

On November 15, 2017, the Budget & Governmental Efficiency Committee reviewed the proposed CIP appropriations and forwarded them to the City Council without recommendation. During the Committee hearing, the IBA raised concerns that the process by which CIP projects were selected did not include a sufficient opportunity for Council input. Specifically, issues were raised regarding the prioritization of the Fire-Rescue Air Operations Facility ahead of previously identified high-need fire stations such as Fairmount Avenue Fire Station (previously named Home Avenue Fire Station). Since that time, our office has worked to gather additional information on the project readiness and appropriateness of the Air Operations Facility and Fairmount Avenue Fire Station, the details of which are included in this report.

In the process of obtaining information on Fire-Rescue CIP projects, our office has become aware of several challenges that may delay or alter the implementation of previously established Council priorities for the Department. While some of these challenges are outside Fire-Rescue's control, others may be the result of what appears to be a philosophical shift within the Department that warrants discussion by the Council. This report provides recommendations for Council consideration regarding its role in establishing priorities for important public safety CIP projects.

FISCAL/POLICY DISCUSSION

Selection Criteria for Projects

The staff report notes that the three projects recommended for funding were identified as a result of a Mayoral policy direction to prioritize public safety CIP projects that could be completed within three years. Debt Management staff has also noted that Internal Revenue Service (IRS) regulations for governmental bonds require that issuers must reasonably expect that 85% of bond proceeds will be used within a three-year period beginning the date bonds are issued, and that 100% of proceeds will be spent within five years. Debt Management estimates that bond proceeds from the Tobacco Settlement Bond restructure would be received by the City by the end of February 2018, at which point the three-year IRS "clock" to spend down funds would start.

Apart from the IRS timeframe requirements, however, the City has relatively broad discretion to allocate Tobacco Settlement Bond proceeds to CIP projects. While the Mayoral decision to prioritize public safety projects is reasonable, we note that the Council may direct these bond proceeds to other eligible CIP projects as desired.

With regard to the three projects recommended by staff, we note that the South Mission Beach Lifeguard Station is close to completion and this proposed additional funding would meet unanticipated funding needs due to cost increases and would allow for timely project delivery. The Police Range Phase II proposal would fully fund the design and construction of and upgrade project for the Police Department's shooting range, which has been a top priority on the City Council's "Waterfall List" of underfunded CIP projects for several years. The Fire-Rescue Air Operations Facility, consisting of Phases I and II, presents unique concerns discussed in the following section of this report.

Fire-Rescue Air Operations Facility

The Fire-Rescue Department currently operates two fire helicopters based at its Air Operations Facility at Montgomery Field. A separate item on the December 13, 2017 City Council Docket would authorize the purchase of a third fire helicopter to operate out of the same site. The current two helicopters are housed primarily outdoors, although the Department leases hangar space at Montgomery Field for one helicopter at an annual cost of \$108,000 in Fiscal Year 2018. Maintenance work for the helicopters is performed in the leased hangar space. Should the purchase of a third helicopter be approved, Fire-Rescue indicates there is sufficient space to park three helicopters primarily outdoors, with maintenance continuing to be performed inside the leased single-helicopter hangar. The Department has also stated that no ongoing operational cost increases will be incurred as a result of the third helicopter purchase.

The proposed Air Operations Facility project is separated into two phases. Phase I provides for the design and reconstruction of the existing Air Operations building at Montgomery Field. This space was previously leased by the Federal Aviation Administration and is now leased by the Fire-Rescue Department. The Phase I tenant improvements will provide approximately 8,100 square feet of office and living space to accommodate Air Operations personnel. Public Works indicates that design for Phase I is fully funded in the CIP budget and is currently 95% complete. The proposed allocation of \$2.5 million in Tobacco Settlement Bond proceeds would fully fund remaining capital needs for Phase I construction. The timeline for Phase I project completion is as follows:

Air Operations Facility Phase I

Design completion:	February 2018
Bid:	March 2018
Construction start:	August 2018
Construction finish:	March 2019

Phase II of the Air Operations Facility project provides for the design and construction of a new five-helicopter hangar located adjacent to the Phase I building. Public Works indicates that design for Phase II has not started and there is currently no funding in the CIP budget for design or construction of Phase II. The proposed allocation of \$11.2 million in Tobacco Settlement Bond proceeds would mostly fund remaining capital needs of \$12.7 million (design and construction) for Phase II. If Council approves the staff recommendation, Phase II will remain underfunded by approximately \$1.5 million but would receive any surplus bond proceeds should they be realized. In the event there are no surplus bond proceeds, the staff report does not indicate what funding source will be used to fund the remaining \$1.5 million in capital needs. Our office notes that commercial paper may be a potential resource to finance this funding gap. The timeline for Phase II project completion is as follows:

Air Operations Facility Phase II

Design completion: Unknown
Bid: Unknown
Construction start: Unknown
Construction finish: Prior to February 2021

The estimated schedule above is incomplete due to the fact that Public Works is currently developing the project schedule. The Department estimates the project can be completed within three years of the receipt of bond proceeds.

Potential Changes to Previously Identified Fire-Rescue Department Priorities

Since 2010, the City’s priorities for the Fire-Rescue Department have been based primarily on the findings of Citygate Associates, LLC, a fire and emergency services consulting firm. A 2010 Citygate Report identified several geographic service gap areas contributing to response time challenges and recommended 19 sites for potential new fire stations. An updated 2017 Citygate Report used a variety of new analytical tools, accounted for population increases, and factored in the effects of new Fire-Rescue resources and facilities that have been added since 2010 to produce a new list of 12 priority sites for new fire stations. The 12 recommended stations include six stations currently in the City’s Capital Improvement Program (CIP) budget and six additional infill stations in newly identified gap areas. Table 1 summarizes the 12 recommended new fire stations and their current status. An additional table with a crosswalk of the changes to recommended fire stations between the 2010 and 2017 Citygate Reports (e.g., sites such as College Avenue and Skyline for which recommendations changed) is included as Attachment 1 to this report.

Table 1: Recommended New Fire Stations, 2017 Citygate Report

Type	Name/Location	Status
CIP 1	Fairmount (Home) Avenue	Partially funded; land purchase complete
CIP 2	UCSD	Fully funded; anticipated opening FY 2022
CIP 3	Bayside	Fully funded & under construction; opening FY2018
CIP 4	Black Mountain Ranch	Fully funded; anticipated opening FY 2021
CIP 5	Otay Mesa	Funding TBD; planned as a developer agreement
CIP 6	North University City	Fully funded; anticipated opening FY 2020
Gap 1	Pacific Beach	New fire station recommended
Gap 2	University City	New fire station recommended
Gap 3	Torrey Pines	New fire station recommended
Gap 4	Southeast	New fire station recommended
Gap 5	Rancho Bernardo	New fire station recommended
Gap 6	Sabre Springs	New fire station recommended

The 2017 Citygate Report was presented to the Public Safety & Livable Neighborhoods Committee on March 8, 2017. At the request of the Committee, our office issued a report entitled “Fire-Rescue Standards of Response Cover Review: Fiscal Impacts and Implementation Scenarios” (IBA Report #17-15) on April 5, 2017, which analyzed the fiscal impacts of the updated Citygate Report and tracked the changes in recommendations between the 2010 and 2017 versions.

IBA Report #17-15 was included in the back-up materials for the Budget Review Committee during its consideration of the FY 2018 Proposed Budget. We note, however, that neither the 2017 Citygate Report nor our office's subsequent analysis have been heard or vetted by the full City Council.

In brief, the major recommendations of the 2017 Citygate Report were as follows:

- 1) Add a total of 12 new fire stations, including six stations currently in the City's CIP budget (noted as "CIP 1-6" in Table 1) and six additional infill stations (noted as "Gap 1-6" in Table 1).
- 2) Add peak-hour fire engines (PHEs),² squads, or other flexibly-deployed units to serve the busiest areas of the City at the busiest times of day.

In terms of implementation, section 1.7 of the 2017 Citygate Report recommended implementing three "Short-Term Steps," including building fire stations, ahead of four "Long-Term Steps," including adding Peak-Hour Engines.

During our review of the Fiscal Year 2019-2023 Five-Year Financial Outlook (IBA Report #17-39), which will be heard by the Council on December 11, 2017, Fire-Rescue indicated it had begun considering serving certain priority fire station sites with PHEs *instead of*, rather than *in addition to*, building new fire stations. Specifically, Fairmount Avenue Fire Station was cited as a project that could be served by PHEs. As discussed later in this report, Fairmount Avenue Fire Station was listed by Citygate as the number one priority fire station in both its 2010 and 2017 reports.

The Outlook includes operations funding for new developer-funded fire stations scheduled to open within the next five years, but not for fire stations such as Fairmount Avenue that lack funding for construction. The Outlook also includes \$22.1 million in expenditures over the Outlook period to support the addition of six PHE units (three in FY 2020 and three more in FY 2021).

Our Office has concerns regarding the prioritization of the Air Operations Facility Phase II over previously identified fire station projects that would assist in reducing emergency response times in areas of the City where service level standards are currently not being met. We have further concerns that PHEs may be used to serve areas identified by Citygate as needing new fire stations. In the absence of available capital funding, it is appropriate to fund an interim solution such as PHEs while funding is sought for new fire stations. However, given that new capital funding may soon become available in the form of \$23.5 to \$25.0 million in previously unanticipated Tobacco Settlement Bond proceeds, it appears inconsistent to consider the Air Operations Facility Phase II over critical new fire stations without further discussion of options with the City Council.

² PHEs are fire engines that do not operate out of a fire station but are instead flexibly deployed in various areas based on need, for 12 hours per day. Like traditional fire stations, PHEs are staffed by four-person crews. PHEs are a new deployment concept that has not yet been utilized by the San Diego Fire-Rescue Department. The Department has indicated that PHEs could be implemented by deploying existing reserve fire engines and would not require any significant capital investment.

Fairmount Avenue Fire Station

As stated earlier, Fairmount (Home) Avenue Fire Station was the number one priority site for a new fire station in both the 2010 and 2017 Citygate Reports. Due to the criticality of this station and long-standing awareness of the project among the Council and public, our office conducted additional research on its status as a CIP project for consideration by the Council as an alternative recipient of Tobacco Settlement Bond proceeds.

The City purchased land in Council District 4 for the Fairmount Avenue Fire Station site in March 2017, using approximately \$329,000 of previously allocated Deferred Capital Bond (DC3) funding. Public Works indicates that the project is fully funded for design, but that an estimated \$14.0 million in unidentified funding is still needed for construction. The timeline for Fairmount Avenue Fire Station project completion is as follows:

Fairmount Avenue Fire Station

Design completion:	April 2020
Bid:	April 2020
Construction start:	September 2020
Construction finish:	March 2022

As noted above, the design schedule for Fairmount is lengthy. According to Public Works, the land purchased for the station has a number of significant environmental challenges including steep hillsides, floodplain issues, potential Multi-Habitat Planning Area (MHPA) boundary adjustments, historical resources, and other considerations that will necessitate a Site Development Permit. Estimated costs for related environmental studies and the subsequent station design total approximately \$1.4 million and sufficient funds are already available in the CIP budget for the project.

Based on our review of the project timeline for Fairmount Avenue Fire Station, we do not recommend that Tobacco Settlement Bond Proceeds be allocated to the project for construction at this time due to the likelihood that funds will not be able to be sufficiently spent within the three-year IRS deadline. We note, however, that details of the timing constraints for Fairmount were released fairly recently. Early presentations by staff emphasized the prioritization of the Air Operations Facility over Fairmount Avenue (and other new fire stations) due to Fire-Rescue's preference to complete the Air Operations Facility first, rather than due to timing issues with other critical projects.

CONCLUSION

While each of the proposed CIP appropriations for Tobacco Settlement Bond Proceeds would benefit important public safety projects, we have significant concerns about the selection process used prior to discussion with the City Council. Our office supports the recommended expenditures for the South Mission Beach Lifeguard Station and the Police Range Refurbishment due to both projects' long histories of demonstrated need as well as the Council's active role in identifying these projects as high priorities. We have concerns, however, regarding the recommended

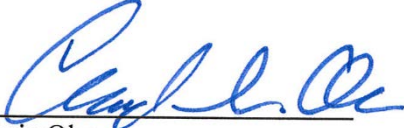
appropriation for the Fire-Rescue Air Operations Facility, particularly Phase II for the design and construction of a new five-helicopter hangar. While the project would serve other needs, the helicopter hangars would not move the City toward its previously identified high-priority goal for Fire-Rescue of reducing emergency response times in areas of the City where service level standards are currently not being met.

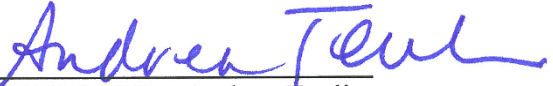
Alternatively, the construction of Fairmount Avenue Fire Station would complete the City's highest-priority new fire station project and fill a significant response time gap. Unfortunately, we have discovered significant concerns about the project readiness of Fairmount. Based on our review, we do not recommend that Tobacco Settlement Bond proceeds be allocated to the project for construction at this time due to the likelihood that funds will not be able to be sufficiently spent within the required three-year timeframe. The Council may still consider alternative projects including other fire stations or non-public safety CIP projects for bond proceeds, and should request further information from staff if amendments to the CIP allocations are desired.

In a broader sense, we have noted a shift in Fire-Rescue Department policy regarding its plans to implement the recommendations of the 2017 Citygate Report. The most recent Five-Year Outlook has only included operations costs for stations with developer funding. For areas that lack sufficient developer funding, such as Fairmount Avenue and the other six infill gap areas identified by Citygate, 12-hour Peak-Hour Engines have been included in the Outlook as an alternative. When \$23.5 to \$25.0 million in unanticipated capital funding became available as Tobacco Settlement Bond proceeds, fire helicopter hangars were prioritized over fire stations.

The Fire-Rescue Department's priorities for response time improvements and its plan to implement the recommendations of the 2017 Citygate Report warrant a broader discussion. To this end, we offer the following options for Council consideration (multiple options may be taken as appropriate):

- Refer all or part of the proposed CIP appropriations for Tobacco Settlement Bond proceeds to a future Council meeting in January or February 2018 with direction to staff to return to Council with potential alternative projects for Council consideration.
- Request the Fire-Rescue Department to present its implementation plan for the 2017 Citygate Report to the full City Council at a future date.
- Request the Mayor to present a financing proposal to identify funding for Fairmount Avenue Fire Station once design is complete in April 2020, including options such as commercial paper and future deferred capital bond issuances.


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Crosswalk of 2010 to 2017 Citygate Report Recommendations

2010 Priority	2010 Gap Area	2017 Gap Area Status
1	Home Avenue	CIP 1 of 6
2	Paradise Hills	Gap 4 of 6 (south)
3	College	No longer a gap by new methodology
4	Skyline	Served by Skyline Temporary Station
5	Encanto	Gap 4 of 6 (north); current FRS
6	Stresemann/Governor (South University City)	Gap 2 of 6; current FRS
7	Mission Bay/Pacific Beach	Gap 1 of 6
8	UCSD	CIP 2 of 6
9	Liberty Station/Peninsula	No longer a gap by new methodology
10	North University City	CIP 6 of 6
11	Torrey Hills/South Carmel Valley	Gap 3 of 6
12	Serra Mesa	No longer a gap by new methodology
13	Mira Mesa	No longer a gap by new methodology
14	East Otay	Otay Mesa Station may fill this need
15	Scripps Miramar	No longer a gap by new methodology
16	San Pasqual	Served by current FRS
17	Linda Vista	No longer a gap by new methodology
18	Black Mountain Ranch	CIP 4 of 6
19	Mission Valley (West)	No longer a gap by new methodology
New in 2017	Bayside	CIP 3 of 6
New in 2017	Otay Mesa	CIP 5 of 6
New in 2017	Rancho Bernardo	Gap 5 of 6
New in 2017	Sabre Springs	Gap 6 of 6