



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2018-2022 Five-Year Capital Infrastructure Planning Outlook

OVERVIEW

On February 1, 2017, the Infrastructure Committee heard a report on the City's FY 2018-2022 Five-Year Capital Infrastructure Planning Outlook (CIP Outlook), and forwarded the report to Council. The CIP Outlook is a planning tool that models the City's projected capital needs and funding sources over the next five years. Our report provides a review and summary of the CIP Outlook, discusses issues related to and that have an impact on the CIP Outlook, and makes various recommendations that Council can consider implementing that might affect future year CIP Outlooks.

The CIP Outlook itself identifies \$4.30 billion in capital needs for 23 asset-classes and programs, and \$3.03 billion in various funding sources that can be used to pay for those needs. This leaves a funding gap of \$1.27 billion. Our review discusses the figures and asset classes, and the methodologies used in the CIP Outlook to determine needs and funding sources. Our report also discusses additional issues and factors that are relevant to the City's capital infrastructure programs, and that may impact future CIP Outlooks.

FISCAL/POLICY DISCUSSION

Overview of CIP Outlook

The CIP Outlook provides a high-level overview of the City's capital needs and available funding over a five-year period. The CIP Outlook specifically notes that several process improvements and streamlining efforts are being implemented to increase the efficiency by which the City completes capital projects. The CIP Outlook also discusses the methodology used to determine which types of assets are targeted to receive funding, and provides a breakdown by asset type of capital needs and available funding.

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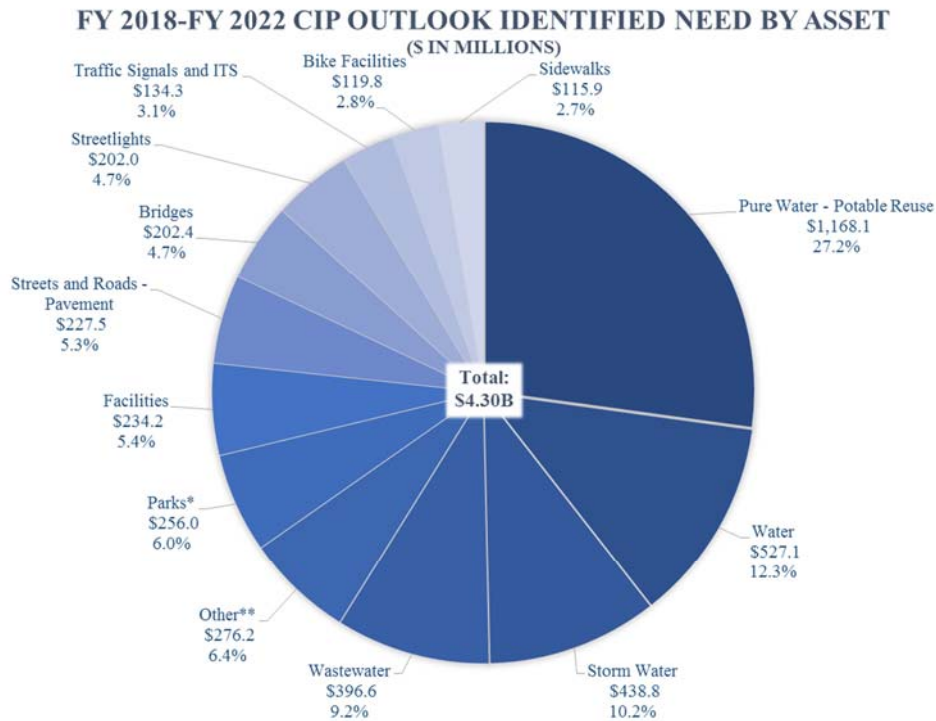
Streamlining Efforts

Over the past two years, the City has implemented a number of streamlining efforts and process improvements to increase the efficiency of capital project delivery. Completed efforts include: implementation of a modern contract and project bid system, PlanetBids, which allows electronic bidding on projects; increased coordination between street repaving projects and other underground infrastructure projects to minimize the number of street closures; improved project budget monitoring that allows unneeded funds in some projects to be put towards other projects that have needs; and expanded use of multiple-award construction contracts, which allow construction of projects to begin earlier than they otherwise would.

The City is also continuing to work on developing standardized designs for facilities such as fire stations, comfort stations, and shade structures, and on increasing the size of average construction contracts to allow similar smaller projects to be combined into one contract in order to minimize contracting costs.

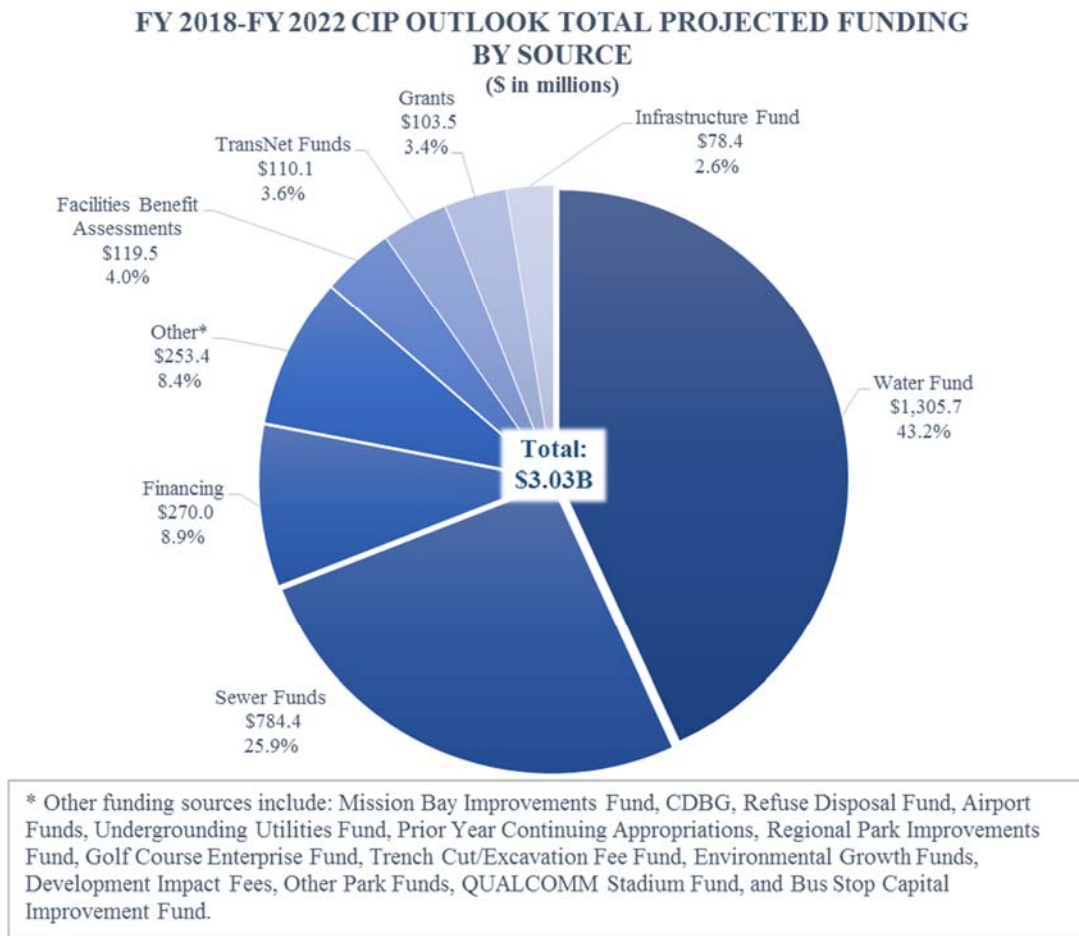
Capital Needs and Funding Sources

The CIP Outlook used a number of different factors to determine the projected capital needs and available funding over its five-year period. The City’s FY 2017 Adopted CIP Budget provided the starting point for determining needs. Staff then used analyses of state and federal mandates, public safety needs, input from the City’s Community Planning Committee, completed condition assessments of City infrastructure, and service level standards for various asset types. Total needs are projected at \$4.30 billion, as shown in the chart below.



* Parks includes Golf Courses and Mission Bay Improvements.
 ** Other includes Streets and Roads - Modifications, Fire Stations, ADA, Landfills, Airports, Libraries, Lifeguard Stations, and QUALCOMM Stadium.

Funding sources in the CIP Outlook include existing and future deferred capital bond issuances (the latter assumed at a combined total of \$270 million for General Fund capital projects), enterprise funds, developer impact fees (DIFs), use of the City’s new Infrastructure Fund, TransNet funds, and grants, among others. Funding projections are consistent with those made in the FY 2018-2022 Five-Year Financial Outlook released in November, though certain funding sources, such as DIF, are not projected past FY 2018, as receipt of DIF funding is contingent upon private development activity. Many funding sources are restricted to being used only on certain asset types; for example, the Water and Sewer funds are enterprise funds that can only be used to support water and sewer infrastructure. Funding sources and their amounts are shown below:



Notable Individual Asset Classes and Departments

The CIP Outlook includes information broken out by asset class and department; the following sections highlight particular asset classes and departments that may merit additional discussion or consideration by Council.

City Facilities

The FY 2018-2022 CIP Outlook shows \$234.2 million in needs for City Facilities, and \$111.4 million in funding sources, which leaves a funding gap of \$122.8 million. The needs for City Facilities identified in the CIP Outlook are based on estimates of work that Public Works facilities staff believes it can complete during the CIP Outlook period, as opposed to the total needs for all City facilities. Recently completed condition assessments for City owned and leased facilities show total capital needs of \$829 million; this amount only reflects the cost to repair or replace existing structures, and does not include the costs for code compliance, upgrades, or facility expansions.

The approach taken for City Facilities this year also differs from last year's CIP Outlook in the way it distinguishes new facilities from existing ones. *New* facilities are included in the capital needs of various asset classes, but needs for the repair or replacement of *existing* facilities all fall into the Facilities asset class. As an example, the Police Department is shown to have no capital funding needs, as no new facilities are planned within the CIP Outlook window. This is in contrast to last year's CIP Outlook, which included \$14.1 million in capital needs for the Police Department. The difference between the two CIP Outlooks is that needs for existing facilities are captured in the CIP Outlook's treatment of "City Facilities" rather than in the needs of the Police Department as an asset managing department. Similarly, facility repair and replacement needs for fire stations, lifeguard stations, and libraries that were included in other sections in last year's CIP Outlook are now included in the City Facilities section of this year's CIP Outlook.

Fire-Rescue

The CIP Outlook includes seven new fire and lifeguard facilities as needs for the Fire-Rescue Department. While projects to replace existing fire stations will not significantly impact ongoing General Fund support, construction of new stations does increase General Fund expenditures when those stations become operational. To illustrate, each new fire station requires approximately \$1.6 million annually to fund 12.00 full-time equivalent (FTE) firefighter positions and associated non-personnel costs.

Libraries

The only project shown in the Library asset classification is the new branch Pacific Highlands branch library that is anticipated to be constructed during the CIP Outlook period. The project is anticipated to be fully funded through Facilities Benefit Assessment (FBA) fees collected from the four communities that will benefit from the new facility. Capital projects previously included in the Library asset classification have been included in the "City Facilities" section of the CIP Outlook, as noted above.

Parks & Recreation

The CIP Outlook projects needs for the Park & Recreation Department at \$201.6 million, which includes golf course needs, and which represents an increase of \$41.5 million over last year's

CIP Outlook. It should be noted that the three primary funding source for the park projects identified in the CIP Outlook consist of FBA fees, CDBG funds, and Regional Park Improvement funds. Additional Park & Recreation capital needs will be identified upon completion of park assessments which are currently underway but are expected to take several years to complete.

The CIP Outlook also includes \$12.1 million in golf course projects and \$42.3 million in capital projects for improvements to Mission Bay over the Outlook period. While these projects fall within the Park and Recreation Department, the CIP Outlook does not project General Fund resources being used for these assets. These projects are to be fully funded from the Golf Course Enterprise Fund and the Mission Bay Improvement Fund respectively.

Public Utilities

We note that both capital needs and funding available for the Public Utilities Department (PUD) and the Pure Water program have an outsized influence on the CIP Outlook. Needs and funding sources total \$2.1 billion in the CIP Outlook, which is 48.6% of total capital needs in the CIP Outlook, and 69.1% of total funding sources identified. The impact of the needs and funding sources of PUD and other enterprise-fund departments is discussed in greater detail in this report's section on the CIP Outlook's funding gap.

Qualcomm Stadium

Qualcomm Stadium capital costs are projected to be \$750,000 per year in each year of the CIP Outlook, the same amount that was projected in the FY 2017 Adopted Budget. This funding is expected to be needed each year for facilities maintenance and upgrades, pending policy direction on the future of the stadium without a NFL team.

The continuing appropriations budgeted for stadium capital expenditures in FY 2017 are approximately \$1.0 million. Our Office also notes that there is approximately \$137,000 in unspent General Funds that are remaining in the stadium's environmental impact review (EIR) project that was put in place in FY 2016.

Transportation Storm Water – Streets and Sidewalks

The CIP Outlook includes \$227.5 million in needs for street and road repavement consistent with the Mayor's street repair goals, and provides full funding sources for this amount, largely from TransNet funding and future Deferred Capital bond issuances (these bond issuances are noted as 'Financing' in the CIP Outlook).

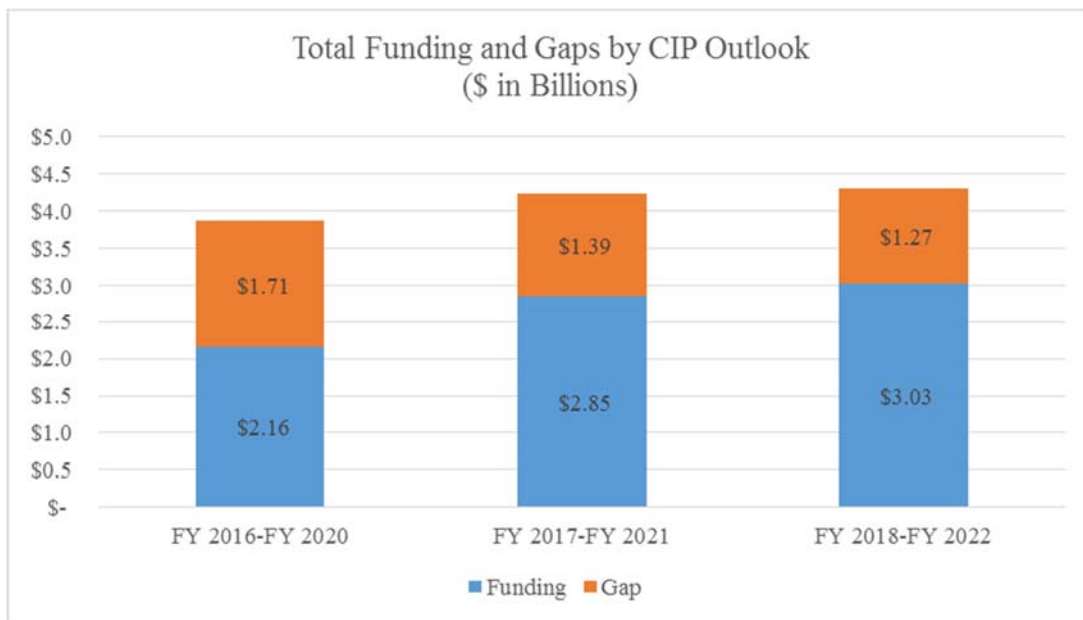
While street repaving efforts are fully funded in the CIP Outlook, needs for street lights (\$202.0 million in needs, \$201.5 million of which is not funded), sidewalks (\$115.9 million in needs, \$100.7 million of which is not funded), and traffic signals (\$134.3 million in needs, \$123.4 million of which is not funded) have significant funding gaps. Prioritizing street repavement over other street and sidewalk related capital needs is a policy decision that Council may wish to address.

Transportation Storm Water – Storm Water Infrastructure

Storm water needs remain significant in the CIP Outlook at \$438.8 million. Identified funding comes entirely from the Infrastructure Fund and financing, and totals \$110.4 million, which leaves a funding gap of \$328.4 million. Storm Water needs represent the single largest contributor to the CIP Outlook’s funding gap. The City continues to lack a significant dedicated funding source for storm water infrastructure.

Funding Gap

The CIP Outlook shows a funding gap of \$1.27 billion. This gap represents the difference between funding needs and known available and appropriate resources over the five-year period of the CIP Outlook. This is a slight reduction from last year’s projected gap of \$1.39 billion, and a significant reduction from the FY 2015 CIP Outlook, which showed a \$1.71 billion gap. While the small decline should be considered welcome news, it is important to note that these declines are not attributable to decreased capital needs but are instead attributable to increases in available revenues. The chart below compares the projected total five-year funding gaps for the past three CIP Outlooks.



It is also important to note that the entire funding shortfall of \$1.27 billion largely pertains to the assets types that are General Fund-supported, such as fire stations, police facilities, ADA projects, streets, bike facilities, street lights, storm water, and sidewalks. The remaining facilities, which show 100% funding levels in the CIP Outlook, are funded primarily through enterprise funds which receive revenue for fees and charges for specific services that are generated by those departments’ operations. This creates a significant funding imbalance in the CIP Outlook between the two major asset funding groups, and can cause confusion when identifying where new funding resources are most needed.

The following table shows the percentage of needs funded by asset type that have been addressed in the CIP Outlook. The table also separates the two major asset funding groups into General Fund and Non-General Fund asset types to clearly show where significant new resources need to be identified and allocated in the future.

Summary of Total Projected Capital Asset Need, Funding, and Gap in FY 2018-FY 2022

| Asset Type | Need | Funding | Gap | Percent of Needs Funded |
|--|-------------------------|-------------------------|-------------------------|--------------------------------|
| Storm Water | \$ 438,846,333 | \$ 110,447,560 | \$ 328,398,773 | 25.2% |
| Streetlights | 202,000,000 | 500,000 | 201,500,000 | 0.2% |
| Traffic Signals and ITS | 134,316,453 | 10,955,000 | 123,361,453 | 8.2% |
| Facilities | 234,217,000 | 111,447,560 | 122,769,440 | 47.6% |
| Bike Facilities | 119,841,047 | 5,216,468 | 114,624,579 | 4.4% |
| Sidewalks | 115,905,000 | 15,221,790 | 100,683,210 | 13.1% |
| Bridges | 202,396,442 | 108,038,001 | 94,358,441 | 53.4% |
| Parks | 201,562,116 | 135,894,888 | 65,667,228 | 67.4% |
| Fire Stations | 66,483,851 | 8,323,586 | 58,160,265 | 12.5% |
| ADA | 47,055,000 | 3,265,658 | 43,789,342 | 6.9% |
| Streets and Roads - Modifications | 83,561,274 | 69,163,274 | 14,398,000 | 82.8% |
| Lifeguard Stations | 6,319,967 | - | 6,319,967 | 0.0% |
| Streets and Roads - Pavement | 227,500,000 | 227,500,000 | - | 100.0% |
| Libraries | 14,609,422 | 14,609,422 | - | 100.0% |
| Police Stations | - | - | - | - |
| General Fund Asset Subtotal | \$ 2,094,613,905 | \$ 820,583,207 | \$ 1,274,030,698 | 39.2% |
| Airports | \$ 26,316,667 | \$ 26,316,667 | \$ - | 100.0% |
| Landfills | 28,130,000 | 28,130,000 | - | 100.0% |
| Parks - Golf Courses | 12,100,000 | 12,100,000 | - | 100.0% |
| Parks - Mission Bay Improvements | 42,348,162 | 42,348,162 | - | 100.0% |
| Pure Water - Potable Reuse | 1,168,138,780 | 1,168,138,780 | - | 100.0% |
| QUALCOMM Stadium | 3,750,000 | 3,750,000 | - | 100.0% |
| Wastewater | 396,638,140 | 396,638,140 | - | 100.0% |
| Water | 527,100,774 | 527,100,774 | - | 100.0% |
| Non-General Fund Asset Subtotal | \$ 2,204,522,523 | \$ 2,204,522,523 | \$ - | 100.0% |
| Asset Total | \$ 4,299,136,428 | \$ 3,025,105,730 | \$ 1,274,030,698 | 70.4% |

Discussion of Additional Relevant Issues

This section of our report addresses additional key factors and considerations that could further impact projections in future CIP Outlooks, and discusses the Council’s role in determining infrastructure priorities.

Potential Impacts on Future CIP Outlooks

A number of programs and plans that are currently in progress may impact the priorities, needs, and funding sources in future CIP Outlooks. Among them are the following items:

Additional Community Input

Community input is used in the development and execution of the City's capital programs. In 2013, the Public Works Department worked with Financial Management and our office to develop a process to solicit community input through the Community Planning Groups. That work resulted in a prioritized list from the community of 374 requests, 93 of which either have or are scheduled to become CIP projects. Public Works recently engaged the Chair of the Community Planner's Committee (CPC) to plan a process for the upcoming year that would provide new input from the community in the September 2017 timeframe, in time to be incorporated into the next CIP Outlook. The following tentative schedule is under discussion:

- April CPC meeting to announce the effort and gather input on the process
- May CPC meeting to provide CIP training and identify which communities need additional training
- June/July Community group training
- September Community group input due
- October Staff begins drafting the next CIP Outlook

As the City's infrastructure ultimately exists to benefit the public, community input is an important consideration in setting infrastructure priorities that reflect community priorities.

Implementation of Infrastructure Asset Management (I AM)

The I AM Project is a citywide strategic initiative to develop and implement an integrated SAP-based software solution that will improve the City's management of infrastructure assets. The I AM asset-based planning tool will enable staff to use information on assets, such as current conditions, geographic locations, and expected maintenance needs, to develop optimal maintenance plans and guide CIP investment decisions. Once implemented, this system will greatly support the development of the CIP Outlook.

The I AM Project began in FY 2016 and will be implemented over a three year period with a projected go-live date early in FY 2018. Originally initiated in the Public Utilities Department in FY 2014, this project is now a citywide initiative with four departments participating in Phase 1, the foundational phase, including: Department of Information Technology, Public Utilities, Public Works, and Transportation & Storm Water. Phase 2 of the I AM Project is planned to begin in FY 2018 and would include five additional departments in the project: Library, Police, Fire-Rescue, Environmental Services, and Park & Recreation. As additional phases of the I AM Project come on line, the needs of various departmental capital needs in the CIP Outlook may see corresponding adjustments.

We note that the FY 2018-2022 Five Year Financial Outlook (Financial Outlook) identified the General Fund's 30% share of ongoing Phase 1 maintenance costs (\$1.5 million in FY 2018, and \$1.6 million annually thereafter, for a total of \$7.9 million) as a critical future expenditure but did not include the related expenses in their projected budget shortfall. General Fund implementation and support costs for Phase 2 are projected to be approximately \$4.4 million over the Financial Outlook period, including \$261,000 in FY 2018. It will be important to

review proposed budgets in the coming fiscal years to see if the costs needed to maintain Phase 1 and implement Phase 2 have been included.

Development of Department Asset Management Plans

This year's CIP Outlook notes that General Fund facility needs are based on preliminary data gathered for draft Asset Management Plans, which are being developed to address the long term needs for Police, Fire Rescue, Lifeguard, Library, Park & Recreation, Fleet, and Public Works facilities. According to the Public Works Department, the final Asset Management Plans are expected to incorporate data from the completed facilities condition assessments for existing buildings, and projected future operational needs for General Fund facilities. The Asset Management Plans will identify recommendations for the lease, acquisition, disposition, rehabilitation, expansion, and construction of facilities across the City.

In order to receive feedback from Councilmembers, Public Works hopes to bring forward an initial framework for the development of these plans to the Infrastructure Committee and City Council in summer 2017. It is anticipated that the framework will: 1) include a methodology for identifying the most appropriate action for each building to address both the current facility maintenance needs as well as long-term operational needs; and 2) will utilize an approach similar to the prioritization process outlined in Council Policy 800-14 for capital improvement program projects. Although the outlook term for these plans is still to be determined, it could look out 10-15 years or more, depending on the resources available to the overall CIP program.

Get It Done Application

In June 2016, the City launched a pilot program that would allow people to report problems they encounter in the City's right-of-way – such as potholes, broken streetlights, or graffiti – via mobile application or web interface. This program is managed by the Performance & Analytics Department's (P&A) 311 Customer Experience program in coordination with the Information Technology, Transportation & Storm Water, Communications, and Environmental Services departments.

Since the release of Get it Done the volume of problems reported to the City has increased, although some efficiencies related to the new application have emerged as well: for instance, City employees can use Get it Done to report issues instead of completing paper reporting forms. Problems reported via Get it Done are included into the appropriate department's regular workload after they are identified either as a high priority that merits an immediate response, or a standard item that can be included in a department's regularly scheduled repair process. P&A is reviewing the metrics associated with the increased reports and any associated efficiencies resulting from use of the application, and plans to provide an update on the pilot during Budget Review Committee hearings in May 2017. Rules Committee members have also prioritized hearing an update on this program. Plans to broaden the scope of the project in order to include additional departments are dependent upon the resources available in the FY 2018 budget.

Fire-Rescue Needs in New Citygate Report

As noted in the CIP Outlook, the Fire-Rescue department's future facilities needs may change after the release of an updated Citygate Standards of Coverage Report, which is expected to be published prior to the March 8, 2017 Public Safety and Livable Neighborhoods Committee. Currently, the Department's projected needs for new fire stations are based largely on the findings of a 2011 Citygate report. The updated report may recommend revised facilities priorities for fire stations. If adopted as policy by the City Council, these revisions would affect CIP planning for the Fire-Rescue Department.

Completion of Updated Community Plans

Updates to community plans are a priority for the Planning Department. As such, the Department has added staff in recent years and restructured the department into focused work groups to gain technical efficiencies. The Department anticipates initiating three to four community plan updates per year throughout the CIP Outlook period, and targets completing each update within three years of initiating the update. Additionally, the Department has developed a prioritization system to assist in identifying which community plans will be undertaken. The priority evaluation is based on multiple factors including: age of plan and timing of last update; the number of community plan amendments (which highlights the need for updating); growth in the community population and employment; existence or planned transit priority areas within the community; and park acreage deficiency per the General Plan standards. Community Plan updates may impact both the infrastructure needs of the communities they are updated for, and the DIF and FBA revenue in the Outlook available to fund those needs.

Completion of the Parks Master Plan

The Parks Master Plan (PMP) is expected to be a three-year work program facilitated by the Planning Department which will provide a comprehensive review of the needs of the current park system. The Department's cost estimate for completion and approval of the PMP is approximately \$1.8 million. The FY 2017 Adopted Budget included \$200,000 for the initiation of the PMP and the FY 2017-2021 Five-Year Financial Outlook included funding from FY 2017 to FY 2019 for the program. However, no funding for the PMP beyond the \$200,000 included in the FY 2017 Adopted Budget is included in the FY 2018-2022 Five-Year Financial Outlook. Completion of the PMP could significantly impact future CIP Outlook needs, as it has not been updated since 1956.

Potential New Needs and Revenue Sources

During the State of the City address, the Mayor proposed a ballot measure that would increase the City's transient occupancy tax (TOT) to pay for an expansion of the City's convention center, additional street infrastructure repairs, and additional homeless programs. While the details of this proposal are not yet finalized, the proposal, if ultimately approved by voters, does have the potential to increase both the funding sources available for capital projects in the City, and the funding needed for capital projects associated with convention center expansion.

Staff Capacity Issues

As the City continues to better assess the condition of its existing infrastructure assets and develop new funding sources to address an increasing array of priority needs, it remains critically important to hire and develop staff and external project delivery resources (consultants/contractors) to effectively manage the increased annual volume of infrastructure projects in the CIP Outlook. The City notably increased personnel and related expenses in the FY 2015, 2016, and 2017 budgets to grow its internal project management capacity for increases in project deliverables.

It is important to note that it requires considerable time and senior staff resources to hire, acclimate, and train hundreds of new employees. As staff capacity increases, it also becomes increasingly important to ensure sufficient planning to avoid project conflicts within the City's right-of-way (e.g., street resurfacing, utilities undergrounding, and water line replacement projects on the same street).

Impact of New Facilities on General Fund Operating Costs

An additional factor that may play an increasing role in the prioritization of capital funding in the coming years is the annual operating costs associated with new assets. This applies primarily to General Fund assets such as new fire stations, parks, recreation centers, and libraries, which typically require new staff and other related costs to open, operate, and maintain. These costs are recurring and can have a significant impact on the General Fund. The City has been committed to opening and operating new facilities when they come on line.

With the City facing deficits and an uncertain economy in the years to come, the City's ability to take on the costs of additional new facilities needs to be carefully weighed. During these times capital funds may need to be focused primarily on projects with minimal annual operating costs such as sidewalks, streets, bicycle lanes, facility replacements and repairs, storm drains, street lights, and ADA.

Building a new facility without opening it is not a good use of capital funds, and can have a negative impact on the affected neighborhood and community.

Future CIP Outlooks could clearly identify the initial operating costs of each new projects and facility that is expected to come on line within its five-year window.

Monitoring Progress

While the CIP Outlook is a valuable planning tool for approaching the City's capital needs, it is also important to continually monitor the City's progress in meeting its capital needs and maintaining its infrastructure. Doing so requires periodic updates of condition assessments, setting service level standards and monitoring progress towards them, and general monitoring of the City's capital accomplishments.

Establishing and monitoring service level standards and condition index levels that asset classes must meet is an important part of monitoring progress. Examples of this include the Overall Condition Index rating of 70 standard for City streets. A condition index for City facilities also exists, with varying standards depending on the type of facility. Setting service level standards is a policy decision, and Council input and approval of condition index targets should be included.

The City also currently monitors some progress through performance measures in the City's budget, such as miles of streets repaved and miles of pipeline replaced. Expansion of similar performance measures for additional asset types could also be considered.

Council's Role in Determining Uses of Commercial Paper and Future DC Bonds

In FY 2010, the City began issuing long-term lease revenue bonds (internally referred to as Deferred Capital or DC Bonds) to finance General Fund infrastructure projects. Four series of DC bonds (DC 1, 2, 2A, and 3) totaling \$333 million have been issued to date. The Five-Year Financial Outlook issued in November 2015 called for the City to issue three additional \$90 million DC Bonds (DC 4, DC 5, and DC 6) in FY 2017, FY 2018, and FY 2019. A year later, the Five-Year Financial Outlook issued in November 2016 pushed back the timeframe for issuing the same three \$90 million bonds to FY 2018, FY 2020, and FY 2021.

When asked about the delayed plan to issue additional DC bonds, the CFO indicated the following:

- The \$270 million to be raised by three additional DC Bonds is the planned borrowing amount over the five-year Financial Outlook period. The actual timing and the amount of the issuances will depend on many factors, such as how commercial paper borrowing is utilized, the exhausting of other available resources, and having the capacity to expend new funds in a timely manner.
- As of January 31, 2017, the City had cash and available DC 3 bond proceeds (approximately \$43 million) totaling approximately \$91 million. It could be more cost effective to wait to borrow additional funds until they are needed for ready projects.
- Previously stated timeframes for the planned issuance of future DC Bonds (as noted in prior Financial Outlooks) are necessarily delayed by the more recent plan to first use short-term commercial paper borrowing and then pay it off with long-term DC Bonds. Commercial paper can be issued quickly to meet project needs as they arise and also reduce interest costs for borrowing in the short run.

The \$270 million to be raised by first issuing commercial paper and then retiring it with three \$90 million DC Bonds has been included as a revenue source in the CIP Outlook. It is the single largest source of revenue for General Fund projects. The CIP Outlook tentatively apportions the \$270 million as follows: streets and roads (46.8%), facilities (26.6%) and storm water projects (26.6%). Actual funding priorities for the borrowed funds will be based on a number of factors.

The CFO originally planned to bring a General Fund Commercial Paper Borrowing Program to the Council for review and approval in spring of 2017; however, citing the continued availability of DC 3 Bond proceeds and cash for projects, the CFO now plans to bring the Program to the Council for review and approval later in 2017. Unlike borrowing with long-term bonds where the entire amount of desired funds is borrowed immediately to fund a predetermined list of potential projects over time, a commercial paper borrowing program will involve numerous smaller borrowings (perhaps monthly) up to a specified total borrowing limit that the Council will be asked to approve. The CFO is currently working with the Public Works Director to identify a list of potential projects for the Council to review prior to authorizing a total borrowing limit for a General Fund Commercial Paper borrowing program.

The use of commercial paper and DC bonds creates a new General Fund infrastructure funding source that is not restricted or tied to a particular asset class. There are numerous and varied General Fund priorities competing for these funds. Existing Council priority memos and lists, results of completed assessments, assets that are underfunded in the CIP Outlook, department staff input on operational priorities, community input, and new study results such as those to be identified in a new Citygate report should all be taken into consideration. In the past, the Mayor has worked with the Council to develop a list of expenditures for long-term DC Bonds that were inclusive of numerous and diverse project priorities.

Council's Role in Setting CIP Priorities¹

Numerous opportunities exist for Councilmembers to set priorities for the City's CIP through presentations at Infrastructure and other committees, as well as at the City Council, including: approving policies that direct CIP funding (for example, to meet Climate Action Plan goals or through the approval of community plans), approving the CIP budget when it is developed each year or as part of the budget monitoring process, and by identifying Councilmember project funding priorities through the City Council Budget Priority memoranda.

Council annually reviews the CIP Outlook, holds public hearings on the capital budget during the budget process, reviews condition assessments and sets service level standards for certain asset classes, and reviews and approves Mayoral proposals for capital funds, such as establishing a goal of 70 OCI (overall condition index) for street improvements.

City staff also issue call memos to Council requesting their capital priorities twice during the year for two separate funding sources: DIF priorities in October and TransNet priorities in January. Additionally, Community Development Block Grant (CDBG) funding priorities are requested of the Council in August by the departments that are recipients of those funds.

Council capital priorities are also developed during the proposed budget process through Councilmember memoranda submitted to our Office for the annual Budget Priorities Resolution that is reviewed and approved by the City Council in February. Councilmembers submit their

¹ A list of opportunities for Councilmembers to set CIP priorities is included as Attachment 1.

final budget priorities to us again in May, so that their priorities—both operating and capital—may be considered as part of the adoption of the annual budget.²

While these processes are comprehensive, they can at times be complex. In recent years, key dates for the annual CIP reviews and actions have been added to the Budget Process and Budget Monitoring Key Dates calendar that is adopted each year by Council. This has increased transparency of the capital budget process and helped to place both operating and budget processes in a broader context.

Over the last several years the capital budget process and the Council's role has become much clearer and more transparent. Our Office will continue to work with staff to identify additional opportunities for clarifying and streamlining the processes.

CONCLUSION

The CIP Outlook is a valuable tool for analyzing the City's capital needs and the funding sources available to meet those needs. This year's CIP Outlook shows that anticipated capital needs and funding sources over the next five years have both grown over last year, and that a funding gap of \$1.27 billion remains. While that gap has declined from \$1.39 billion in FY 2016 and \$1.71 billion in FY 2015, it is important to note that the decline is not attributable to decreased capital needs but are instead attributable to increases in available revenues. Further, the funding gap is associated entirely with General Fund supported capital expenses; the funding gap remains a General Fund issue.

In our review of the CIP Outlook and surrounding issues, we identified a number of areas that might merit additional Council input or review. Our office accordingly makes the following recommendations for Council consideration:

1. Future CIP Outlooks should include the total expected capital needs for facilities based on adopted service levels over the five-year period of the CIP Outlook, instead of only the work that staff currently has the capacity to complete.
2. The process for including council input on setting funding priorities for future Deferred Capital bonds and the commercial paper program should be clarified.
3. Council should receive an update on how the proposal to increase TOT rates to provide for convention center expansion, additional street repaving, and homeless support efforts will impact capacity and other needs in the CIP Outlook.
4. Future CIP Outlooks should consider including the initial-year operating costs of new facilities expected to come on line, to help Council identify which capital expenses lead to on-going long-term operating expenses.


² The City's annual budget includes both the operating and the capital budgets for the upcoming fiscal year.

5. Council should continue to be involved in reviewing and setting service level standards for the City's infrastructure beyond those service levels set for streets and facilities.

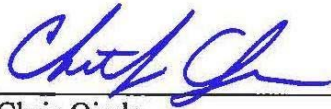
The CIP Outlook will serve as a guide that helps the Council make decisions about the City's capital program during this year's budget process, and it is important to emphasize that the CIP Outlook is represents real and significant progress in defining and prioritizing the capital infrastructure needs facing the City.



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City Council: Input and/or Requests for Approval for the City's CIP

As part of the development and monitoring of the City's approved CIP budget, requests are made to the City Council throughout the year to review and/or approve all or part of the City's CIP. Regularly scheduled reports or requests to the City Council are reflected in the table below, with the release date for the current fiscal year included as an example.

| Item | FY 2017 Release Date | Committee | Council Action |
|--|--|----------------------------------|---|
| City Councilmember Development Impact Fee Priorities – call memorandum | October 2016 | n/a | Councilmember priorities for the upcoming fiscal year |
| State of the CIP Report (biannual) | 1) November 2016 2) Expected April/May 2017 | Infrastructure | Committee accepts report |
| CIP Mid-Year Budget Monitoring Report | November 2016 | Infrastructure | Council approves any requested actions |
| City Council budget priority memoranda – call memorandum | January 2017 | Budget and Government Efficiency | Council adopts the Budget Priorities Resolution, may include capital priorities |
| Five-Year Capital Outlook | January 2017 | Infrastructure | Council accepts report |
| City Councilmember TransNet Priorities – call memorandum | January 2017 | n/a | Councilmember priorities for the upcoming fiscal year |
| Mid-Year Budget Monitoring Report | January 2017 | Budget and Government Efficiency | Review and approve requested actions, may include capital projects |
| Community Development Block Grant (CDBG) Funding for City Neighborhood Infrastructure Projects | Expected March/April 2017 ¹ | Infrastructure | Council reviews and approves funding recommendations for HUD allocations, including for City neighborhood infrastructure projects |
| Proposed Budget (operating and capital) | April 2017 | Budget Review Committee | Review and approve the Proposed Budget (with the Mayor's May Revision and the IBA's recommended revisions) |
| City Council budget priority memoranda – call memorandum | May 2017 | n/a | Council memoranda for final budget decisions, may include capital priorities |

¹ As one of the first steps in the process, asset-managing departments are asked to contact Councilmembers for their input on proposed projects in their districts. This outreach normally occurs in August of each fiscal year.

| Item | FY 2017 Release Date | Committee | Council Action |
|---|----------------------|----------------------------------|--|
| City Council budget hearings, including CIP | May 2017 | Budget Review Committee | Review City departments' budgets, including operating budgets of Engineering & Capital Projections Division and asset-owning departments, and an opportunity to review proposed CIP for the upcoming fiscal year |
| Mayor's May Budget Revision | May 2017 | Budget Review Committee | Review and approve the May Revision (with the Proposed Budget and the IBA's recommended revisions), may include capital items |
| Year-End Budget Monitoring Report | May 2017 | Budget and Government Efficiency | Review and approve requested actions, may include funds for CIP projects |
| CIP Year-End Budget Monitoring Report | May 2017 | Infrastructure | Council approves any requested actions |
| Final Council budget decisions | June 2017 | n/a | Council approves the operating and capital budget for the upcoming fiscal year |