



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2020-2024 Five-Year Capital Infrastructure Planning Outlook

OVERVIEW

On January 30, 2019, the Active Transportation and Infrastructure Committee heard a report on the City's FY 2020 – 2024 Five-Year Capital Infrastructure Planning Outlook (CIP Outlook), and forwarded the report to the City Council. The CIP Outlook is a planning tool that forecasts the City's projected capital needs and funding sources over the next five years to inform budget decisions. It also supports development of the FY 2019 Proposed Budget for the Capital Improvements Program (CIP).

The CIP Outlook reflects massive investments in the Pure Water Project.¹ As the first phase of the project nears completion throughout the five-year period, other capital needs such as storm water and maintaining City facilities, continue to grow. The CIP Outlook reflects total capital needs of \$5.62 billion and funding available to support these needs of \$3.76 billion, resulting in a \$1.86 billion funding gap. The Mayor reflects his capital priorities through the allocation of limited resources, with street repavement continuing to be the top capital priority. New fire stations also appear as a key priority at the end of the five-year period.

Our report discusses capital needs and funding in more depth, highlights certain asset types, and summarizes the Mayor's capital priorities as reflected in the report. It also identifies opportunities for Council influence and provides recommendations for future CIP Outlooks.

Background and Purpose of the CIP Outlook

The City Charter requires the Mayor to develop a multi-year capital plan which has been produced annually since 2015. The development of a multi-year CIP plan stemmed from a recommendation

¹ The Pure Water Project turns recycled water into drinkable water through water purification technology. Through implementation of this project, the City aims to supply one-third of its own water by FY 2035.

from the [City Auditor’s performance review of the CIP](#) in 2011. As stated in City Council Policy 000-02, the CIP Outlook serves as the basis for the development of the annual CIP budget.

The purpose of the CIP Outlook is to plan for current and future capital needs, and project available funding to better inform budget decisions. Because capital needs far exceed funding available, this report details which assets have projected funding gaps. The City makes strategic investments in capital infrastructure during the annual budget process, but many needs are left unfunded.

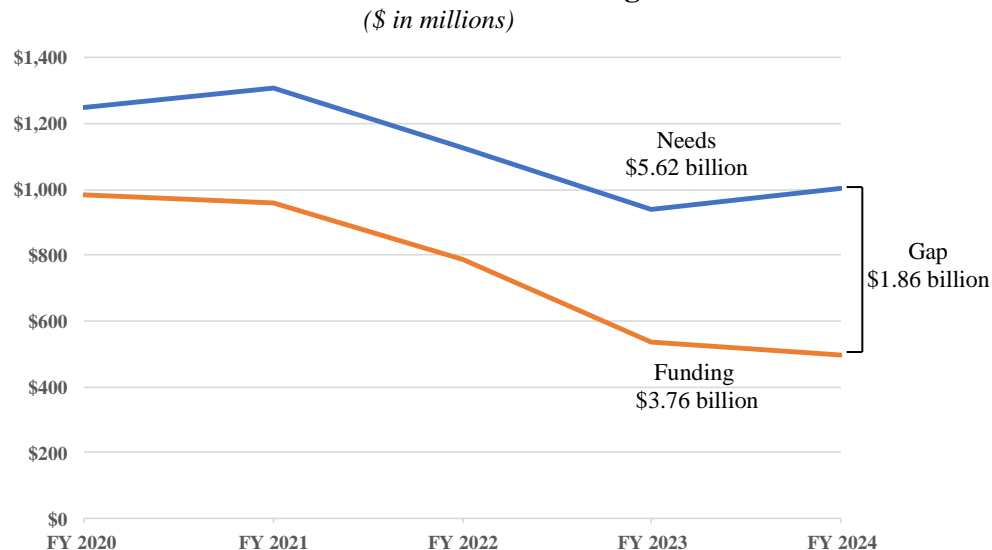
FISCAL/POLICY DISCUSSION

High-Level Overview of CIP Outlook

Pure Water Project is the Key Driver of CIP Outlook Trends

The figure below depicts the projected additional budget required to meet capital infrastructure needs, the projected funding available over the Outlook period, and the gap between the amount of funding needed and the amount of funding available.

Figure 1: FY 2020 – FY 2024 Projected Additional Budget for Capital Needs and Available Funding



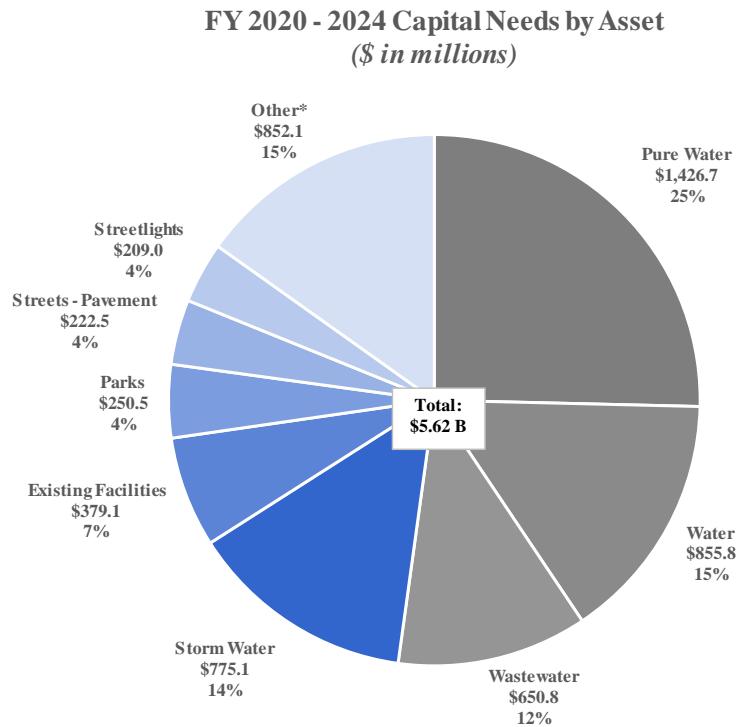
Projected capital needs and revenue follow a similar declining trend from FY 2021 to FY 2023. In last year’s CIP Outlook, needs and funding dropped off after FY 2020 while in this year’s report it is projected to occur in FY 2021. This is driven by the tapering off of Phase 1 of the Pure Water Project where project needs decline by about 95% from FY 2021 to FY 2024. Staff indicates that this year’s Outlook reflects the most updated construction schedules and cost estimates for the Pure Water Project. A constructability review for the project, which gathered input from as-needed construction consultants, informed the updated schedule in which Phase 1 is now slated for completion by February 2024.

There is also an increase in capital needs from FY 2023 to FY 2024. The most notable change is an identified need of \$93.4 million for new fire stations in FY 2024.

Projected Capital Needs Over the Outlook Period of FY 2020 – FY 2024

Capital Needs Increased by 28%

The pie chart below reflects the composition of the City’s capital needs over the five-year period totaling \$5.62 billion. This amount differs slightly from the CIP Outlook as our Office includes \$25.0 million that was determined to be needed to bring park amenities up to a good condition based on a condition assessment.² Capital needs for the Public Utilities Department (PUD), shaded in gray, comprise over half (52.4%) of the Citywide total with Pure Water making up one quarter of all needs. PUD’s capital needs are expected to be fully supported by water and sewer rates paid by customers.³ Storm water and existing facilities needs make up another significant portion of the total at 14% and 7%, respectively.



*The “Other” category includes assets that comprise 3% or less of total needs: Sidewalks, Traffic Signals and Intelligent Traffic System, Bike Facilities, New Fire Stations, Streets and Roads – Modification, Bridges, Landfills, New Libraries, New Lifeguard Stations, Airports, Golf, and the Stadium

Although funding for capital needs is projected to trend downward over the Outlook period, the total sum has increased over last year’s CIP Outlook by 28% (\$1.23 billion). For context, last year’s Outlook covering FY 2019 – 2023 reflected a 2% increase over the prior year’s report. Close to \$900 million of this year’s increase, or 73%, is attributed to water, wastewater, and the Pure

² Park amenities include playgrounds, playing fields, courts, parking lots, and roads. The assessment was conducted between FY 2014 and FY 2016 on 76 out of the City’s 249 developed parks. An assessment of the remaining developed parks is anticipated to be completed in FY 2020.

³ As stated in the CIP Outlook, this assumes that additional rate capacity is obtained to sufficiently support capital needs throughout the five-year projection.

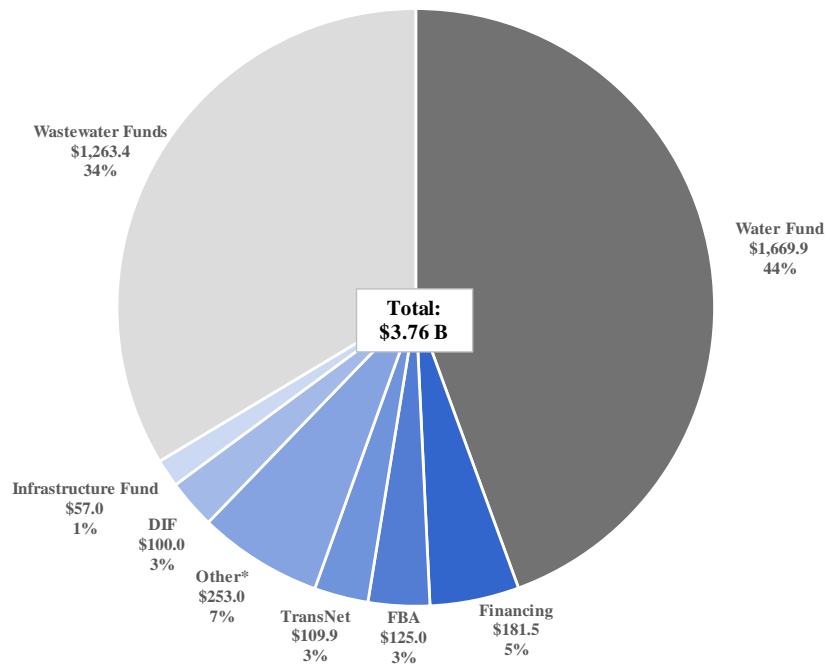
Water project needs. Costs for the Pure Water Project have increased by \$360.0 million this year which, as the Outlook indicates, are updated based on 100% completed designs.

Projected Funding Over the Outlook Period of FY 2020 – 2024

Projected Funding Increased by 35%

The pie chart below reflects the composition of funding sources and projected funding available to support the capital needs discussed earlier. The CIP Outlook projects \$3.76 billion in available funding over the Outlook period. The gray portion, or 78% of the funds come from water and sewer fees which can only go to support improvements to water and wastewater infrastructure. Therefore, they are self-supporting capital assets. Many of the other funding sources within the City’s CIP have unique spending restrictions and must be used to support certain assets, such as TransNet, or certain communities, such as Development Impact Fees (DIF) and Facilities Benefit Assessments (FBA). Many capital needs do not meet these restrictions and rely on more flexible funding sources. The most flexible resources in the figure below are Infrastructure Funds and Financing, which make up only 6% of total projected funding available.⁴

FY 2020 - FY 2024 Projected Funding by Source
(\$ in millions)



*The “Other” Category includes funds that comprise less than 1.5% of total projected revenues: Mission Bay Improvements Fund, Refuse Disposal Fund, Grants, Regional Transportation Congestion Improvement Program Funds, Undergrounding Utilities Fund, Recycling Fund, Regional Park Improvements Fund, Prior Year Continuing Appropriations, Airport Funds, Road Maintenance & Rehabilitation Fund, Trench Cut/Excavation Fee Fund, Fleet Services Internal Service Fund, Golf Course Enterprise Fund, Community Development Block Grant (CDBG), Mission Trails Regional Park Fund, Bus Stop Capital Improvement Fund, Other Park Funds, Sunset Cliffs Natural Park Fund, and Stadium Fund.

⁴ Capital Outlay funds are also a valuable flexible funding source used in the CIP but they are not included in the CIP Outlook due to their volatility. They are dependent upon land sales which can vary drastically from year to year.

The CIP Outlook reflects a net increase in revenue of \$966.8 million, or 35% over last year's Outlook. For context, last year's report projected an 8% *decrease* in revenue from the prior year's CIP Outlook. The projected funding increase is attributed to Water and Wastewater Funds which correspond with the increase in capital needs of almost \$900 million.

Changes in Forecasting Impact Fees Result in Additional Funding

The other significant increase in projected revenue is attributed to changes in forecasting DIF and FBA beginning this year, and the first-time inclusion of Regional Transportation Congestion Improvement Program Funds (RTCIP). These fund sources are all impact fees based on private development activity. DIF and FBA revenue must be spent in the community from which it was generated. Together these sources provide an additional \$183 million in this year's report.

In previous reports, DIF funds were projected for only one year, citing rationale that there is too much uncertainty in revenue projections for the out years. This year the DIF forecast is based on the average actual fees collected in the past 10 years, resulting in a total of \$100 million for the Outlook period.

FBA revenue, on the other hand, has always been projected throughout the Outlook period. Actual revenue collected as compared to estimates used in previous Outlooks have historically varied significantly. In last year's CIP Outlook staff used a more conservative approach than in previous years, which resulted in a significant decrease in projected revenue. This year's report implements another change that bases revenue projections on the lowest average amount of fees collected over the past 10 years, bringing the total to \$125 million over the Outlook period. Both DIF and FBA revenue estimates included in the CIP Outlook are Citywide estimates, and therefore are not linked communities in which they must be invested.

RTCIP funds are being included for the first time in this year's CIP Outlook. The RTCIP is part of the TransNet Extension Ordinance, which began in 2008.⁵ RTCIP funds are intended to provide improvements to the Regional Arterial System⁶ to reduce congestion demanded by new residential development. The CIP Outlook estimates a total of \$25.0 million in RTCIP during the Outlook period, and are prioritized for bridges and traffic signals.

Funding Gap Increased by 17% But Mitigated by Increased Revenue Assumptions

Total projected funding available falls short of the amount needed to address capital needs by \$1.86 billion. Since Enterprise funds are self-supported assets that charge fees for the use of that asset such as water and wastewater systems, there is no funding gap associated with these assets. Therefore, the funding gap is attributed to General Fund assets (such as parks, libraries, and roads) that lack a dedicated funding source and must compete for limited flexible funds. As noted above, only 6% of total projected revenue is from flexible sources. The table below shows which assets have a funding gap and are sorted by the largest need. We note that the only two General Fund

⁵ TransNet funds are generated from a half-cent sales tax dedicated to providing congestion relief and transportation improvements.

⁶ Regional arterials are considered to be longer routes that provide accessibility between communities within the region and which also may allow subregional trips to avoid freeway travel.

asset types that do not show a funding gap are street repavement (consistent with previous Outlooks) and funding for new fire stations.

The CIP Outlook assumes that most (\$93.6 million) of the projected FBA funds will support new fire stations in FY 2024. However, this assumes the revenue is generated in the appropriate community for the desired fire station and comes in at a sufficient level. Though new fire stations are fully funded in the Outlook, staff indicate that this level of production is impractical. Also, budgeting for the associated operating costs of several new stations completed around the same time period would place a substantial strain on the General Fund budget. The General Fund fiscal impacts of operating costs for completed capital projects should be a major factor in determining their priority and timing.

Summary of Total Projected Capital Needs, Funding, and Gap in FY 2020-2024
(\$ in millions)

Asset Type	Need	Funding	Gap	Percent of Needs Funded
Storm Water	\$ 775.1	\$ 55.3	\$ 719.8	7.1%
Existing Facilities	379.1	127.6	251.5	33.7%
Streetlights	209.0	7.1	201.9	3.4%
Parks	205.4	21.6	183.9	10.5%
Sidewalks	153.4	28.6	124.8	18.6%
Traffic Signals and ITS	147.1	35.6	111.5	24.2%
Bike Facilities	129.3	5.1	124.2	3.9%
Streets and Roads - Modification	110.9	51.5	59.3	46.5%
Bridges	84.3	31.2	53.1	37.0%
New Libraries	18.0	4.1	13.9	22.6%
New Lifeguard Stations	17.3	-	17.3	0.0%
New Fleet Facilities	-	-	-	-
New Police Stations	-	-	-	-
Streets and Roads - Pavement	222.5	222.5	0.0	100.0%
New Fire Stations	125.0	125.0	0.0	100.0%
General Fund Asset Total	\$ 2,576.3	\$ 715.2	\$ 1,861.1	27.8%
Pure Water	\$ 1,426.7	\$ 1,426.7	-	100%
Water	855.8	855.8	-	100%
Wastewater	650.8	650.8	-	100%
Landfills	49.4	49.4	-	100%
Parks - Mission Bay Improvements	45.1	45.1	-	100%
Airports	13.8	13.8	-	100%
Golf	3.0	3.0	-	100%
Stadium	0.8	0.8	-	100%
Enterprise Fund Asset Total	\$ 3,045.3	\$ 3,045.3	-	100%

Mayoral CIP Priorities and Associated Funding Sources

As reflected in the table above, \$2.58 billion in General Fund capital needs must compete with \$715.2 million in available funding. To further constrain resource allocation, many of the funds available for General Fund assets have spending restrictions, as previously discussed. Therefore, capital needs must be carefully prioritized for funding. The Mayor reflects his priorities through allocations of major revenue sources like TransNet, as well as limited flexible funding sources,

such as Infrastructure Funds and future financing. The CIP Outlook allocates TransNet, Infrastructure Fund, and Future Financing over a wide variety of asset types as reflected in the tables below.

The TransNet Ordinance provides funding to cities for streets and roads, requiring that at least 70% of the revenues be used to reduce congestion.⁷ The other 30% is the amount that the City is capped to spend on maintenance purposes. The table below reflects the anticipated allocation of TransNet funds. We note that the allocations in the table are a comprehensive reflection of assets types that are eligible for TransNet funding. For clarity, storm water is included because it addresses flooding in the roadway as well as the resulting congestion, and sidewalks pertain to new sidewalks. Also, the types of projects included in Streets and Roads – Modifications include median installation and traffic calming measures.

TransNet Funds Projected Allocations for FY 2020-FY 2024

(\$ in millions)

Asset Type	Total Funding	Distribution
Streets and Roads - Pavement	\$ 71.1	64.7%
Streets and Roads - Modifications	11.0	10.0%
Traffic Signals and Intelligent Traffic Signals	9.8	8.9%
Sidewalks	7.8	7.1%
Storm Water	4.0	3.6%
Bike Facilities	3.1	2.8%
Bridges	2.2	2.0%
Streetlights	1.0	0.9%
Total	\$ 109.9	100.0%

Although the Infrastructure Fund can support both maintenance activities and capital projects (including associated financing costs), the Outlook assumes all monies will be allocated to the CIP to the asset types reflected below. Due to rules governing the fund, only funding through FY 2022 is projected.

Infrastructure Fund Projected Allocations for FY 2020-FY 2022

(\$ in millions)

Asset Type	Total Funding	Distribution
Existing Facilities	\$ 16.5	29.0%
Sidewalks	13.2	23.2%
Storm Water	7.1	12.4%
Streets and Roads - Modifications	6.2	10.9%
Traffic Signals and Intelligent Traffic Signals	5.9	10.3%
Streetlights	3.9	6.8%
Bridges	3.3	5.8%
New Fire Stations	0.8	1.5%
Landfills	0.2	0.3%
Total	\$ 57.0	100.0%

⁷ TransNet also provides for regional competitive grants.

The CIP Outlook assumes that approximately \$181.5 million of future financing will be available during the Outlook period. The financing will be in the form of short-term commercial paper borrowing that will eventually be replaced with long-term bonds. Staff indicates that commercial paper borrowing will typically be used for priority General Fund projects that have an immediate need for funds. The planned borrowing of \$181.5 million is consistent with the borrowing plan outlined in the FY 2020 – 2024 Five-Year Financial Outlook. According to staff, a request for budget authority and project types for the next phase of borrowing is anticipated to come to Council at the end of FY 2020, at which time **Council will be able to weigh in**. Therefore, the allocations in FY 2020 as projected in the CIP Outlook, which can be modified by Council, reflect the anticipation of approved budget authority for the second phase of borrowing, though issuance of the debt is planned for FY 2021. The following table includes asset types that are intended to be supported with future financing over the Outlook period.

Future Financing Proceeds Projected Allocations for FY 2020-FY 2024
(\$ in millions)

Asset Type	Total Funding	Distribution
Streets and Roads - Pavement	\$ 115.4	63.6%
Storm Water	42.3	23.3%
Existing Facilities	14.1	7.8%
Sidewalks	4.8	2.6%
New Fire Stations	3.3	1.8%
Streets and Roads - Modifications	1.7	0.9%
Total	\$ 181.5	100.0%

Finally, we note that the Gas Tax funds and Road Maintenance and Rehabilitation Funds (created with the passage of SB 1 in 2017) can also be used both in the operating and capital budget. All Gas Tax funds are assumed to be allocated for the street maintenance, such as slurry sealing. The Road Maintenance and Rehabilitation Funds are allocated to meet the remaining need for street maintenance and any excess is anticipated to be allocated to the capital budget to support street repavement. These funds could also be used for other purposes including: traffic control devices as well as complete street components including active transportation, pedestrian and bicycle safety projects, and drainage projects in conjunction with any other allowable project.

Notable General Fund-supported Asset Needs

Storm Water Continues to be the Largest Funding Need

Storm water capital infrastructure needs total \$775.1 million, making it the largest funding need among General Fund assets. Its funding gap continues to be the largest and continues to grow, totaling over \$700 million. Storm water capital needs comprise of improving storm drain pipes to address flood risks, as well as mitigating runoff to improve water quality of the City’s watersheds to comply with the municipal storm water permit. Though capital funding needs compare in magnitude to the water and wastewater system, the City continues to lack a significant dedicated funding source for storm water infrastructure.

As discussed in our review of the FY 2020 – 2024 Five-Year Financial Outlook, an increase to the City’s Storm Drain Fee is an option that the City Council may wish to explore to help address this growing need more in line with many other California cities.

Street Pavement Continues to be Top Priority

Pavement

As the report states, the City met the Mayor’s goal of repairing 1,000 miles of streets in October 2018. The CIP Outlook continues to make repavement the top priority and fully funds its \$222.5 million need over other assets with significant funding gaps. According to the Transportation and Storm Water Department (TSW), this level of funding is needed to maintain the street network in good condition. Together street maintenance and capital funding is anticipated to repair an additional 2,302 miles over the Outlook period. The City has a total street network of about 4,000 miles. Continuing to prioritize street repavement over other capital needs is a policy decision that Council may wish to address.

Modification

The street modification category includes project needs related to the Vision Zero strategy to eliminate severe and fatal crashes in the City. Project needs include traffic calming improvements, projects that enable safe use and support mobility for all users, guard rails, and median installation. Street modification projects have a funding gap of \$59.3 million over the Outlook period. However, we note that the City was awarded federal Highway Safety Improvement Program funds in December 2018 for safety projects affecting close to 300 intersections.

Sidewalk Needs Decreased by \$13.0 Million

The CIP Outlook reflects a total need for sidewalks (new walkways and sidewalk repair and reconstruction) of \$153.4 million, which is a decrease of \$13.0 million from last year’s report. This difference is largely due to a decrease in estimated need for new sidewalks primarily in FY 2020 and FY 2021. According to staff, lower costs in the first couple years of the Outlook account for two years needed for design, while out years include costs for both design and construction. In budget discussions last year, the department stated that there are 700 miles of missing sidewalks. The department has a goal of installing 330,000 linear feet of new sidewalks in 10 years, or about 63 miles. However, only 17% of this goal is funded in the Outlook.

Projected capital costs for sidewalk repairs have increased reflecting updated estimates for the sidewalk repair backlog. The CIP Outlook indicates that since the last condition assessment in 2015, capital costs to address the sidewalk backlog have increased from \$46.1 million to \$93.9 million. TSW’s initial goal was to have deficiencies identified by the condition assessment to be addressed within 10 years of the assessment, or FY 2024. With these updated costs, the department has updated its goal to eliminate the backlog under the City’s responsibility within 10 years, starting in FY 2020. The CIP Outlook includes a funding need of \$9.4 million per year for capital repair to meet this goal. However, only 21% of this goal is funded in the Outlook.

The department plans to present a report to the Active Transportation and Infrastructure Committee on the updated sidewalk maintenance and capital needs in the third quarter of FY 2019.

Needs for Existing Facilities Increased by \$93 million

Capital needs for existing facilities have increased by \$93.4 million since last year's report, totaling \$379.1 million. Facility needs are largely attributed to capital projects needed to bring facilities up to a "good condition" as defined by a facilities condition index. This condition level is the service level standard – or the level at which facilities should be maintained – that was approved by Council in spring 2017. The level of funding requested to improve the condition of facilities is based on a 15-year draft asset management plan to reach the service level standard. Though Council approved a service level standard, significant needs continue to be deferred. The CIP Outlook allocates all projected DIF revenue to existing facilities.

Other capital needs for facilities include roof replacements needed Citywide, elevator modernization, and improvements to public safety facilities.

Traffic Signal Funding Gap Decreased by \$22 million

Total needs over the five-year period for traffic signals are \$147.1 million, an increase of \$2.9 million from last year's report. Of the total need amount, 83% is attributed to installing traffic signal interconnect systems which increase traffic signal coordination to reduce congestion. The rest of the needs is roughly split between installing and modifying signals on the unfunded needs list. The funding gap for traffic signals has decreased by \$21.8 million largely due to anticipated allocation of RTIP funds, totaling \$20 million.

The Traffic Signal Communication Master Plan provides the basis for the City's traffic signal needs. According to the plan, better traffic signal coordination leads to increased public safety, shortened commutes, reduction of greenhouse gases, and increased mobility at intersections for all modes of travel, including emergency vehicles. The plan is divided into three phases, with the first being establishing and repairing high speed ethernet communications for all intersections. According to TSW, if needs were fully funded in the Outlook the City could complete Phase I and install additional intelligent components like traffic monitoring systems and adaptive signal systems. However, total traffic signal needs are only 24% funded in the CIP Outlook.

Opportunities for Council to Determine Capital Priorities

The priorities reflected in the CIP Outlook serve as an indication of the priorities to be reflected in the Proposed CIP Budget, which Council may consider changing as there are many unfunded needs. Council can set its own CIP priorities in a variety of ways including through: budget priority memoranda, its review of the proposed budget, and review of CIP appropriation requests in individual items. Council is also asked to approve appropriations in CIP budget monitoring reports twice per year. These reports identify funding that is no longer needed for existing projects and propose alternative uses.

This past fall, the Public Works Department solicited feedback from Councilmembers through an online survey to gather information on needed capital projects. It was envisioned that the needs

would be included in the CIP Outlook. However, they were not included as anticipated by our Office, due to timing issues. Going forward, Council may wish to clarify that it is staff’s intent to include Council submissions in the annual CIP Outlook. For this year, they will be considered for the FY 2020 Proposed Budget.

Council will also weigh in on CIP projects to be funded by future financing. As discussed earlier, staff anticipate coming forward for budget approval for the next phase of financing including proposed uses at the end of FY 2020. This assumes the initial borrowing has been sufficiently spent.

In preparation of the upcoming budget process, the table below is provided to highlight asset types that have been prioritized by a majority of Councilmembers in their budget priority memoranda. The table includes each asset type’s anticipated need, funding, and funding gaps for FY 2020.

FY 2020 Needs, Funding, and Gap for Asset Types Prioritized by Councilmembers
(\$ in millions)

Asset Type	Need	Funding	Gap	Percent of Needs Funded
Bike Facilities ¹	\$ 45.8	\$ 5.1	\$ 40.7	11.0%
Streetlights ²	44.1	2.2	41.9	5.0%
Traffic Signals and ITS ³	28.3	2.7	25.6	9.5%
Sidewalks	23.6	7.4	16.2	31.4%
Streets and Roads - Modification ³	20.6	19.3	1.3	93.7%
Parks	13.6	11.2	2.4	82.4%
New Libraries	2.0	0.0	2.0	0.0%

¹ Council prioritized Bike Facilities in the context of advancing the Climate Action Plan and transportation safety.

² Council prioritized the installation of new streetlights within the Streetlights asset type.

³ Within the Streets and Roads – Modification and Traffic Signals asset types, Council prioritized transportation safety projects including: traffic calming measures, beacons, measures to improve pedestrian safety at the City’s most dangerous intersections, lane reengineering, and traffic signal improvements.

Opportunities for Community Input

Council Policy 000-32 formalizes the role and process for neighborhood input on infrastructure needs and priorities for consideration in the City’s CIP Outlook, which feeds into the annual CIP budget. The policy, among other things, requires the City to conduct the community input process annually, but it has been determined that a frequency of every other year is more appropriate.

In fall 2017, the Public Works Department worked with the Community Planners Committee (CPC) to disseminate an online survey to communities to gather input on proposed CIP projects. The responses are compiled by the CPC, forwarded to Public Works, and sent to the appropriate asset-managing department for vetting and consideration in their CIP Outlook and budget requests. The next survey will go out in fall 2019. Council may wish to review this policy and update it to accurately reflect the City’s formal community input process.

Looking Forward

Prioritizing Capital Needs in Future Outlooks

As noted in the beginning of this report, the purpose of the CIP Outlook is to plan for current and future needs and project funding sources available to inform resource allocation decisions. As this is the fifth year a CIP Outlook report has been produced, in this section we assess how the report is fulfilling its purpose.

The report adds significant value in the budget development process as it presents existing and future needs for asset-managing departments from a Citywide perspective. This allows the City to gain a deeper understanding of the assumptions and drivers of capital needs and associated trends. It also gives the City an idea of the magnitude of needs not being addressed in certain asset types as indicated by funding gaps.

However, given the magnitude of the funding gap, it is difficult to prioritize General Fund capital needs to guide the most effective allocation of resources over the long term. To better inform budget decisions and multi-year capital planning, the City could benefit from prioritizing the needs in future CIP Outlooks. This could include differentiating between critical and discretionary needs, similar to the way the first CIP Outlook in 2015 prioritized needs.⁸ Critical capital needs could address a potential public health and safety need; comply with state or federal regulations; or funding to keep existing projects moving forward. Asset types with known asset management plans, such as facilities, could also be considered for inclusion. Critical needs would reflect actual project cost estimates and scheduling. It would also be easier to determine impacts projects will have on the operating budget, such as new staffing. With this information, Council would have a better idea of the highest priority needs facing the City.

Discretionary projects could include deferred capital needs of existing assets identified in condition assessments that do not have a plan to address the identified backlog, such as parks amenities and sidewalks. This category could also include, but separately identify, new projects to fulfill departmental goals and adopted plans, such as bike facilities, new fire stations, and traffic signals. Some of these needs in the CIP Outlook are not based on actual projects costs but rather estimates based on a cost per unit. Many of the City's capital infrastructure priorities would be included in this category and a more detailed plan could be developed to incrementally address them.

Asset Management Software Could Assist with Prioritization

The Enterprise Asset Management system (EAM) is a software solution that will consolidate information on the City's infrastructure to increase efficiency in project management as well as overall asset management. It has an asset management planning (AMP) component that will identify optimal maintenance and capital investment strategies for existing assets and provide

⁸ The first CIP Outlook divided all capital needs into two categories: 1) those that address health and safety standards and comply with legal mandates (e.g. ADA projects, storm water, and maintaining essential public safety structures to meet emergency response time standards); and 2) those that meet service and operational goals approved by the Mayor and/or Council (e.g. remaining projects in the adopted CIP budget and Fire-Rescue's Citygate report)

alternative scenarios. The AMP component is intended to allow better coordination of projects located near one another, identify risks, and assist in identifying priorities. This tool could support some of the analysis necessary to prioritize capital needs in future CIP Outlooks. Staff anticipate using the AMP component to develop next year's CIP Outlook for departments that have been incorporated into the system. Once priorities are better defined, the City will be better situated to develop a long-term funding strategy to address the needs of greatest importance.

We note that the AMP component may also influence the way the City will prioritize capital projects in the future as it identifies project needs that are co-located and bundles them into a single project. One asset within the bundled project may have a dedicated funding source, while another one may not. Therefore, future discussions may be necessary on how the AMP component impacts the allocation of resources to allow project bundling to occur.

CONCLUSION AND RECOMMENDATIONS

The CIP Outlook reflects total capital needs over the five-year period of \$5.62 billion and funding available to support these needs totaling \$3.76 billion. The CIP Outlook reflects a funding gap of \$1.86 billion, even after inclusion of increased impact fee revenue estimates that add \$183 million over last year's report, and accounting for \$181.5 million in future financing.

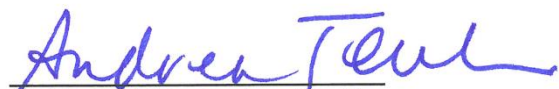
The CIP Outlook is a valuable tool in understanding the capital needs facing the City. With the completion of condition assessments, implementation of the EAM, updates to community and other strategic plans, and gathering Council and public input on CIP projects, capital needs are constantly being refined. We believe that this effort is critical in continuing to better define the City's capital infrastructure needs.

Although the CIP Outlook does a good job identifying needs, our Office believes that the Council would benefit by prioritizing General Fund asset needs in future CIP Outlooks. Breaking out capital needs into critical and discretionary categories would better inform Council of the highest priority needs and the limited resources to address them. The asset management component of the EAM software solution could play an integral role in informing how capital needs should be prioritized.

In conclusion, our Office provides the following recommendations for Council consideration:

1. Request future Outlooks prioritize General Fund capital needs by differentiating between those that are critical versus discretionary to better inform Council of the highest priority needs and to guide the development of a long-term strategy to address those needs.
2. Request future Outlooks include Council feedback provided through the online survey in the fall.
3. Update Council Policy 000-31 regarding community input on infrastructure needs in preparation for the CIP Outlook to accurately reflect how communities can expect to engage in the development of the CIP budget.


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