



## THE CITY OF SAN DIEGO

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### OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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# IBA Review of the FY 2027-2031 Five-Year Capital Infrastructure Planning Outlook

## OVERVIEW

The [FY 2027 – 2031 Five-Year Capital Infrastructure Planning Outlook \(CIP Outlook\)](#) was released on February 6, 2026. The City Charter requires the Mayor to develop a multi-year capital plan, and one has been produced annually since 2015.<sup>1</sup> The purpose of the CIP Outlook is to plan for current and future capital needs, and project available funding to better inform budget decisions. As stated in [Council Policy 000-02: Budget Policies](#), the CIP Outlook report outlines the proposed capital priorities and serves as the basis for the development of the annual Capital Improvements Program (CIP) budget. Because the City’s capital needs far exceed funding available, it must prioritize which projects receive support during the annual budget process, leaving many needs unfunded.

While the City Council cannot change this CIP Outlook, Council is the City’s ultimate budget authority and can set different capital priorities than those reflected in the report during its review of the FY 2027 Proposed CIP Budget. However, given such limited funding, any reallocation will require difficult tradeoffs.

Although water and wastewater capital needs and funding are a significant part of the CIP Outlook, since our Office provided a detailed review of the [Public Utilities Department five-year outlook](#) in [IBA Review of the Public Utilities Department \(PUD\) FY 2027-2031 Five-Year Financial Outlook](#), we will not discuss PUD’s capital needs in this report. Rather, the focus of this report is on General Fund capital assets given that the entirety of the funding gap is associated with those asset types. Our report provides an overview of the CIP Outlook, including projected revenue and capital

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<sup>1</sup> A long-term capital plan was first recommended by the City Auditor in its June 2011 [performance review of the CIP](#).

needs, discusses how infrastructure priorities reflected in the Outlook align with Council’s priorities, the increasingly dominant role that stormwater plays in this year’s outlook, challenges that face the CIP associated with significant fiscal constraints, and the need for a substantial new funding source, especially for stormwater, to begin to address the growing \$7.8 billion five-year funding gap.

Our Office would like to thank staff from Engineering & Capital Projects (E&CP), Department of Finance (DOF), and asset management departments (AMDs) for their collaboration with our Office and responding to questions and providing information for this report.

## **FISCAL/POLICY DISCUSSION**

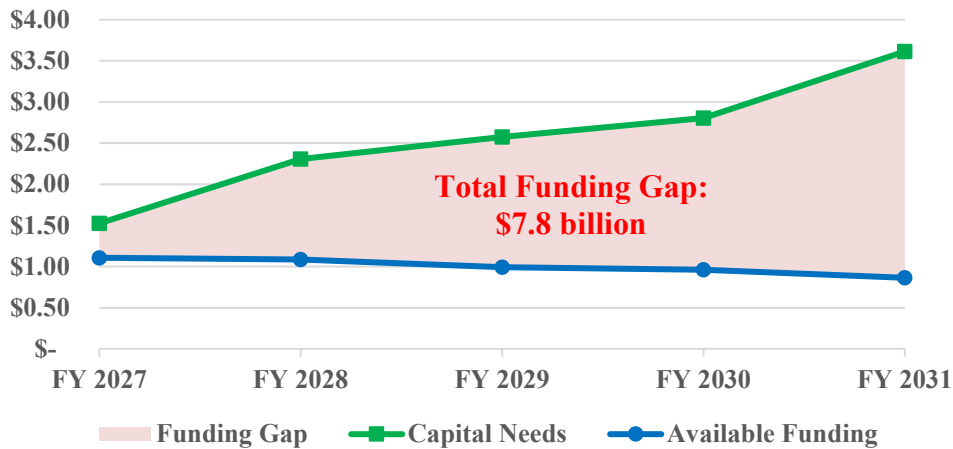
### **Overview of the CIP Outlook**

The figure below reflects projected capital infrastructure needs, available funding, and the funding gap over the five-year CIP Outlook period. This includes total capital needs of \$12.8 billion, and projected available funding of \$5.0 billion, resulting in a \$7.8 billion funding gap. As will be discussed more in depth in this report, over the five year period, this represents an 8% *increase* in capital needs and a 7% *decrease* in anticipated funding as compared to last year’s report.

Capital needs are expected to increase throughout the outlook period while funding is expected to slightly decline. The net increase in capital needs throughout the Outlook is almost entirely (92%) driven by Stormwater needs, which accounts for water quality regulatory deadlines coming due in FY 2031 and more and more drainage assets aging passed their useful life. The decline in revenue throughout the outlook period is primarily driven by declining availability of stormwater Water Infrastructure Finance and Innovation Act (WIFIA) funding in FY 2029, and a decline in water and wastewater revenues and associated capital needs due to a three-year delay for certain CIP projects. Public Utilities is implementing this delay in order to mitigate the need for rate increases in the near term, and in response to Council only approving a two-year water rate increase last year (this is discussed in detail in the [IBA Review of the Public Utilities Department FY 2027-31 Five Year Financial Outlook](#)).

For longer term capital needs beyond FY 2031, an additional estimated \$6.0 billion will be needed.

**FY 2027 - FY 2031 Projected Capital Needs and Funding**  
 (\$ in billions)



*Funding Gap Increase Driven by Stormwater Capital Needs*

The \$7.8 billion five-year funding gap is an increase of \$1.3 billion or 20% over last year’s CIP Outlook. The increase is overwhelmingly driven by stormwater, which itself has a \$1.3 billion increase, where anticipated needs have increased by 33% but funding is only anticipated to increase by 8%.

The table below summarizes the funding gaps of each asset type; stormwater alone makes up 65% of the total. Capital needs of all enterprise assets<sup>2</sup> are anticipated to be fully met with anticipated revenue. Non-enterprise, or General Fund assets, do not have a dedicated funding source and must compete for limited funding with other City services. As shown in the table, the entire funding gap is attributed to General Fund assets. New Libraries is the only General Fund asset that is shown as fully funded, with \$20.5 million in needs and funding. However, this funding is to support the San Carlos Library and an additional \$17.9 million will be needed beyond FY 2031, for a total of \$38.4 million.

<sup>2</sup> An enterprise asset is an asset, like water or wastewater, that is self-supporting with a dedicated funding source that is generated from fees collected from customers that use the assets.

## Summary of the Five-Year CIP Funding Gap for FY 2027 - FY 2031

(\$ in millions)

Asset	Funding Gap	Proportion of Gap
Stormwater	\$5,085.3	65%
Streets and Roads - Pavement	677.9	9%
Streetlights	467.2	6%
New/Expanded Fire Stations	309.9	4%
Sidewalks	252.5	3%
New/Expanded Police Stations	222.1	3%
Parks	221.3	3%
Existing Facilities	157.2	2%
Traffic Signals and ITS	121.1	2%
Streets and Roads - Modifications	113.4	1%
Bike Facilities	88.6	1%
Bridges	52.5	1%
New Lifeguard Stations	38.5	0%
Housing and Shelters	5.0	0%
New Fleet Facilities	2.6	0%
New Libraries	-	0%
<b>General Fund Asset Total</b>	<b>\$7,815.1</b>	<b>100%</b>
Wastewater	-	0%
Water	-	0%
Airports	-	0%
Golf	-	0%
Landfill	-	0%
<b>Enterprise Asset Total</b>	<b>-</b>	<b>0%</b>

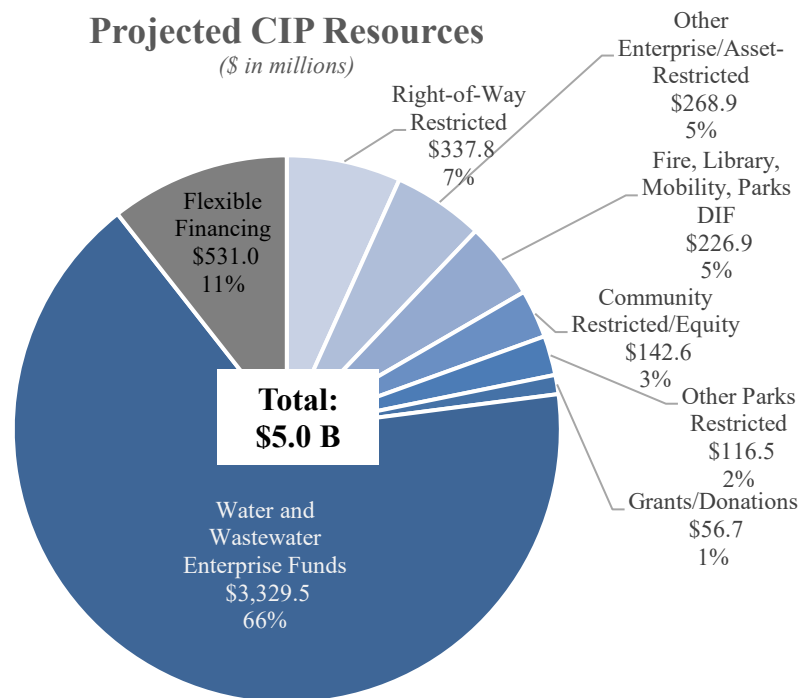
### **Projected Revenues by Use**

Funding availability and eligibility are key factors in determining which projects receive funding in the CIP budget. Although there is a projected \$12.8 billion in capital needs over the five-year outlook, only \$5.0 billion is anticipated to be available to allocate to the highest priority projects. This represents a \$355.1 million, or 7%, *decline* in revenue from last year's outlook. This decrease from last year's report is largely driven by changing water and wastewater needs, but it is also related to no assumed revenue from the Infrastructure Fund, as requirements for deposits into that fund are not anticipated over the outlook period due to slowing revenue growth.<sup>3</sup> This represents a \$87.9 million decrease from last year's report.<sup>4</sup>

<sup>3</sup> No deposits into the Infrastructure Fund are anticipated to be made during the outlook period because sales tax revenue is expected to remain below the FY 2016 baseline (adjusted for inflation), which must be exceeded to trigger a deposit. Likewise, the pension payment is not anticipated to fall below the FY 2016 baseline during the outlook period, which is a condition that would also trigger a deposit.

<sup>4</sup> Although Infrastructure Fund is a flexible funding source available to the CIP, it can also be used to support the operating budget or be waived which has occurred in recent years.

Much of the projected funding in the CIP Outlook has restrictions on the type or geographic location of projects that it can support. The figure below shows anticipated funding sources in the CIP Outlook, which are generally categorized by the types of restrictions that govern their use.



As in previous years, water and wastewater funding comprise the majority of projected funding, totaling \$3.3 billion (66%), and can only be used to support water and wastewater infrastructure. General Fund financing, shaded above in gray, is the City’s only funding source with minimal use restrictions. Unrestricted funds are particularly important, as many General Fund capital projects—such as streetlights, new or upgraded parks, fire stations, and libraries—are often ineligible for more restricted funding and must compete against each other for these limited financial resources. The following sections discuss General Fund financing in more detail and provide additional context on Development Impact Fee (DIF) funding sources which are becoming increasingly more available for General Fund infrastructure.

### *General Fund Financing*

The City has historically relied on Lease Revenue Bonds (LRBs) to support its capital program, as LRBs are the General Fund’s most significant source of flexible, largely unrestricted funding for new capital projects. The CIP Outlook includes \$531.0 million in future LRB proceeds which includes \$474.3 million for new General Fund CIP project appropriations and \$57.0 million for remaining matching funds requirement for the City’s Water Infrastructure Finance and Innovation Act (WIFIA) Loan to fund stormwater improvements.<sup>5</sup> These amounts are consistent with the FY 2027–2031 Five-Year Financial Outlook, which reflects the General Fund’s maximum anticipated

<sup>5</sup> Under the terms of the City’s \$359.2 million Stormwater WIFIA Loan, the City must contribute 51%, or \$373.8 million, of the \$733.0 million in total project costs.

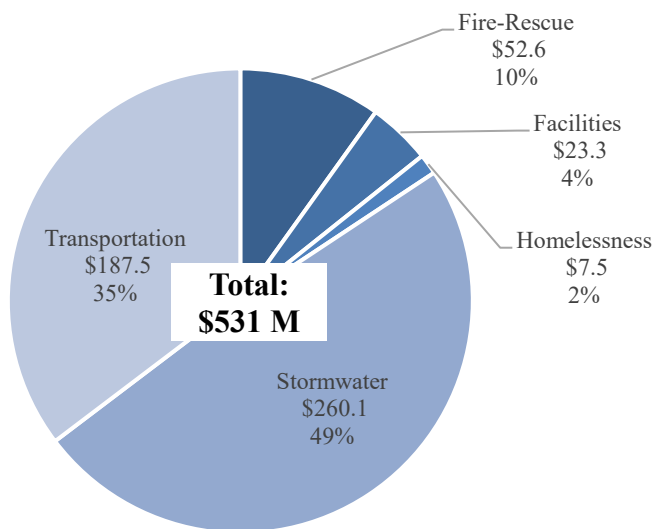
borrowing capacity over the Outlook period; this is based on E&CP’s projected spending rate while remaining within the City’s Debt Policy identified Debt Ratio thresholds.<sup>6</sup> Together with other debt obligations, the City’s Debt Ratios are projected to reach one of two guiding thresholds in FY 2028, but are expected to decrease in FY 2029.<sup>7</sup>

The City has limited debt capacity, and the amount of financing that is assumed in the CIP Outlook for General Fund capital projects can be impacted by increases in costs for other programs the City funds with debt financing outside of the CIP Outlook. For example, the Department of Information Technology recently announced a \$40 million increase in cost for the City’s Enterprise Resource Planning (ERP) Modernization project, of which the General Fund portion is expected to be funded primarily through debt financing.<sup>8</sup> This could potentially reduce the amount of General Fund financing proceeds that are assumed to be available in the CIP Outlook or require additional debt issuance beyond what is assumed in the Financial Outlook.

Beyond LRBs, the CIP Outlook anticipates \$134.1 million in WIFIA loan proceeds which is discussed more in the *Stormwater Funding Needs* section of this report.

### Anticipated General Fund Bond Funds Allocations

(*\$ in millions*)



<sup>6</sup> LRBs are ultimately repaid with existing General Fund revenues, and as the City’s long-term debt service costs grow as a percentage of the City budget, they limit the City’s ability to address other public service needs. Recognizing this, the City’s Debt Policy includes Debt Ratio thresholds which dictate that annual debt service as a percentage of General Fund revenues should remain under 10% for all long and short-term debt and, when combined with pension and Other Post-Employment Benefits (OPEB) costs, the percentage should remain under 25%.

<sup>7</sup> When including debt service associated with the Energy Performance Savings Contract approved by Council on January 27, 2026, and pension cost increases that were recently included in SDCERS’ 2025 Actuarial Valuation Report, the City’s Debt Ratios are projected to reach highs of 7.3% (in FY 2031) and 25.0% (in FY 2028), respectively. The total debt/pension percentage decreases to 22.7% beginning in FY 2029 primarily due to a significant expected reduction in the City’s pension payment and the final maturity of the City’s Convention Center Expansion Bonds.

<sup>8</sup> The \$40 million increase is largely due to the addition of City staff labor costs which previously had not been quantified. The project is allocated 44% to the General Fund and 56% to non-General Fund.

The figure above shows the anticipated allocations for General Fund LRB proceeds during the Outlook period; stormwater is expected to receive almost half of those proceeds. Of the total \$260.1 million for stormwater, \$150.0 million is set aside for anticipated emergency projects over the five year period. Additional discussion is included in the *Stormwater Funding Needs* section of this report. Transportation is also allocated a significant portion – \$187.5 million or 35% of total LRB funds – primarily for street repaving and smaller amounts for Americans with Disability Act (ADA) curb ramps and street light circuit upgrades. Fire-Rescue is allocated \$52.6 million for Fire Station 51 and the Mission Beach Lifeguard Station.

### *Development Impact Fees*

Development Impact Fees (DIF) are increasingly more accessible as a funding source for much needed General Fund neighborhood infrastructure projects, as the City began a transition from Community-based DIF, which locks down funding that can only be spent within the boundaries of 43 different neighborhoods, to a Citywide DIF, which can be used anywhere in the City. The [Parks for All of Us](#) and [Build Better San Diego](#) initiatives, approved by Council in August 2021 and August 2022 respectively, established four Citywide DIF funds—Fire, Library, Mobility, and Parks. While more flexible than community-based DIFs, these funds still have restrictions on the types of projects they can support and in some cases, they must be spent in communities with deficiencies (i.e., after discounting administration costs, at least 85% of Citywide Parks DIF must be spent in park-deficient communities).

As the transition progresses, it is expected that Citywide DIF revenue will continue to increase while Community DIF revenue decreases. The table below shows \$253.5 million in Community and Citywide DIF anticipated over the outlook period. As compared to the prior year CIP Outlook (FY 2026-30), revenues from Community DIF are expected to decline by 11% from \$29.7 million to \$26.6 million,<sup>9</sup> while total Citywide DIF is anticipated to increase by 153% from \$89.7 million to \$226.9 million. Notably, the Parks DIF has higher projected revenue as this fund was approved by Council and began collecting revenue a year before the Library, Mobility, and Fire DIF funds which more recently began collections. The various components of each Citywide DIF are accounted for in the table below.<sup>10</sup>

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<sup>9</sup> The City is now collecting Community DIF only under specific conditions when a project qualifies under SB 330 and if the applicable community DIF rate is lower than the Citywide DIF rate. In this case, the community DIF collected is still deposited into community-specific DIF accounts and expended in accordance with the applicable Public Facilities Financing Plan. These requirements are set to expire on January 1, 2030.

<sup>10</sup> Each Citywide DIF has different components. For example, the Citywide Parks DIF includes the following: a portion dedicated to park-deficient communities, and within that, a portion must go to Communities of Concern; a portion for land acquisition; and the remaining portion for unrestricted Citywide use on parks. Citywide Fire DIF has two components: funding for growth-related fire and emergency response infrastructure that can be spent Citywide (Citywide Fire DIF) and Fire Deficient DIF which is allocated to areas that do not currently meet adopted fire response time or coverage standards. Although not technically a component of the Citywide Mobility DIF, included in that line in the following table is the Active Transportation in Lieu development impact fee revenue (\$750,000 for FY 2027 and \$800,000 for each of the remaining years FY 2028-31). Both have separate eligibility restrictions, but both are to be used for mobility projects.

<b>Community and Citywide DIF (FY 2027-31), \$ in millions</b>						
	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>	<b>FY 2031</b>	<b>Total</b>
Community DIF	\$ 12.1	\$ 3.5	\$ 3.5	\$ 3.7	\$ 3.7	\$ 26.6
Citywide DIF - Parks	25.0	35.0	36.0	37.0	38.0	171.0
Citywide DIF - Library	3.9	4.0	4.1	4.2	4.3	20.5
Citywide DIF - Mobility	2.0	7.0	4.7	4.8	4.9	23.4
Citywide DIF - Fire	1.7	2.0	2.7	2.8	3.0	12.1
<b>Total</b>	<b>\$ 44.7</b>	<b>\$ 51.5</b>	<b>\$ 51.0</b>	<b>\$ 52.5</b>	<b>\$ 53.9</b>	<b>\$ 253.5</b>

These funds now are allocated as part of the overall CIP funding allocation process, rather than in a separate process led by City Planning. DOF collects all AMD funding requests several times a year (e.g., during the CIP Mid-Year and CIP Budget Development process), which is then provided to City Planning to review and determine project eligibility for the various DIF funds. Projects are prioritized for DIF funding based on community need, including requirements to direct spending toward areas with deficiencies and to elevate projects in areas experiencing the most growth, consistent with the prioritization factors in [Council Policy 800-14](#).

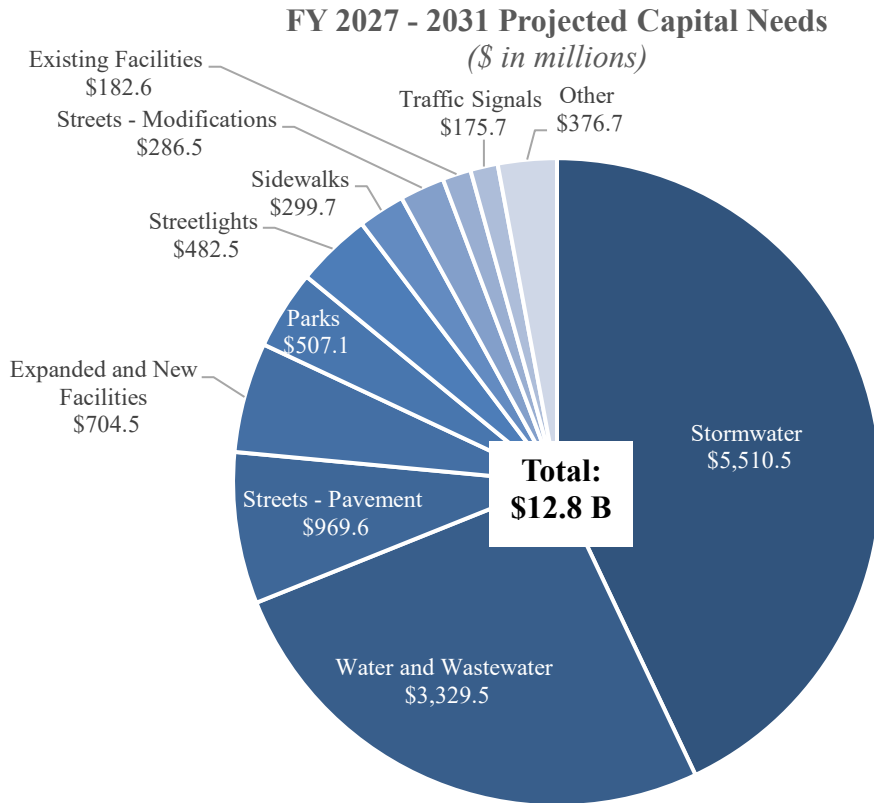
**Projected Capital Needs Over the Outlook Period**

The FY 2026 Adopted Budget serves as the baseline for capital needs included in the CIP Outlook. Additional needs were considered by AMDs using various Asset Management and strategic plans, community outreach conducted by the Planning Department from August 2024 and August 2025 via online survey and input from Community Planning Groups, and finally Council budget priority memoranda.

*General Fund Asset Capital Needs Grew by 8%*

Capital needs total \$12.8 billion in the CIP Outlook, which is a \$953.5 million, or 8%, increase over last year’s report. As with the increase in the funding gap, stormwater capital needs makes up the overwhelming majority of the increase. The following pie chart reflects the composition of the City’s projected capital needs over the five-year period.

It is important to understand what drives these needs. The following section provides additional detail on the asset types that make up nearly 80% of total *General Fund capital needs*: stormwater, street repaving, and facilities.



**Stormwater Funding Needs**

Stormwater needs make up the highest *total* needs of any asset, including water and wastewater combined, in the CIP Outlook, representing 43% of all needs. Over the five-year period, stormwater capital needs total \$5.5 billion, a \$1.4 billion or 33% increase from last year’s report. Only \$425.2 million is anticipated to be available to support these needs, leaving a \$5.1 billion funding gap.

Stormwater needs are based on the [Watershed Asset Management Plan](#) (WAMP). The WAMP is a long-range plan which takes into account all of the City’s operating and capital stormwater needs. It includes the flood risk management system as well as infrastructure needed to comply with water quality targets set by the Regional Water Quality Control Board (RWQCB). Although the last comprehensive update to the WAMP was completed in 2021, in FY 2026 asset replacement costs (largely for drainage assets) were updated in the WAMP to reflect 2025 dollars, and project soft costs were updated to reflect current construction estimation best practices.

The table below breaks down funding needs for both flood resilience (reducing the City’s risk for flooding) and green infrastructure (water quality projects). Flood resilience is the main driver of increased costs, with nearly \$1 billion in additional capital needs identified over the outlook period. This increase reflects compounding drainage assets that have already passed their useful life and estimated cost increases. Continued underfunding of those needs increases the likelihood of infrastructure failure. Additionally, green infrastructure needs are also included over the next five years

due to the need to meet water quality regulatory deadlines from the RWQCB that are currently set for 2031.

<b>Key Components of Stormwater Needs</b>			
<i>(\$ in millions)</i>			
	<b>Needs</b>	<b>Funded</b>	<b>Gap</b>
Flood Resilience	\$ 3,382.3	\$ 383.9	\$ 2,998.4
<i>New Emergencies</i>	<i>150.0</i>	<i>150.0</i>	-
Green Infrastructure	2,128.2	41.4	2,086.9
<b>Total</b>	<b>\$ 5,510.5</b>	<b>\$ 425.2</b>	<b>\$ 5,085.3</b>

Flood resilience funding needs are driven by:

- \$1.7 billion for new projects reconstructing or replacing failed or undersized drainage facilities citywide, all of which is funded
- \$259.8 million for pump station rehabilitation projects, all of which is unfunded
- \$112.6 million to continue the Jamacha Drainage Channel Upgrade, of which \$12.7 million is funded
- \$99.9 million to continue the Beta Street Channel and storm drain improvement which is fully supported by WIFIA loan funds in FY 2028
- \$99.6 million to mitigate flooding, replace and upsize aging storm drains and outfall to the bay of the Switzer Creek drainage system, all of which is unfunded
- \$82.8 million to continue Upper Auburn Creek Revitalization, all of which is unfunded

Green infrastructure funding needs are driven by:

- \$2.0 billion for new green infrastructure projects, of which \$18.0 million is assumed to be funded by the Climate Equity Fund
- \$112.1 million to continue Los Penasquitos Lagoon Restoration Phase 1, all of which is unfunded

Although funding needs significantly increase throughout the outlook period, actual funding available drops from \$151.0 million in FY 2028 to about \$50.0 million in future years, with the vast majority of remaining funding going towards either emergency projects or in-house repair crews. This is largely due to a drop in expected availability of WIFIA loan funds, nearly \$100 million of which is planned for Beta Street Channel and storm drain improvements.

Under the master agreement with the federal Environmental Protection Agency, the WIFIA loan will fund 49% (or \$359.2 million) of \$733.0 million in project costs, with the City using other sources for its 51% match of \$373.8 million. The City executed the first WIFIA credit agreement in the amount of \$225 million to be used on identified stormwater projects. The remaining \$134 million is reflected in the CIP Outlook's available funding sources. The Department of Finance anticipates seeking future Council action to approve additional debt appropriations for remaining matching funds estimated at \$57.0 million.

In its November 13, 2025 update to the Environment Committee, the Stormwater Department discussed several challenges related to its capital needs. First, cost escalations have led to projects envisioned for construction with WIFIA funds stopping at the design phase. Due to budget constraints, the department also only does limited planning and design of CIP projects beyond the WIFIA program. After FY 2028, there will be very little WIFIA loan funds left for stormwater projects, and those remaining funds are currently allocated to existing projects. For context, the WIFIA investment will allow six miles of high risk corrugated metal pipe to be addressed, though 20 miles will remain unaddressed. Finally, funding allocated to emergency stormwater CIP projects has grown substantially from \$8.9 million in FY 2021 to \$93.6 million in FY 2025, and totaled almost \$200 million during that five year period.

Only repairing infrastructure during emergencies is an extremely inefficient way to replace aging infrastructure. Emergencies are not bid out on a project basis but rather are funded based on actual time spent on a project and materials used, since the cost of emergency repairs cannot be accurately estimated upfront. This makes emergency projects more expensive than a planned, designed, and competitively bid project. Beyond that, while an emergency repair will fix and/or replace an asset, emergency projects are constrained to replacing assets on an “in-kind” basis. This means that if an asset should be upsized, to either prevent further flooding or improve water quality, that project must be undertaken again following the emergency spending.

#### Streets and Roads – Pavement

Street repaving needs over the five-year period total \$969.6 million, which is an increase of \$132.1 million, or 16%, over last year’s report. However, funding for street paving has *decreased* by \$240.4 million, or 45%, from last year’s report as there is no funding anticipated being available from the Infrastructure Fund and less financing assumed to be allocated for pavement needs.

Pavement capital needs increase despite an assumption that the City will maintain streets in a lower condition because there is an increase in streets due for treatments in FY 2031. However, as stated in the CIP Outlook, when including operations and maintenance activities, total needs decreased by \$647.5 million compared to last year’s report.

Instead of assuming costs to maintain an overall Pavement Condition Index (PCI) of 70 which is considered “good” condition, this year’s Outlook projects costs to maintain streets at a PCI of 65 which is considered “fair”. This is in alignment with recommendations in the Pavement Management Plan (PMP) which was updated in 2025. The updated plan states, “[d]ue to the current budget deficit, the funding scenario to maintain a PCI of 65 is the more feasible funding approach compared to the funding needed to reach a PCI of 70.” The PMP further states that to maintain a PCI of 65, the ten-year financial need is \$1.7 billion for maintenance and capital costs, with FY 2027 needing about \$120 million for capital projects. The CIP Outlook for FY 2027 reflects this funding need, showing a need for \$120 million in new projects to maintain a PCI of 65, as well as an additional \$104.6 million– which was not included in the PMP – to continue existing projects that had previously been only partially funded. Of this amount, \$291.7 million is funded in the Outlook. Given the funding gap, it is unlikely that PCI of 65 can be maintained without additional resources.

We note that there are \$4.3 million in funding needs reflected in FY 2027 for unimproved streets (\$23.3 million across the five-year period), none of which is funded. Unimproved streets are one of Council's FY 2027 budget priorities. Possible funding sources for such streets could be Trans-Net, General Fund Financing or DIF (if eligible), but this would require defunding another asset type (e.g. other street paving projects or stormwater projects).

### Facilities

Funding needed for existing, expanded, and new facilities totals \$889.7 million in the Outlook, and dollars identified to fill those needs total \$159.3 million. Each facility category is discussed in more detail below.

#### *Existing Facilities*

Total funding needed for Existing Facilities is \$182.6 million with only \$25.4 million anticipated to be available from General Fund financing, creating a funding gap of \$157.2 million over the five year period. This represents a decrease in capital needs compared to last year's report, but this is due to a recategorization of the Police Department Traffic Division project (\$35.0 million) to the expanded facility category. Correcting for this shift, existing facility needs are \$26.5 million higher than last year's CIP Outlook, a 13.9% increase.

The increase is largely driven by two new projects added in this year's report:

- \$44.0 million for upgrades to Fire-Rescue facilities to move away from natural gas usage to comply with Council Policy 900-03. An additional \$39.6 million is anticipated to be needed in years beyond FY 2032. (*unfunded*)
- \$20.0 million is for Police Range Refurbishment Phase II – Remediation (*unfunded*)

Offsetting these increases is approximately \$40 million worth of projects that were included in last year's report but are not in this year's. The Department of General Services (DGS) coordinates with AMDs to keep or remove project needs from the Outlook based on updated information and requests (e.g. revised project scopes that allow them to be completed in the operating budget, accepting limited functionality of certain facilities, or changing priorities). A series of library roof and HVAC projects were inadvertently left out of this year's report and will likely return in next year's Outlook.

A total of \$661.3 million in funding needs is included for FY 2032 and beyond to fund the deferred capital backlog identified in the 2014-2016 facility condition assessments.<sup>11</sup> When Facilities was under the E&CP Department, the CIP Outlook included a portion of the deferred capital needs backlog within the Outlook period. Since Facilities was moved to DGS, that number has carried forward and has been adjusted largely based on inflation. In this year's CIP Outlook, \$78.4 million is included within the five-year period, but per DGS, these needs are no longer necessarily attributed to the condition assessments but rather to general needs anticipated during the Outlook period as part of normal asset lifecycle demands. To have a more robust CIP Outlook and

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<sup>11</sup> Since these needs are outside of the outlook period, funding for them will be determined in future CIP Outlook reports.

strengthen infrastructure planning, it will be important for future Outlooks to clearly identify and specify these needs and whether they are for specific projects, anticipated emergencies, and/or related to unaddressed condition assessment items. Ultimately, a comprehensive<sup>12</sup> updated facility condition assessment will be needed to fully understand the City’s existing facility needs and which ones are most pressing.<sup>13</sup> Once that occurs, existing facility capital needs reflected in the Outlook will likely be much higher.

*Expanded and New Facilities*

Needs for Expanded and New Facilities total \$672.1 million in the Outlook, which is a \$72.5 million or 12% increase over last year’s report. Anticipated funding for these facilities totals \$133.9 million, creating a funding gap of \$538.2 million.

Almost one quarter of the needs are attributed to Expanded Facilities (\$158.0 million), including the Fire-Rescue Air Ops Facility, Ocean Beach Branch Library, and renovation and remodel of Police Plaza (formerly the Chargers Training Facility located in Kearny Mesa). Of this amount, only \$5.6 million is anticipated to be funded through donations, Citywide Fire DIF, and Community DIF.

The remaining over 80% of the needs are attributed to New Facilities, totaling \$549.1 million over the next five years, of which only \$128.4 million is anticipated to have funding. These are for new fire, police, and lifeguard, libraries, and fleet facilities as delineated in the table below.

<b>New Facilities Needs and Funding</b>		
<i>(\$ in millions)</i>		
<b>Facility</b>	<b>Needs</b>	<b>Funding</b>
Fire	\$ 338.1	\$ 64.2
Police	105.7	-
Lifeguard	82.2	43.7
Library	20.5	20.5
Fleet	2.6	-
<b>Total</b>	<b>\$ 549.1</b>	<b>\$ 128.4</b>

The largest project is a new training center for the Fire Department with costs totaling \$249.6 million (updated costs may be closer to \$373 million), for which no funding has been identified. A new training center is needed because the current facility located at the Naval Training Center (NTC) Station is expected to be repurposed as a part of the Pure Water program in FY 2029. A feasibility study is currently underway but given the magnitude of the costs and the impending need to relocate, the Fire-Rescue Department is exploring ways to decentralize training to different sites until a permanent facility is completed.

<sup>12</sup> Some facilities, such as operations yards, were not included in the prior condition assessments.

<sup>13</sup> In September 2025, the Budget & Government Efficiency Committee approved an as-needed contract to conduct facilities condition assessments. However, funding for them has not been identified.

Both Fire Station 51-Skyline Hills and Fairmount Avenue Fire Station continue to be high priority fire stations to close response time gaps. Only Skyline Hills is fully funded at \$29.3 million in General Fund financing, while Fairmount lacks funding. Fire Station 49 Otay Mesa is assumed to be fully funded at \$33.9 million using Otay Mesa Enhanced Infrastructure Financing District funds.

New Police station capital needs total \$105.7 million, for which no funding is anticipated. Almost all capital needs are in FY 2031 for a new Academy and SWAT building to be located at the Police Plaza site, as well as a new Firearm Training Facility.

New lifeguard station capital needs total \$82.2 million, of which \$43.7 million is funded. The Mission Beach Lifeguard Station comprises most of the needs at \$43.7 million with two associated projects: 1) for emergency repairs and temporary facilities, and 2) for the long-term replacement facility. The projects are anticipated to be funded with \$35.3 million from General Fund financing (\$23.3 million), Mission Bay Improvements Fund (\$10.0 million), and Citywide Fire DIF (\$2.0 million).

The one new library included in the CIP Outlook is the San Carlos Library which is assumed to be funded incrementally throughout the outlook period at \$20.5 million with the use of Citywide Library DIF, though an additional \$17.9 million expected to be needed in FY 2032 and beyond.

## **City Council Infrastructure Budget Priorities**

As outlined in our Office's report on the [FY 2027 Updated City Council Budget Priorities](#), Councilmembers expressed strong support for a broad range of infrastructure needs. A majority of Councilmembers prioritized transportation and mobility safety, streets, stormwater, and sidewalk projects, as shown in the following table. A majority also emphasized the need for new facilities or upgrades to existing facilities, including those managed by Fire-Rescue (fire stations and lifeguard stations), Libraries, and Parks & Recreation.

In developing the CIP Outlook, AMDs reviewed Council budget priorities prior to matching funds to projects. Although a significant amount of infrastructure priorities is planned to be funded in FY 2027, there are many left with large funding gaps like streetlights, traffic signals, street repaving, stormwater, sidewalks, and existing facilities. Additionally, no funding is anticipated for unimproved streets.

As the CIP Outlook is an indicator of what infrastructure priorities will be reflected in the proposed budget, if the proposed budget does not adequately address Council priorities, Council could consider reallocating eligible funding to better align with its infrastructure priorities. However, because funding is so limited, prioritizing infrastructure needs will come with difficult tradeoffs and challenges. For instance, General Fund financing is the most flexible funding source available to the CIP and can be used for any General Fund capital need, but \$30 million in FY 2027 is set aside for anticipated stormwater emergency projects. Additionally, most other funding sources are restricted by asset type or geographic location and cannot be easily reallocated.

<b>FY 2027 Needs, Funding, and Gap for Council Infrastructure Priorities</b>			
<i>(\$ in millions)</i>			
<b>Asset Type</b>	<b>Needs</b>	<b>Funding</b>	<b>Gap</b>
<b>Transportation &amp; Mobility Safety</b>			
Pedestrian & Bicycle Safety <sup>1</sup>	\$ 23.1	\$ 14.7	\$ 8.5
Traffic Calming	0.5	0.5	-
Streetlights	29.1	1.9	27.3
Traffic Signals	20.5	4.3	16.2
<b>Streets</b>			
Pavement	229.3	36.5	192.8
Modifications	12.9	12.6	0.3
Unimproved Streets	4.3	-	4.3
<b>Stormwater</b>	181.1	125.5	55.6
<b>Sidewalks</b>	45.5	1.0	44.5
<b>Facilities</b>			
Existing Facilities	25.3	2.1	23.2
Parks & Recreation	31.7	31.7	-
<b>New/Expanded</b>			
Lifeguard	7.4	7.4	-
Fire	70.2	37.5	32.8
Library	4.9	4.9	-
<b>Total</b>	<b>\$ 685.9</b>	<b>\$ 280.5</b>	<b>\$ 405.4</b>

<sup>1</sup> Many Pedestrian & Bicycle Safety projects, or those related to Vision Zero, are also included under street modifications, traffic calming, and sidewalks.

<sup>2</sup> Americans with Disabilities Act improvement projects were also a Council priority but those improvements are components of other projects.

## Key Takeaways

The CIP Outlook continues to be an essential tool for understanding and communicating the City’s complex and growing infrastructure needs. The detailed assessment of capital needs and available funding performed by E&CP, DOF, and AMDs enables more informed and transparent conversations about infrastructure priorities. Through our review of the report, we identified the following key takeaways.

### Stormwater Needs Dominate

Stormwater capital needs play a dominant role in the CIP Outlook. It is the asset type with the largest capital need, accounting for almost all the growth in needs throughout the five year outlook period, and almost all the growth in the funding gap as compared to last year’s outlook. Aging stormwater infrastructure also increases the City’s liability and related General Fund costs. Notably, on February 23, the City Council approved a settlement of \$6.3 million relating to a portion of January 22, 2024 flooding litigation, and that was paid by the Public Liability Fund which is ultimately supported by transfers from the General Fund.

Emergency projects make up a growing share of Stormwater’s project portfolio, which is an extremely inefficient and costly way to replace aging infrastructure.<sup>14</sup> When greater levels of emergency needs arise than the funding allocated for them, other General Fund projects must either be delayed or defunded in order to pay for those emergency repairs. Given the magnitude of stormwater needs, the strain it places on the City’s limited resources, and the risks that failed infrastructure presents for the City and the public, action should be taken to secure additional dedicated funding. Addressing stormwater capital needs would substantially reduce the \$7.8 billion funding gap and free up resources for other critical CIP priorities.

### **Underinvestment in Maintenance and Rising Costs Compound Capital Infrastructure Challenges**

The CIP Outlook reflects the City’s funded and unfunded capital infrastructure needs, but there are also significant unfunded maintenance needs that, if left unaddressed, will lead to increased capital needs. Although stormwater is receiving significant funding from WIFIA loan proceeds, that only covers a portion of its CIP needs and none of the operating and maintenance costs required to maintain new assets in a state of good repair. In the department’s annual update to the Environment Committee in November, significant amounts of unfunded operating and maintenance costs were shown over the next five years, which will likely exacerbate future capital needs.

Chronic underfunding of ongoing maintenance and repairs continues to drive increased needs in Existing Facilities. A recent City Auditor performance audit estimated deferred maintenance liabilities likely exceed \$1 billion. Because City departments are not provided dedicated facility maintenance budgets, they rely on an understaffed and underfunded Facilities Division that must operate largely reactively – break-fix work constitutes 81% of its work – rather than performing preventative maintenance. Facilities staffing has been reduced multiple times over the years, and additional reductions may be considered in the FY 2027 Proposed Budget, potentially affecting libraries, recreation centers, fire stations, and other public facilities. While deferring maintenance can reduce costs in the short term, it also significantly increases long-term expenses as facilities and components deteriorate more quickly. As new facilities come online, such as new fire stations as forecasted in the Outlook, it is critical that maintenance plans be both developed and funded.

While significant maintenance and capital needs continue to be deferred, the CIP Outlook report cites rising project costs from material inflation, labor shortages, regulatory requirements, and higher financing costs, and these will further reduce the ability to conduct infrastructure work with the limited funding the City has.

Given limited resources on both the operating and capital sides of the budget, the City must increasingly focus on prioritizing and completing existing projects, while limiting new infrastructure unless it includes funding for ongoing maintenance. This principle guided the development of this year’s CIP Outlook. That noted, a stronger emphasis on finishing *current* projects and maintaining

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<sup>14</sup> To illustrate, according to the [Storm Water Funding Strategy](#), in November 2020 bypass pumps were being used to temporarily divert stormwater runoff at 24 locations that had either failed or deficient infrastructure. The report stated that, at that time, the City had invested more in temporary pipe bypass fixes (\$16.6 million) at these sites than it would have cost to replace or upgrade the failed pipes (\$14.1 million).

*existing* assets will also lead to challenges in expanding service levels or delivering new infrastructure needed to support key policy goals, including providing more significant infrastructure investments in underserved communities and implementation of the Climate Action Plan. To align expectations with available resources, the City may need to consider further adjusting infrastructure service level standards, as demonstrated by the recent reduction in street repaving service level standard from a PCI of 70 to 65.

### **The Need for Alternative Revenue Streams**

The CIP Outlook acknowledges that existing funding sources are insufficient to meet the City's general fund infrastructure needs. Some potential additional revenue mechanisms include:

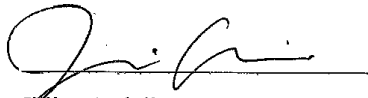
- Sales Tax Measure
- General Obligation (GO) Bond Program
- Stormwater Revenue Increase

Any additional funding stream for capital infrastructure should also be paired with an asset management plan and funding for maintenance to ensure assets meet service levels at the lowest and most sustainable cost. Additional information on those potential revenue streams can be found in [IBA Report 25-36 Review of the Mayor's FY 2027-2031 Five-Year Financial Outlook](#), and additional information on stormwater fees and the fee approval process can be found in [IBA Report 21-04 Analysis of the Stormwater Division Funding Strategy Report](#).

## **CONCLUSION**

The FY 2027–2031 CIP Outlook underscores the growing gap between the City's critical infrastructure needs and the limited resources available to meet them. While having a clear capital plan is essential, it must be supported by sufficient resources to be effective. Stormwater requirements, aging facilities, and long-standing underinvestment in maintenance continue to place significant pressure on the General Fund and heighten both financial and operational risks. Without new, sustainable revenue sources, the City will continue to be unable to address its \$7.8 billion funding gap and maintain service levels desired by the public. Addressing Stormwater's substantial unmet needs would have the greatest impact on reducing the City's funding gap, freeing up resources for other critical CIP priorities, and potentially creating a more efficient, proactive approach to maintaining the City's aging infrastructure.

As the City moves towards the upcoming budget season, it is important to note that the City Council will ultimately have the authority to allocate funding to its own priorities – including infrastructure and capital priorities – provided that the final adopted budget remains balanced. For the City's Capital Improvements Program (CIP), Council will have the most discretion over the allocation of flexible funding sources, like General Fund financing, to fund priority CIP projects. However, because flexible funding is so limited, prioritizing infrastructure needs will come with difficult tradeoffs.



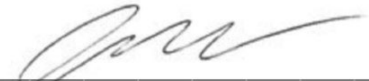
Jillian Andolina  
Deputy Director



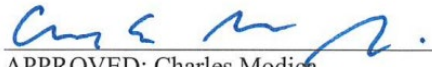
Erin Noel  
Senior Fiscal and Policy Analyst



Baku Patel  
Senior Fiscal and Policy Analyst



Jordan More  
Principal Fiscal and Policy Analyst



APPROVED: Charles Modica  
Independent Budget Analyst