.8*	$ 14.8	$ 12.6	$ 17.9	$ 16.2	$ 90.3

**Mayor's actual committed funding for FY 2016 is $44.9 million*

This commitment will help infrastructure funding, but it is not sufficient to meet all infrastructure needs. The amount is not cumulative, and if there is no year-over-year growth in the City's four major revenue categories, there would be no additional amount allocated to infrastructure.

Other Sources of Funding for General Fund Projects

The remainder of the $800 million identified in the MYCP as available for General Fund projects comes from a combination of the following sources, all of which have various restrictions and do not always realize revenue as planned due to economic changes. Sources include:

- Development Impact Fees (DIF) – These are limited to being used in the communities where they are collected, and may not materialize as projected.
- Facilities Benefit Assessments (FBA) – These are limited to the designated area of benefit in the community planning areas, and depend on developers submitting their fees.
- Grants – These are tied to the purpose identified by the granting agency.

- Capital Outlay **–** These are contingent on land sales, which are sporadic.

FUNDING SCENARIOS AND ADDITIONAL CONSIDERATIONS

Funding Scenarios

Our office has prepared preliminary breakdowns of how additional revenue could be allocated among the asset classes this report discusses, and what those allocations would provide. These scenarios are based on 1) annual cash-funding of projects, which revenue from repeal of the People's Ordinance or a quarter-percent increase in Sales Tax could provide, and, alternatively, 2) bond funding, which provides a larger up-front amount that could be used over multiple years to implement necessary capital projects.

Our scenarios provide funding to each of the asset classes discussed in this report, but it is also important to note that Council could pursue a revenue source that is dedicated entirely to one or two asset classes (i.e. streets and/or fire stations), which could ensure those asset classes are more fully supported, and reduce the need for continued lease revenue bonds.

We note that the decision to seek new revenue, and to determine what assets should be funded with that revenue, is a policy decision for Council, and is a decision that should be guided with input from the public and from operating departments.. Accordingly, these scenarios serve solely as an example of how funding could be allocated; Council can and should adjust the total revenue, asset classes, and allocations assumed in these scenarios to take into account input it receives.

> ***"…Council can and should adjust the total revenue, asset classes, and allocations assumed in these scenarios to take into account input it receives…"***

Bond Funding Scenario

Our first scenario assumes $500 million in bond funding, which could be received via a GO (property tax) Bond or via a bond backed by additional sales tax or refuse-collection revenue. Projects funded with bond funding could potentially be executed over 5 to 7 years, depending on bond issuances and staff capacity. The advantage of bonds is the availability of a greater amount of up-front funding. If this amount were generated using a Sales Tax revenue bond, an additional $26 million would be available annually for cash-funding of projects and/or operations and maintenance of constructed projects after paying debt service on a 15-year bond.

$500 Million GO or Sales Tax Revenue Bond Funding Scenario (*$ in millions*)		
Streets	$200	This amount would provide funding consistent with and necessary for maintaining progress to meet the Mayor's goal of improving the OCI of City streets to 70 by 2025.
Fire Stations	$100	This amount could provide funding for repair of 10 fire stations currently in poor condition, fill the funding gap that currently exists for four partially-funded fire stations identified in the Citygate report, and allow for the construction of 3 additional fire stations identified in the Citygate report that could be constructed in areas of critical need.
Storm Water	$100	This amount would provide partial funding for tackling the City's storm water permit compliance efforts, and could be targeted towards BMPs that have a nexus with transportation and/or drought response projects.
Affordable Housing	$100	This amount could provide approximately 1,000 affordable housing units for low and moderate income households including but not limited to veterans, seniors, and disabled persons.

Cash Funding Scenario

Our second scenario assumes annual cash funding. Repeal of the People's Ordinance would free up approximately $32 million in General Fund dollars annually, and an increase of a quarter-percent in the Sales Tax would generate roughly $68 million a year.

As we noted in our discussion of Sales Tax, this revenue could also be bonded against; if the City were to issue a $500 million sales tax revenue bond, to be paid off over 15 years, $42 million would be necessary to go towards debt service, with the remaining $26 million available for annual cash-funding or for ongoing maintenance and repair costs.

$32 - $68 Million Annual Cash Funding Scenario (*$ in millions*)			
Asset Class	*$32 (People's Ordinance)*	*$68 (Sales Tax)*	*Funding Use*
Streets	$14	$28	This amount would provide additional annual funding to support the Mayor's goal of improving the OCI of City streets to 70 by 2025, and to repair sidewalk deficiencies.
Fire Stations	$6	$14	This amount would provide annual funding that could go towards repair of fire stations currently in poor condition, towards filling the funding gap for partially-funded stations identified in the Citygate report, and/or to fund construction of new fire stations.
Storm Water	$6	$13	This amount would provide partial funding for tackling the City's storm water permit compliance efforts, and could be targeted towards BMPs that have a nexus with transportation and/or drought response projects.
Affordable Housing	$6	$13	This amount could provide approximately 60-130 affordable housing units for low and moderate income households including but not limited to veterans, seniors, and disabled persons.

Staff Capacity Considerations

Our assessment of funding needs is based heavily on the MYCP. Per the MYCP report, the Public Works Department (PWD) and Financial Management anticipate receiving revenue primarily through utility rate increases, lease revenue bonds, TransNet Funds, Proposition 42 funds and Facilities Benefit Assessments. These are expected to generate $2.2 billion over the next five years, or $450 million a year. Historically, Public Works has executed projects totaling about $300 million in total expenditures each year, with up to 150 construction contracts awarded annually.

Engineering & Capital Projects (E&CP) intends to ramp up in Fiscal Year 2016 to a higher level of expenditures totaling the full $450 million per year identified in the MYCP. To facilitate this ramp up, E&CP's Adopted Budget for FY 2016 includes $75.8 million in expenditures, and 112.00 new FTEs.

Of the 112.00 FTEs in E&CP's Adopted Budget, 99.00 FTEs will support the Capital Improvement Program (CIP) expansion. The additional hires will allow PWD to increase the number of CIP projects being released annually, and provide more available staff to manage ongoing construction projects underway. Hiring 112.00 new FTEs is unprecedented for the Department, and PWD indicated that it will likely take all of FY 2016 to fill the new positions.

Hiring and training this number of new personnel represents a significant challenge. PWD indicates that it is already at capacity in FY 2016 in terms of executing CIP expansion, managing CIP projects currently underway, and hiring new personnel. PWD staff has further indicated that it can be difficult to award 150 contracts annually.

One of the thirteen process improvements and streamlining measures PWD will be implementing in FY 2016 is increasing contract size amounts from $2.0 million to $5.0 million. The increase in contract size to $5.0 million is necessary in order for the Department to continue to release 100 to 150 contracts annually. FY 2016 will be a critical year in determining how expansion of PWD staff and implementation of process improvements affects the Department's ability to execute a greater volume of capital projects.

In order to meet needs that have funding identified in the MYCP and through other authorizations, and to achieve execution of $450 million in projects annually, the City's capacity to complete infrastructure projects needs to increase. It will be important to monitor how increased staffing and new streamlining efforts in FY 2016 affect the City's capacity to complete projects. As major infrastructure projects often have several components that are completed over a set period of time, it is also important to ensure that the City has sufficient contract administration staff, as well as overall contracting capacity, to support a large-scale infrastructure program.

"…it is also important to ensure that the City has sufficient contract administration staff, as well as overall contracting capacity, to support a large-scale infrastructure program.…"

TIMELINE AND NEXT STEPS

State law and Council Policy 000-21 govern the City's timelines for placing measures on City ballots. Council policy prescribes that any potential ballot item should be submitted to the City Clerk, to be scheduled for consideration by Committees with enough time for sufficient review. A Committee or the City Council, after discussing potential items, may direct the City Attorney to begin preparing potential ballot materials at least 120 days before an election. Ballot materials – including adopted election ordinances and resolutions – must be filed with the Registrar of Voters at least 88 days before an election.

Before a ballot item is submitted to a Council Committee for consideration, substantial work is necessary to determine the proposed makeup of a ballot item. Successful revenue increases in other cities have included public outreach and input that began well before a measure was considered by a Council Committee.

A number of critical decision points on how and whether to pursue a new revenue source remain before Council at this time:

- Should the City pursue a new revenue source for Infrastructure and/or Affordable Housing?
- If the City wishes to pursue a new revenue source, should it focus on pursuing a City-only revenue source, or should it consider supporting a region-wide revenue source as is being contemplated by SANDAG?
- If the City wishes to pursue a new City-only revenue source, what form should that take (Sales Tax/GO Bond/Trash Fee)?
- How will the City ensure it has the capacity to implement projects and programs with increased funding levels?

SANDAG staff has also expressed concerns regarding competing revenue proposals on one ballot as discussed earlier in this report, and have indicated that they would like to know the City's plans by the fall of this year. It is important that the City determine its preferred route forward by that time, and that it coordinate closely with SANDAG to avoid having competing measures on the same ballot, and to ensure that the City's needs are represented in SANDAG's ballot measure.

Additional decisions are also necessary:

- What asset classes and programs should the City consider funding with any new revenue, and in what amounts?
- What is an appropriate amount of total additional revenue to be raised?
- What *specific* projects and programs should be funded with new revenue?

These decisions will require input from the Mayor, Council, City operating departments, outside groups, and the general public. Any new revenue source and its uses should be designed with significant public input. Further, polling may be appropriate and helpful in determining both the public's threshold for providing additional

> ***"…Any new revenue source and its uses should be designed with significant public input…"***

revenue, and the public's priorities on what City revenues should support.

Given these decision points, as well as policies and laws governing election timetables, if there is a desire to place an item on the November 8, 2016 ballot, we suggest the following timeline would be appropriate:

- June-July, 2015 — Infrastructure Committee review and consideration; follow-up discussions with the Mayor, COO, CFO, IBA, and departmental staff to confirm project needs, priorities, staff capacity, and funding scenarios
- September, 2015 — Decide whether or not the City should support SANDAG's Quality of Life Initiative. If the City does not, determine the top two types of revenue the City could pursue, and prepare a plan for public outreach
- October 2015 - March 2016 — Ongoing discussions at Infrastructure Committee and Council; community outreach to receive feedback from the public, and refinement of asset categories, funding levels, and revenue source
- March 2016 - May 2016 — Prepare a ballot proposal for presentation to Infrastructure and EGIR Committees
- June 2, 2016 — Committee Review of Ballot Proposal
- June 27, 2016 — Council Review of Ballot Proposal
- July 18, 2016 — Council Adoption of Election Ordinances
- August 12, 2016 — Submittal of Ballot Measure to Registrar of Voters

We believe that this is an aggressive timeline, but that it is achievable given significant focus from all affected departments and committed leadership from the City's elected officials. If Council determines that it should pursue a new revenue source, the time between now and March 2016 is critical. Substantial public outreach during that period is vital, and multiple meetings with stakeholders and the public should occur.

Council could also consider a ballot measure for the November 2018 election, which would provide additional time to develop a proposal, engage with the public, potentially appoint a Citizen's Advisory Committee, and ensure that the City continues to demonstrate a good track-record for implementing major infrastructure projects. We note that lease revenue bond issuances are currently planned through FY 2019; after FY 2019, corresponding funding of between $90 and $120 million annually for General Fund projects is anticipated to stop. A new revenue source at this point could be critical in ensuring that the City can address its critical infrastructure needs going forward.

CONCLUSION/RECOMENDATIONS

The City faces ongoing funding needs for deferred capital and infrastructure. The MYCP, which identified a gap in funding necessary to maintain City infrastructure in good condition of $1.7 billion, demonstrates the scale of the challenges and needs facing the City; additional needs not included in the MYCP – including additional capital costs for City facilities and sidewalks, as well as support necessary for the City's affordable housing goals – increase the total funding gap.

If the Committee wishes to consider pursuit of new revenue, we recommend that the Committee Consultant, Mayor's office, impacted operating departments, and IBA be requested to work together to prepare more information on which asset classes are priorities, and the funding amounts necessary to maintain those asset classes, and to report back to this Committee as part of a larger discussion of whether the City should pursue its own new revenue source, support the potential SANDAG initiative, or take another course.

Our office remains available to assist in this process going forward.

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Attachment 1

MYCP Summary of Infrastructure Needs and Funding Identified Fiscal Year 2016 through Fiscal Year 2020 (Excluding Utilities)			
	Total Need*	**Funding Identified***	**Funding Gap**
Asset Type			
ADA	38,743,000	793,000	-37,950,000
Airports	12,000,000	12,000,000	0
Bike Paths	5,211,000	3,711,000	-1,500,000
Bridges	126,798,000	51,838,000	-74,960,000
Facilities	180,293,000	38,950,000	-141,343,000
Fire Stations	68,867,000	14,718,000	-54,149,000
Landfills	1,800,000	1,800,000	0
Libraries	42,724,000	10,455,000	-32,269,000
Lifeguard Stations	10,735,000	0	-10,735,000
Parks	201,294,000	122,639,000	-78,655,000
Police Stations	11,000,000	0	-11,000,000
Sidewalks	41,330,000	9,100,000	-32,230,000
Storm Water	777,224,000	102,410,000	-674,814,000
Streetlights	229,012,000	3,300,000	-225,712,000
Streets and Roads - Modifications	165,850,000	156,955,000	-8,895,000
Streets and Roads - Pavement**	415,500,000	146,505,000	-268,995,000
Traffic Signals	63,500,000	7,370,000	-56,130,000
Total	2,391,881,000	682,544,000	-1,709,337,000
**Rounded to the nearest thousand*	***Does not include slurry seal*		

<u>Needs do not include the following:</u>

<u>Existing</u>

Add'l 350 facility assessments - due 2016
Parks needs assessments - due 2016
Add'l 20% of sidewalk assessments - due 2015
Convention Center Phase II deferred capital
Qualcomm deferred capital
Updated streets assessments - due 2015
Service level decisions

<u>New</u>

Includes fire stations in Outlook, not other Citygate recommendations
New Master Plan parks - due 2017
State of City goal - 1000 new miles of streets
New Convention Center Phase III
New Stadium
Other Lifeguard facilities identified in Lifeguard 5-Year Needs Assessment

RECENT UPDATES TO FUNDING NEEDS FOR MAJOR ASSET CATEGORIES

Street Repair Funding to Achieve Mayor's Goals- Up to $206.3 M Increase to Funding Gap

The Mayor established two major streets repair goals at the start of 2015:

- Repair 1000 Miles of Streets in the Next Five Years
- Achieve an Overall Condition Index of 70 by 2025

Because these goals were announced after the MYCP was completed, funding needed to fully achieve them was not reflected in the document. On April 15, 2015, our office issued IBA Report 15-14: IBA Review of the Mayor's Five-Year Street Pavement Repair Program. In our analysis we noted that achieving 1000 miles of streets in the next five years was readily achievable based on funding available, the mix of repaving treatment proposed versus slurry seal, staff capacity and past service levels.

However, with respect to achieving an OCI of 70 by 2025, our analysis showed that, based on the last streets assessment and cost estimates provided by staff, funding identified in the MYCP falls up to $206.3 million short of what is needed in the first five years in order to achieve this goal.

FY 2016-2020 Streets Repair Funding Needed for an OCI of 70 vs. Proposed						
	FY16	**FY17**	**FY18**	**FY19**	**FY20**	**Total**
OCI 70 Need *(millions)*	$ 108.2	$ 108.2	$ 108.2	$ 108.2	$ 108.2	$ 541.0
Mayor's Plan *(millions)*	$ 73.6	$ 89.3	$ 84.8	$ 87.0	$ -	$ 334.7
Shortfall *(millions)*	**$ 34.6**	**$ 18.9**	**$ 23.4**	**$ 21.2**	**$ 108.2**	**$ 206.3**
*Needs are based on 2011 streets assessment and may be less depending on results of updated assessment planned for completion in Fall 2015						
**Includes combination of cash for Gas Tax, Prop 42, Transnet, General Fund, as well as lease revenue bonds						

This is attributable to the number of more costly repaving miles rather than slurry seal miles necessary to achieve an OCI of 70 by 2025. This analysis is based on the City's current OCI of 54.6- updated pavement OCI results are expected this fall and will be a major factor in further informing the funding needed to meet the Mayor's goals.

FY 2014 Updated Facilities Condition Assessments- $47 M Increase to Funding Gap

At the Infrastructure Committee meeting on June 3, 2015, Public Works staff presented the results of updated condition assessments for 274 of the City's 700 General Fund facilities. The remaining facilities are still under review and are expected to be completed in early 2016. The table on the next page presents the results of the assessments completed to date. The Facilities Condition Index (FCI) ratings as shown on the following page are interpreted as follows:

Good= FCI of 0-20%;
Fair= FCI of 21-29%;
Poor= FCI $\geq$ 30%.

The table below also shows that $177 million is needed to move facilities from a category of "fair to good" or "poor to fair" within five years by addressing Service Level 1-operational improvements (subsystems which include electrical, HVAC, fire protection, plumbing, elevators). An additional investment of $50 million for capital renewal is recommended for a total reinvestment of $227 million over the next five years. This is an increase of $47 million over what was identified in the MYCP.

FY 2014 Facilities Condition Assessment Update						
Asset Function	**No. Bldgs**	**Square Footage**	**Avg. Actual FCI**	**Avg. Goal FCI**	**Necessary Reinvestment**	
Public Facilities	141	678,558	25 Fair	15 Good	$	39,922,900
Semi-Public Facilities	31	245,101	28 Fair	15 Good	$	21,277,586
City Office, Work Yard, and Operations Areas	102	841,238	51 Poor	29 Fair	$	116,044,988
Total City-Occupied*	**274**	**1,764,897**	**39 Poor**	**22 Fair**	**$**	**177,245,474**
*An additional investment of $50M for capital renewal is also recommended for a total reinvestment of $227M over 5 years for this Service Level. Capital renewal estimate of $50M includes Reliability Level 1 subsystems that will reach the end of their useful life in years 2015 through 2020.						
Note - Service Level Goals: FCI 15 Good for Public/Semi-Public & FCI 29 FAIR for City Offices/Work Yards						

According to the Facilities Condition Assessment Report, to address Service Level 2 – structural deterioration (foundations, basements, floors, roofs, walls, doors, etc) an additional $227 million is needed and an additional $86 million is needed to address Service Level 2 – facility appearance (finishes on floors, walls, ceilings, etc). Only Service Level 1 is recommended for funding by staff at this time.

Updated Sidewalk Assessment Report-$5 M Increase to Funding Gap

On April 23, 2015 the results of the Sidewalk Assessment Report were presented to the Infrastructure Committee. The table below shows the required sidewalk treatment, the number of damaged locations and the total five year funding needed to address the identified repairs. The MYCP had originally estimated five year funding needs to be $41 M compared to the new estimate based on latest assessments of $46 million.

FY 2016-2020 Sidewalk Repair Funding Needs			
Damage Treatment	**Damaged Locations**	**Total Cost Estimate**	
Maintenance - Slice/Grind	40,039	$	6,000,000
Tree-related Replacement	7,585	$	23,500,000
Non Tree-related Replacement	30,758	$	16,900,000
Total Sidewalk Damage Repair	**78,382**	**$**	**46,400,000**