



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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# San Diego Infrastructure: Status Report and Important Next Steps

## OVERVIEW

The City of San Diego owns and maintains a large and complex network of infrastructure assets, including streets, bridges, parks, public facilities, and airports. 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 for streets, facilities, and storm drains. However, this estimate is likely much higher since it is based on an outdated and partial condition assessment of the City's buildings/facilities as discussed later in this report. Infrastructure issues impact the public health, safety, and the quality of life for San Diego communities as well as the tourism industry which is an important part of the City's economy. Addressing infrastructure issues is clearly one of the highest priorities for the City.

Infrastructure issues in the City are very complex with many components, including Deferred Capital, Asset Management, Maintenance & Repair (M&R), the Capital Improvement Program (CIP), and new infrastructure needs. Additionally, numerous City departments and organizations, Council, the Mayor, citizens and various stakeholders are involved in or impacted by infrastructure issues.

Over the past year and a half, the City has made headway toward addressing infrastructure challenges, including approving the City's first multi-year financing program for deferred capital; adopting and implementing CIP streamlining reforms; developing a Citizen's Guide to the CIP; establishing and formalizing a community input process for the CIP; and creating a City Council Infrastructure Committee. The City also has several important efforts underway or in the pipeline for addressing infrastructure challenges, including establishing a Citywide policy and approach for Asset Management and updating the City's Community and Public Facilities Financing Plans and impact fees. City staff and Council have been able to build upon each step taken to gain a better understanding of infrastructure issues. This growing base of knowledge and experience has provided direction and focus for important next steps needed to identify a more comprehensive solution for addressing infrastructure issues, including development of a Multi-Year Capital Improvements Plan and strategy for financing unfunded priority needs.

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. This summary 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.

## FISCAL/POLICY DISCUSSION

### 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 ongoing and future efforts (discussed later in this report) and will help as the City moves forward to identify a more comprehensive solution. Important steps that have been taken are highlighted in the table on the next pages, and some of the more significant issues are discussed in more detail in the sections below.

#### Identifying the Magnitude of the Problem

In February 2012, the Mayor’s Office reported that the City has an estimated \$898 million in deferred capital projects for buildings/facilities, streets, and storm drains. The estimates of deferred capital for streets and storm drains are generally considered to be accurate since they are based on comprehensive condition assessments of the assets conducted in 2010 through 2012. The City anticipates deferred capital for buildings/facilities to be significantly higher than the current \$185 million estimate which is based on outdated and limited assessments conducted in fiscal years 2007 and 2009 on about 30% of the City’s 1,600 facilities. The FY 2014 Adopted Budget includes funding for conducting a more comprehensive assessment of the City’s General Fund and Enterprise Fund facilities (\$1.6 million) as well as funds for conducting assessments of park assets (\$0.3 million), sidewalks (\$1.0 million), and water and wastewater assets (\$8.2 million). 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.

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

#### Adopting a Plan to Begin to Address the Backlog

In March 2012, Council approved the City’s first Five-Year Deferred Capital Funding Plan, known as Enhanced Option B, which provides a mix of bond and cash funding for both ongoing M&R and capital projects. While this plan did not provide the level of funding desired by the Council or necessary to stop deterioration, it was determined through significant review and analysis and numerous public hearings that it was the most realistic and fiscally sound approach to begin to address the deferred capital backlog. Although the plan will not prevent further deterioration of assets, it represents a significant new investment and source of funds for capital projects. For example, the first two deferred capital bond issuances (DC 1 and DC 2) alone provided about \$85 million for resurfacing (asphalt overlay) about 120 miles of City streets that otherwise would not have been funded. The bonds also provide funding for needed HVAC, roof replacement, and other repairs to fire, police, lifeguard stations, museums, and libraries.

The Deferred Capital Five-Year Funding Plan is anticipated to slow the rate of deterioration of assets to 5-10% over the five-year period. As we noted in our report in March 2012 (IBA-12-13), the “Do

Nothing Option” with no funding would result in a deterioration rate of about 37.5% over the five-year period. It is important to consider that as assets continue to deteriorate, the cost for repair will exponentially increase and can result in peripheral damage.

Although the FY 2014 budget delays the next \$80 million deferred capital bond issuance by six to nine months, Council required as part of the motion for adopting the budget that discussion of the IBA’s “Catch Up” Plan be brought to the Infrastructure Committee and City Council well in advance of the Mayor releasing the Five-Year Outlook in November 2013. This plan proposes increasing future bond issuances from about \$80 million to \$100 million each year from FY 2014 through FY 2017.

The issuance of lease revenue bonds to fund deferred capital and other infrastructure projects will continue to be an important source of funding for the City, especially given the current low interest rates. However, our office has continued to note that, since revenue bonds are backed by the General Fund and typically issued for a term of 20 to 30 years, each time this type of debt is issued, a long-term obligation is added to the City’s General Fund.

Further, 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. Rating agencies generally consider 10% to be above average or high. Debt Management recently reported that the City’s lease burden is about 4.4%. If the Five-Year Deferred Capital Funding Plan is implemented as it was approved by Council in March 2012, the lease burden will grow to about 6%. As the City moves forward to develop a Multi-Year Capital Improvements Plan and identifies a financing strategy for more comprehensively addressing deferred capital and other infrastructure needs, it will be important to consider the long-term impact of debt financing on the General Fund.

IMPORTANT STEPS TAKEN TO ADDRESS INFRASTRUCTURE ISSUES	
<b>Issuing the First Deferred Capital Bonds (March 2009)</b>	City issued Deferred Capital Bond issuance (DC 1) of \$103 million in General Fund-backed lease revenue bonds. <sup>a</sup> Engineering & Capital Projects (E&CP) initially faced challenges in expeditiously spending down these funds in part because (1) the City lacked a list of deferred capital projects and (2) issues within the Purchasing & Contracting Department resulted in a lengthy contract bid and award process. As of April 2013, 93% of funds have been drawn down.
<b>Restructuring Public Works Contracting (Summer 2011)</b>	Public Works Contracting was restructured from Purchasing & Contracting to the Public Works Department to streamline the contracting process and reduce the time it takes to complete projects. As a result of the streamlining efforts, the time for contract bid and award has been reduced from 6-8 months to 90 days which is the industry standard. Note that the new administration’s limited contract signature authority may impact the 90-day target.
<b>Estimating the Deferred Capital Backlog and Identifying Practical Funding Options (February 2012)</b>	Based on information on street conditions updated in November 2011, City staff revised the estimated backlog for streets, facilities, and storm drains from \$840 million to \$898 million. Given tight funding constraints and competing priorities, staff also presented some practical and affordable options for addressing the backlog, including the Status Quo Funding Option for preventing further deterioration of the assets and Funding Options A and B which were anticipated to slow the rate of deterioration to 5-10% over 5 years. These options provided a mix of cash and bond funding for needed ongoing M&R and deferred capital projects totaling about \$720 million over five years.
<b>Adopting the Five-Year Deferred Capital Funding Plan to Begin to Address Backlog (March 2012)</b>	The IBA recommended that Council adopt Option B because it represented greater cash contributions relative to capital bond requirements, which add long-term debt service obligations to the General Fund. The IBA also recommended that \$8.3 million of the projected General Fund surplus from FY 2012 be used to increase cash funding of deferred capital projects in FY 2013. This addition increased cash funding from \$45.8 million to \$54.1 million and became known as Enhanced Option B. Council adopted Enhanced Option B as the first ever Five-Year Deferred Capital Funding Plan.

## IMPORTANT STEPS TAKEN TO ADDRESS INFRASTRUCTURE ISSUES

<b>Approving Measures for Streamlining and Increasing Transparency of the CIP (May 2012)</b>	E&CP led an initiative to expedite the process of authorizing contracts and allocating resources and increase transparency of the CIP. The initiative, approved by the City Council in the spring of 2012, reduced the number of times projects must go to Council for approval; allowed the use of Multiple Award Construction Contracts (MACC) for water, sewer, and storm drain pipe replacements; and increased transparency over CIP for City Council and Public through the new CIP website and twice annual State of the CIP reports to Council.
<b>Issuing the Second Deferred Capital Bonds (DC 2) (June 2012)</b>	The second bond issuance (DC 2) is issued for \$75 million. This was the first issuance as part of the Five-Year Deferred Capital Funding Plan. E&CP received these funds in August-September 2012. As of April 2013, 37% of funds have been drawn down.
<b>Training for Council on General Obligation Bond Program (July 2012)</b>	The IBA sponsored training for Council featuring Sheryl Sculley, City Manager of San Antonio, TX. Ms. Sculley presented the highlights of San Antonio's 2012-2017 General Obligation Bond Program which is funding 140 capital projects totaling \$596 million. The program includes projects for streets, bridges, and sidewalks; drainage and flood control; parks, recreation & open space; library, museum, and cultural art facilities; and public safety facilities.
<b>Obtaining Public Input for the FY 2014 CIP Budget (August-November 2012) and Formalizing in Council Policy (June 2013)</b>	E&CP worked with the Community Planners Committee (CPC) to facilitate public input on ongoing and needed capital projects for the FY 2014 Budget. In late November, the CPC submitted 225 projects recommended by 29 Community Planning Groups. Since there is relatively little discretionary funding only 18 of the requested projects have been funded in the FY 2014 Budget. However, as the City moves forward with development of a Multi-Year Capital Improvements Plan, staff will be able to more effectively plan to include requested projects over five years rather than in an annual budget.  This process was formalized in Council Policy 000-32, approved on June 18, 2013.
<b>Issuing A Citizen's Guide to the CIP (September 2012)</b>	The IBA developed the Citizen's Guide to the Capital Improvement Program to provide a solid foundation of knowledge on the CIP, based on suggestions from community representatives. Understanding the CIP process is important so that citizens can effectively provide input on ongoing projects and capital needs; establish realistic expectations for CIP funding constraints, restrictions, and competing priorities; and help the City continue to improve the capital program and processes. An updated version of the Guide will be issued in July 2013.
<b>Creating Council Infrastructure Committee (December 2012)</b>	Council created an Infrastructure Committee to bring necessary focus and develop comprehensive solutions for important Citywide infrastructure issues. The Committee is focusing on the CIP, creation of a Multi-Year Capital Improvement Plan, Citywide Asset Management, additional streamlining opportunities, infrastructure financing strategies, and community CIP hearings.
<b>Approving Additional Bond Issuance for CIP Projects (March and June 2013)</b>	City Council approves issuance of \$35 million bond to fund certain CIP projects. About \$20.5 million of this will address deferred capital with the remaining dedicated to new infrastructure (fire stations and libraries). Final approval of the bond issuance by Council occurred on June 18, 2013. E&CP will likely receive the funds in August-September, 2013.
<b>Funding Infrastructure in the FY 2014 Budget (June 2013)</b>	Funding is provided for important condition assessments for General and Enterprise Fund Facilities, Park System Assets, Sidewalks, and water and wastewater assets; M&R (notably for Facilities Division), and capital projects. However, Deferred Capital Bond issuance of \$80 million (DC 3) initially planned for June 2013 is delayed by 6 to 9 months as well as all subsequent issuances. Per the approved budget, the IBA's "Catch Up" Plan, which increases the bond issuances to \$100 million in FY 2014 through FY 2017, will be brought to the Infrastructure Committee and City Council for discussion in advance of the Mayor releasing the Five-Year Outlook.

<sup>a</sup> DC 1 bonds were refinanced to be 30-year bonds as part of the Master Refunding lease revenue bond issuance in May 2010.

### **Approving Measures for Streamlining and Transparency of the CIP**

E&CP led an initiative to expedite the process of authorizing contracts and allocating resources and increase transparency of the CIP. The initiative, approved by the City Council in the spring of 2012, resulted in changes to the Municipal Code and development of a new [City Council Transparency Policy \(000-31\)](#). The following measures were included:

- City Council approval thresholds are increased for various types of contracts and agreements.
- Projects approved in the CIP budget not required to go back to Council to approve award of a consultant or construction contract, unless specifically requested by Council.
- Public Works is authorized to use Multiple Award Construction Contracts (MACC) for implementation of certain CIP projects (design and construction services for water, sewer, and storm drain pipeline projects). MACCs are contracts awarded as a result of a single solicitation that results in the award of task orders to multiple contractors.
- Beginning with the FY 2013 budget, the City Council dedicates a lengthy budget hearing specifically to the CIP.
- Savings from completed CIP projects are authorized to be transferred to projects on the “cascade” list of priority projects needing funds in the approved budget.
- E&CP will report on the status of the CIP to the City Council biannually and are available to present to Committees or the full Council upon request.
- E&CP will maintain a CIP Website with project information, including contract award information that will be updated quarterly. <http://www.sandiego.gov/cip/index.shtml>

### **Formalizing the Process for Public Input for the CIP**

In August-November, 2012 E&CP staff led the first ever process for obtaining public input on ongoing and needed capital projects for the FY 2014 CIP Budget through the Community Planners Committee (CPC). City staff provided important education and training for Community Planning Group leaders and interested representatives in September 2012 on the CIP and budget process which helped establish realistic expectations of available funding for projects. During the training, E&CP staff also distributed lists of existing projects for each community planning area and posted departmental lists of unfunded needs and condition assessments on CPC’s website.<sup>1</sup> Despite a short timeframe, 29 of the 42 Community Planning Groups participated and recommended a total of 225 projects.

Since there is relatively little discretionary funding only 18 of the requested projects have been funded in the FY 2014 Budget. However, as the City moves forward with development of a Multi-Year Capital Improvements Plan, staff will be able to more effectively plan to include requested projects over five years rather than in an annual budget. Council District 5 led the development of a Council Policy (000-32) to formalize the public input process, which was approved by Council on June 18, 2013.

### **IMPORTANT ONGOING EFFORTS TO ADDRESS INFRASTRUCTURE ISSUES**

The City has important efforts currently underway and in the pipeline to address infrastructure issues. As the knowledge and experiences of City staff and decision makers have grown, they have identified the need for an effective and sustainable process to manage assets for the lowest lifecycle cost. Several important Asset Management efforts are currently ongoing which will provide needed information on existing assets so that decision makers can identify optimal maintenance and CIP and investment strategies. Additionally, the City has efforts underway to identify the need for new infrastructure through updates to Community and Public Facilities Financing Plans and impact fees, revise the

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<sup>1</sup> <http://www.sandiego.gov/planning/community/cpc/resources.shtml>

priority scoring process for CIP projects, and streamline the permit process as well as several important efforts in the pipeline.

### **Establishing Policy and Guidelines for Citywide Asset Management (Business Practice)**

Based on recommendations from the City Auditor and in response to requests from the Infrastructure Committee, the City's Enterprise Asset Management (EAM) Steering Committee is developing two process narratives for Citywide Asset Management to establish City's commitment to effective and sustainable management of assets to receive the maximum benefit. The draft process narratives are anticipated to be presented to the Infrastructure Committee on July 29, 2013. This effort will provide standard minimum guidelines for all City departments for managing assets and developing an asset management plan. Key steps include assessing the condition of assets and setting target levels of service.

***Looking Forward*** – The City will conduct important condition assessments in FY 2014 including facilities/buildings, park assets, sidewalks, and water and sewer assets. These will provide important information on asset conditions and any backlog of deferred capital.

### **Developing an Asset Management System**

Public Utilities started an effort to replace its three existing maintenance management systems—which are obsolete, nonstandard, and fragmented—with SAP EAM. The new system will cost \$20 million over 5 years, beginning with \$8.4 million in FY 2014. This system is particularly important given the large number of assets and significant amount of information that must be collected and analyzed to implement cost-effective asset management strategies. Pending Mayoral approval, either the whole item or various related contract items will be brought to Council. The goal and intended outcome of the system includes:

- Using information on the condition of assets, desired level of service, and criticality, staff can develop optimal maintenance plans and CIP investment strategies over the asset life cycle.
- Significantly increase the functionality of Public Utilities' maintenance management since the system has the ability to interface with the City's financial system.
- Serve as foundation for other asset-owning departments to leverage their own SAP EAM roll-out in the future—potentially at significantly lower costs.

***Looking Forward*** – Several departments, such as Transportation & Storm Water, will be providing resources to participate at appropriate milestones in the SAP EAM Project; these costs are anticipated to be absorbed by each department's operating budget for FY 2014. In future years, departments may require funds for more full participation. In addition, depending on the future level of involvement of General Fund departments, an SAP EAM coordinator may be needed.

### **Identifying Infrastructure Needs through Community and Public Facilities Financing Plan Updates**

Many of the City's 46 Community and 42 Public Facilities Financing Plans (PFFP) were not updated during the previous administration and are considered to be significantly out of date. PFFPs are generally updated as part of the Community Plan update process; 10 Community Plans and 12 PFFPs are currently in various stages of the update process. Updating Community Plans is important since, among other things, they identify needed public infrastructure and public facilities based on the community's vision and policies in the City's General Plan. It is important to note that this includes identifying needed new infrastructure. The PFFP prioritizes needed infrastructure and identifies funding sources; generally the plans are funded through Development Impact Fees (DIF) or Facilities Benefits Assessments (FBA) which are fees assessed on developers to mitigate the impact of new development. As costs have increased over time, many of the plans are underfunded. The PFFP

updates are intended to provide an impact fee structure that is commensurate with current costs of facilities, which could result in significant increases to FBAs and DIFs.

### **Revising Priority Scoring for CIP Projects**

Based on lessons learned from the application of the ranking factors and recommendations from the City Auditor (OCA-11-027 and OCA-12-001), E&CP staff have been working with asset-owning departments and the Community Planners Committee (CPC) to revise and improve the priority ranking factors which are currently included in Council Policy 800-14. Staff have developed a Mayoral Directive that includes the revised priority scoring process. Following the Mayor's approval, the Mayoral Directive is anticipated to go to the Infrastructure Committee as an informational item, potentially on September 30, 2013. Among other things, the revised process is intended to provide transparency over how projects are selected for implementation.

**Development Impact Fee (DIF)** – Communities that are at or near build out collect impact fees on infill or revitalization efforts. DIF generally provides less than 10% of the funding needed for identified public facilities. DIF is collected upon building permit issuance and can be used to fund community Police, Fire, Library, Park & Recreation, and Transportation facilities.

**Facilities Benefit Assessment (FBA)** – Communities that are relatively early in their planned development have an FBA that provides up to 100% of funds for public facilities projects identified in the community's PFFP. At the time of building permit issuance, the owner of the parcel being developed is assessed a fee that is determined by the type and size of the development and based on the FBA Fee Schedule.

### **CIP Streamlining - New Decision Process for Site Development and Coastal Development Permits**

Site Development Permits (SDP) for environmentally sensitive lands and Coastal Development Permits (CDP) represent the majority of permits required for construction of CIP projects. The Development Services Department led an effort to revise the decision making processes and permit requirements for an SDP and a CDP. The streamlined process is anticipated to reduce permit processing time by 1½ to 2 ½ months, and savings per capital project are estimated to be \$5,000 to \$30,000 per project. This item will be discussed at Infrastructure Committee on June 24, 2013 and at Council on July 29, 2013.

### **Efforts in the Pipeline**

#### ***Revision of Policy for Sidewalk Repairs***

Especially considering that the Sidewalk Condition Assessment has been funded in the FY 2014 Budget, the City needs to develop a clear policy for how this information will be used, especially relating to the financial responsibilities of the City and adjacent property owners. Although California Streets and Highway Code (5610-5618) establishes that sidewalks are owned and maintained by adjacent property owners, City Council Policy 200-12 provides a 50/50 cost sharing program to motivate property owners to replace deteriorating sidewalks. The City is often held liable when a citizen is injured due to sidewalk disrepair.

The assessment will likely identify a large backlog for sidewalk repairs and replacement. Under the existing Council policy this could place a significant financial burden on both the City and property owners. Our office agrees that a clear policy must be developed as soon as possible.

#### ***Potential Revision of Five-Year Deferred Capital Funding Plan***

The FY 2014 budget delays the next \$80 million deferred capital bond issuance by six to nine months; however, it also requires that discussion of the IBA's "Catch Up" Plan be brought to the Infrastructure

Committee and City Council well in advance of the Mayor releasing the Five-Year Outlook in November 2013. The “Catch-Up” Option increases the four remaining bonds, beginning in FY 2014, from \$80 million to \$100 million each. This provides about \$65 million in additional bond funding during the five-year period, only about \$19.4 million less than Enhanced Option B. Additional debt service for the “Catch-Up” Option is only a total of \$7.5 million for FY 2015, FY 2016, and FY 2017.

### ***Updates to Status Quo Funding Levels for Maintenance & Repair***

As part of the motion for adopting the FY 2014 Budget on June 10, 2013, Council required that annual Maintenance & Repair (M&R) funding needs, necessary to prevent further deterioration of assets, be reassessed to reflect new information, such as the new sustainability model for facilities. Our office recommended that the revisions be brought to the Infrastructure Committee in conjunction with updates to the Five-Year Deferred Capital Funding Plan. This will provide a more accurate and transparent view of M&R funding deficiencies and a solid target for future funding. This is also important to ensure that accurate M&R funding needs are included in the Multi-Year Capital Improvements Plan. Such a plan is a key next step for addressing infrastructure needs, discussed in more detail in the next section of this report.

## **IMPORTANT NEXT STEPS TO IDENTIFY A COMPREHENSIVE, LONG-TERM SOLUTION**

Development of a Citywide Multi-Year Capital Improvement Plan is an important next step to identify a more comprehensive solution for addressing infrastructure issues. The bottom line is that the Council, Mayor, City staff, public, and other stakeholders need an overall, transparent view of where the City is with regard to infrastructure—what projects are planned; what projects are needed; what revenue is projected from existing funding sources; and what priority projects lack a funding source? As discussed in more detail in our September 2012 report (IBA-12-39), cities with successful infrastructure programs—such as San Antonio, TX, Denver, CO, and San Francisco, CA—have comprehensive Multi-Year Capital Improvements Plans. Similar to these 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.

### **Multi-Year Capital Improvements Plan**

Our office identified some key components that other cities include in their Multi-Year Capital Plans in our September 2012 report (IBA-12-39). Recent and ongoing efforts by the City of San Diego to address infrastructure discussed throughout this report will provide some of these key elements needed for the development of such a plan, including Asset Management, a revised priority ranking policy for projects, and the recently formalized process for obtaining public input on capital needs.

Based on our research of other cities and knowledge and experience with City programs, we are providing some first steps to developing a Multi-Year Plan in Attachment 1. As reported by the City Auditor in June 2011 (OCA-11-027) the City does not currently have an office to oversee and coordinate infrastructure programs. E&CP currently provides staff on a part-time basis to support the CIP Review

#### **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.



and Advisory Committee (CIPRAC). However, Mayor Filner recently discussed creating a position in his office to oversee all infrastructure programs. Alternatively, the City may want to consider forming a task force from relevant departments—including asset-owning departments, Financial Management, Development Services (Planning and Facilities Financings, and Disability Services—to provide input on the Multi-Year Plan.

### **Infrastructure Financing Strategy**

Given tight financial constraints, valid competing priorities, and the significant deferred capital backlog, 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 have developed successful General Obligation (GO) Bond Program. GO bonds are considered the most secure type of municipal bonds because they are backed by the full faith and credit of the issuing municipality, including the ability to raise taxes to make debt financing payments. 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.

Some of the important factors to consider regarding a successful financing strategy include:

- 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.
- Solid track record of delivering past and current funded deferred capital projects.
- Strategic analyses of potential competing issues.

#### **GO BONDS:**

The City of San Diego and many other California cities have a two-thirds voter-approval requirement to finance projects through GO bonds. Some cities only have a majority voter-approval requirement.

Cities like San Francisco, San Antonio, and Phoenix have successful GO bond programs to finance capital improvements to streets, parks, public buildings, and other types of infrastructure. In these cities, Citizens' GO Bond Oversight Committees have been used to develop community priorities and provide independent oversight of bond fund spending.


## **CONCLUSION/RECOMMENDATIONS**

After several years of underinvestment in infrastructure assets, the City has taken some important steps for addressing infrastructure challenges, in particular beginning to identify the magnitude of the problem and adopting the first ever deferred capital funding plan to begin to address the backlog. City staff and Council have been able to build upon each step taken to gain a better understanding of infrastructure issues. As the knowledge and experiences of City staff and decision makers have grown, they have identified the need for an effective and sustainable process to manage assets for the lowest lifecycle cost. Several important Asset Management efforts are currently ongoing which will provide needed information on existing assets so that decision makers can identify optimal maintenance and CIP and investment strategies. Additionally, the City has efforts underway to identify the need for new infrastructure through updates to Community and Public Facilities Financing Plans and impact fees.

Ongoing efforts will provide some of these key elements needed for the development of a Multi-Year Capital Improvement Plan. Our office continues to believe that this an important next step for identifying a more comprehensive solution for addressing infrastructure needs. The bottom line is that the Council, Mayor, City staff, public, and other stakeholders need an overall, transparent view of

where the City is with regard to infrastructure, including identifying priority needs that lack an existing funding source. Given tight financial constraints, valid competing priorities, and the significant deferred capital backlog, the City ultimately will need to develop a financing strategy, such as a General Obligation Bond Program, to address priority unfunded capital projects identified in the Multi-Year Capital Improvements Plan and more comprehensively address infrastructure issues.

  
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## **First Steps to Consider for Developing a Multi-Year Capital Improvement Plan**

### **1. Establish a planning process:**

- Establish the objectives or goals of the plan
- Determine who will be participating in planning process, such as a task force (E&CP, Financial Management, Development Services/Planning and Facilities Financing, Asset-owning departments)
- Develop timeframe for creating and reviewing the plan (*Should this be connected with the annual budget cycle?*)
- Determine when public meetings will be held to elicit public participation
- *Do we need or have access to software/ program for developing this plan?*

### **2. Establish general structure of plan and what to include:**

- Establish timeframe for plan (*For example, covering 5 or 6 years?*)
- Determine what types of assets and expenditures will be included (*For example, will IT systems and/or office space needs be included?*)
- Determine Sections of Plan, such as by asset/program (shown in text box below) or by Department
- Identify Fiscal Data and information that will be included/needed:
  - Current and future debt service costs
  - M&R - Backlog and projected needs, also known as Annual, Ongoing, or Pay-as-You-Go Maintenance (*Include actual projects or just amounts?*)
  - Deferred Capital - Backlog and projected needs, also known as Renewal or Deficiency Needs
  - New Infrastructure also known as Enhancement, Expansion, Upgrades, or Growth
  - Neighborhood/Community Projects
  - *Should Redevelopment/Economic Development Projects be included?*
  - Priority Unfunded Needs
  - Future operating costs needed for capital projects
- Determine level of detail for projects
- Consider data, information, and analysis needed for Executive Summary (see example)
- *Should there be separate General Fund and Enterprise Funded Assets/Programs?*
- *Should sections be organized by Major Asset Types/Programs (similarly to report card)?*

### **3. Pull together existing plans:**

#### **Enterprise-Funded Capital Infrastructure Program**

- Water Master Plan
- Wastewater Master Plans (Metro and Muni)
- Golf Five-Year Plan
- Airport Plans (Brown and Montgomery Fields)
- AECOM Report (QUALCOMM M&R and Capital Needs)

#### **Major Asset Types/Programs:**

##### **Enterprise-Funded Infrastructure**

1. Airports
2. Golf Courses
3. Landfill
4. Water Treatment and Distribution System
5. Wastewater Collections and Treatment System
6. QUALCOMM

##### **General-Funded Infrastructure**

1. Buildings/Facilities
2. Parks and Recreation
3. Public Safety
4. Streets and Rights-of-Way
5. Storm Drain System

**General-Funded Capital Infrastructure Program**

- Five-Year Deferred Capital Funding plan
  - ADA Transition Plan
  - ADA Accessibility Consultant Survey
  - Branch Library Facilities Report (1998)
  - 21<sup>st</sup> Century Library System/Library Facilities Improvements Program (2002)
  - CityGate (Fire Stations)
  - Police Five-Year M&R and Capital Plan (1 pager)
  - RTIP (TransNet) (2012)
  - Five-year resurfacing plan (2012)
  - *How to incorporate Community and Public Facilities Financing Plans?*
4. **Pull together existing unfunded needs and other project request lists**
- Buildings/Facilities (Def Cap identified in 2009 Parsons Report)
  - Corrugated Metal Pipe Needs List
  - Park & Rec Unfunded Park Improvements List (2010)
  - Metro and Muni Wastewater Improvement Lists (*Are these also on Master Plans?*)
  - Transportation Unfunded Needs
  - Water Facilities Master Plan (*Are these also on Master Plan?*)
  - CPC/CPG Project Request Lists (225 requested minus 18 that were funded in FY 2014 CIP Budget)
5. **Identify gaps and determine how to address, such as working with applicable department staff to identify and prioritize needed projects over 5 years. Gaps include:**
- Facilities – partial list
  - Park & Rec – not based on condition assessment, also not sure how solid project cost estimates
  - Landfill – no plan or list
  - Storm Water – partial needs list, but Asset Management Plan will be completed in summer (*Is there capital and maintenance plan related to permit compliance?*)
6. **Executive Summary** – Should include summary and analysis and outline potential financing strategies. Among other things, staff developing the executive summary should:
- Work with FM and department staff to develop revenue projections
  - Work with Debt Management to develop debt service projections
  - Assess possible grant and other financing options, including discussing innovative financing ideas with CivicSD staff.

**Executive Summary (Example)**

1. Asset Management
  - a. Condition Assessments
  - b. Asset Management System
2. Deferred Capital Backlog
3. Annual/Ongoing Maintenance & Repair Needs/Projections
  - a. Include M&R that is deferred due to limited Funds
4. Public Outreach
5. Revenue/funding
  - a. Major ongoing sources and projections
  - b. Debt Financing Program
    - i. Debt Policy
    - ii. Deferred Capital Bond-Related Debt Service
    - iii. Impact to General Fund
6. General Fund Program Summary
  - a. Summary of Operations Cost Impacts to the General Fund
  - b. Priority Unfunded Needs
  - c. Financing Strategy/Options
7. Enterprise-Fund Summary