



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**IBA Report Number:** 20-03

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# IBA Review of the FY 2021-2025 Five-Year Capital Infrastructure Planning Outlook

## OVERVIEW

On January 29, 2020, the Active Transportation and Infrastructure Committee heard a report on the City's FY 2021 – 2025 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 2021 Proposed Budget for the Capital Improvements Program (CIP).

Our report discusses capital needs and funding in more depth, including the new categorization of priority and discretionary capital needs. We also provide a closer look at storm water needs and plans to address them in Attachment 1 of this report. Our report also discusses how Council may want to reflect different priorities than those reflected in the CIP Outlook; how the ability to close the funding gap is constrained by the City's capacity to deliver projects; and what we can do to prepare to implement a long-term funding strategy.

### **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. This plan stemmed from a recommendation 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.

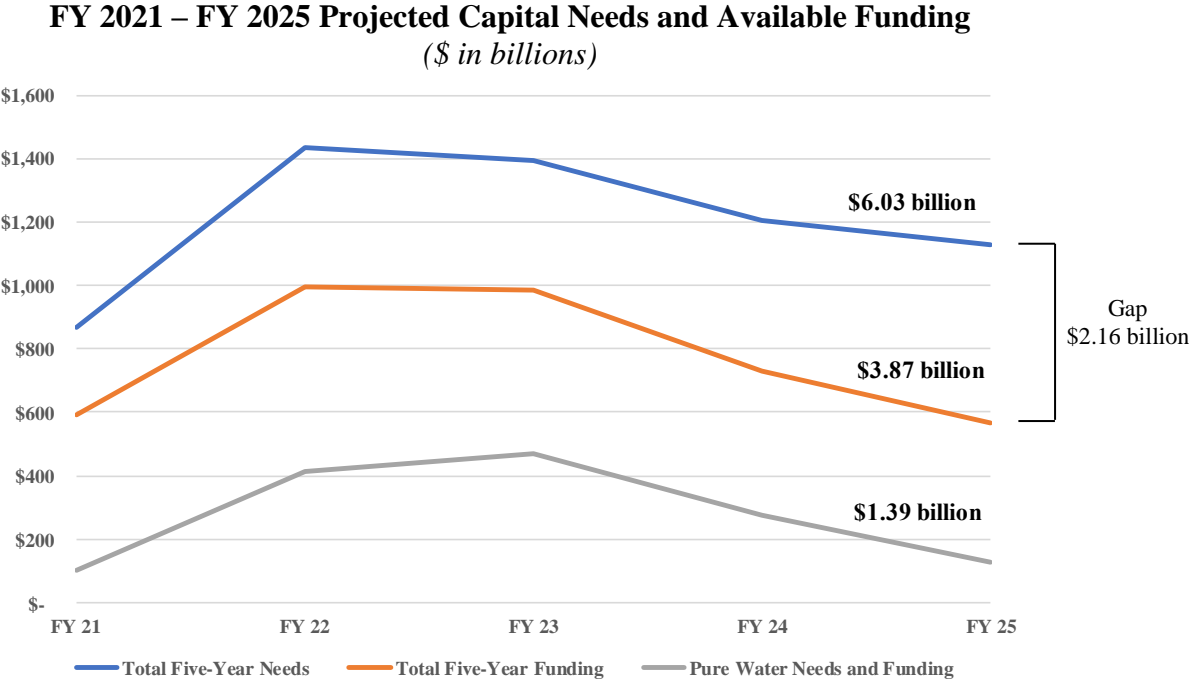
The purpose of the CIP Outlook is to plan for current and future capital needs, and project available funding to better inform budget decisions. Because capital needs far exceed funding available, this report details which assets have projected funding gaps. The City makes strategic investments in capital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

# FISCAL/POLICY DISCUSSION

## High-Level Overview of CIP Outlook

The figure below reflects the projected additional budget required to meet capital infrastructure needs, the projected funding available, and the gap between the amount of funding needed and the amount of funding available over the five-year Outlook period. It also reflects the trendline for the Pure Water project as it remains a significant driver of the overall CIP. The CIP Outlook estimates total capital needs of \$6.03 billion and projected funding available to support these needs of \$3.87 billion from FY 2021 to FY 2025, resulting in a \$2.16 billion funding gap. The projected funding gap has grown by 70% within the last three years, although the methodology to develop the CIP Outlook has evolved over the years.

Projected capital needs and revenue are expected to peak in FY 2022 and then decline through the remaining Outlook period. Over half of the increase in needs from FY 2021 to FY 2022 is due to the Pure Water Project.<sup>1</sup> This year’s report also reflects the delays in the Pure Water project due to litigation, as the wind down of Phase I of the project has been pushed out from FY 2022 in last year’s report, to FY 2024.



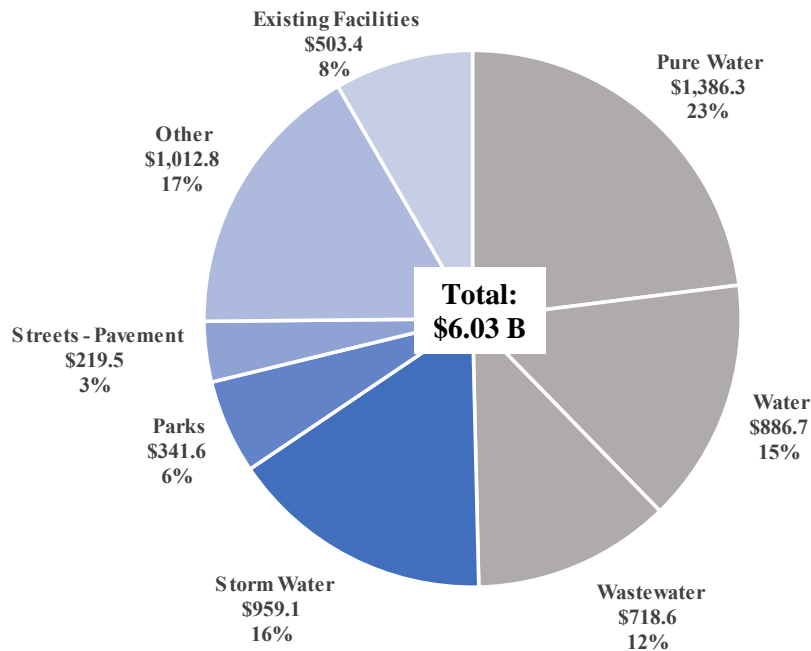
<sup>1</sup> The Pure Water Project turns recycled water into drinkable water through water purification technology. Through implementation of this project, the City aims to supply one-third of its own water by FY 2035.

## Projected Capital Needs Over the Outlook Period

*Capital Needs Increased by 7%, Largest Contributors are Storm Water and Existing Facilities*

The growth in total capital needs identified over the Outlook period of 7% (or \$404.1 million) is less significant than the growth of 28% (or \$1.23 billion) reflected in last year’s report which was driven by large increases in water, wastewater, and Pure Water needs. Instead, the largest contributors of this year’s growth in capital needs are storm water (\$183.9 million) and existing facilities (\$124.2 million). The pie chart below reflects the composition of the City’s capital needs over the five-year period, totaling \$6.03 billion. The Public Utilities Department’s (PUD) capital needs, shaded in gray, comprise half of the Citywide total, with Pure Water making up almost one quarter of all needs.

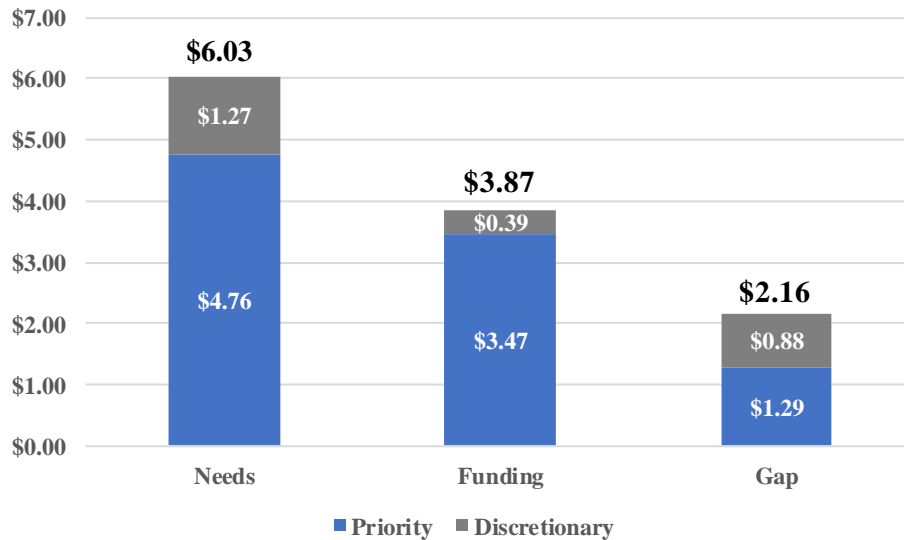
**FY 2021 - 2025 Capital Needs by Asset Type**  
 (\$ in millions)



Responding to our Office’s recommendations and Councilmember direction provided last year, this year’s CIP Outlook breaks out capital needs into two categories: priority and discretionary. Priority needs address life, safety, and legal mandates, and could potentially impact the core operation of a facility. They could also include Mayoral and Council priorities. Discretionary projects are the remaining needs that would allow the City to meet and exceed services to the community. This additional detail allows for better understanding of the most urgent needs facing the City which can also better inform future resource allocation.

The following table summarizes the total projected needs, funding, and gap broken into the two categories. Storm water, existing facilities, and traffic signals make up almost 90% of the \$1.29 billion funding gap for priority needs.

**FY 2021 – 2025 Projected Priority and Discretionary Needs, Funding, and Gap**  
*(\$ in billions)*



*Additional Detail on Priority and Discretionary Needs*

There are four asset types that 100% of the projected needs were categorized as priority: Pure Water, storm water, street pavement, and traffic signals. Many asset types have needs that straddle both priority and discretionary categories. For example, many of the parks priority infrastructure needs are: legal mandates related to creating or restoring ADA<sup>2</sup> access, addressing coastal erosion and access, and seismic retrofit. Discretionary park needs largely include design and construction of new or improvements to parks, recreation centers, and comfort stations.

The following provides additional detail to clarify the needs of notable asset types.

Storm Water Needs Approach \$1 Billion Over the Outlook Period

Storm water needs make up both the highest level of unmet priority need, as well as the second highest level of need over the five-year period (with only the Pure Water program being higher). This need, at a level of \$959.1 million, has grown by \$183.9 million since the last Outlook, mostly as a result of spreading the backlog from prior years over the new period, as well as the fact that new needs in FY 2025 are higher than any year since the creation of the Watershed Asset Management Plan (WAMP). FY 2025 is the largest year to date for need at just under \$255.0 million. However, it is unclear in the document as to what this need is made up of and why the City is so far behind. **Attachment 1 of this report addresses this, as well as discusses future needs beyond the Outlook period and plans to address them.**

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<sup>2</sup> Americans with Disabilities Act

### Existing Facility Needs Increase by 33%

Total needs for existing facilities over the Outlook period are \$503.4 million, an increase of about 33% over last year's report. This is driven by needs identified in the facility condition assessment. According to staff, the increase is due to additional facility needs coming due in the Outlook period, deferred prior year needs, and increases in construction costs. Facilities infrastructure needs are both priority and discretionary and cover several asset-management departments. About 60% (or \$166.5 million) of all facilities priority needs, and almost all discretionary needs, are backlog capital repairs identified by the facilities condition assessment. The difference being, priority facility needs are those that can lead to a partial shutdown of a facility if not addressed.

One significant priority project included in the CIP Outlook is the Kearny Mesa Repair Facility (previously referred to as Othello). In our review of the Mayor's FY 2021-2025 Five-Year Financial Outlook, we noted that funding was not included for completion of the improvements needed to convert the site into a repair facility for the fire fleet. We also noted that previous cost estimates ranged from \$6.5 to \$17.0 million. The Capital Outlook includes \$11.9 million in FY 2021; however, we have since received an updated cost estimate of \$14.8 million for construction and asbestos abatement. This is in addition to the \$1.0 million that was budgeted in the project in FY 2020, bringing the total estimated cost up to \$15.8 million to complete the Repair Facility. Full funding will be needed in FY 2021 in order to initiate the construction contract, which would allow Fleet to begin using the facility in early calendar year 2022. The funding source identified in the Capital Outlook is the Fleet Services Internal Services Fund. We note that about 72% of this fund is supported by the General Fund (or roughly \$10.6 million of the needed funding). The Fleet Department indicated that they and the Department of Finance are evaluating funding mechanisms.

One significant discretionary (and unfunded) project is for Public Works Engineering & Capital Projects to occupy office buildings at Montgomery Field, referred to as Montgomery Field Engineering Campus, for \$11.0 million. According to staff, the building lease housing existing staff is nearing an end. We also note another similar discretionary need of \$30.0 million included, also unfunded, to provide a *new* facility located at Chollas Operations Yard to house Transportation and Storm Water (TSW) staff who are currently scattered in various buildings.

### Street Modification Needs Increased by 10%

Street modification needs increased by 10% in this year's report, totaling \$121.5 million and span both priority and discretionary categories. Transportation safety projects are prioritized needs and include addressing all identified needs related to guard rails within five years, and addressing median installation and traffic calming needs within ten years. In addition, Vision Zero projects are considered priorities, including Market Street-47<sup>th</sup> to Euclid Complete Street, Streamview Drive Improvements Phase 2, and University Avenue Complete Street Phase 1. The largest discretionary need is related to the Utilities Undergrounding Program, totaling \$50.0 million over the Outlook period and is funded by the Undergrounding Utilities Fund. This reflects an increase in implementation of the program as the current annual funding level is \$5.0 million per year.

### Bicycle Facilities Needs Increased by 2%

Though needs for bicycle facilities have slightly increased since last year's report totaling \$131.7 million, the department's goal for miles of bike lanes improved or installed per year has been reduced from 50 in last year's report to 40. This is closer to what actual production has been in the past three years. However, the City was able to achieve 49 miles in FY 2019. The budget document for this Key Performance Indicator notes that staff has been redirected to complete the preliminary engineering of the Downtown Mobility Plan implementation. As stated in the report, implementation of other programs such as the Utilities Undergrounding Program, Street Maintenance Program, and replacement of water and sewer pipeline replacement projects helps the department achieve its annual bike lane miles goal.

Bicycle facilities needs are categorized as both priority and discretionary. The priority needs are costs to implement the Coastal Rail Trail project, totaling \$20.0 million. The other \$111.7 million in needs are categorized as discretionary and reflect the implementation of the Bicycle Master Plan within 20 years. The plan, among other things, identifies the needed build out of the bike facilities network. At the time the plan was developed in 2013, the City had already about 47% of the network built out. Since then, the City has made progress on an additional almost 4%.

### Sidewalk Needs Remain Constant

The City's sidewalk needs remain virtually unchanged from last year's CIP Outlook, totaling \$152.8 million. Sidewalk replacement is categorized as priority while new sidewalks are considered discretionary. Priority capital needs of \$61.4 million reflect the department's goal of replacing all defective sidewalks within ten years and addressing ADA complaints. The Outlook includes about \$9.6 million annually for sidewalk replacement after assuming a one-year ramp up of staff. Discretionary needs reflect TSW installing about six miles of sidewalk per year, totaling \$91.4 million during the Outlook period. The department estimates that there are about 700 miles of missing sidewalks.

The funding level of \$22.0 million projected for sidewalk replacement is significantly less than the amount needed to clear the sidewalk replacement backlog in ten years. However, we note that the FY 2019 budget provided \$5.0 million for sidewalk replacement, but those funds have not yet been encumbered into contracts as of writing of this report. They are anticipated to be encumbered this spring and summer. **Before investing significant additional funding into sidewalk repair, Council should be informed of what is needed to spend down existing balances.**

If Council wishes to increase capacity on sidewalk repair in the upcoming budget, TSW has stated that additional staff is necessary. Out of the 23 positions requested in the Financial Outlook, three are related to increasing contract capacity from \$5 million per year (though not currently being met) to \$9.0-\$10.0 million.

### Landfill Needs Eliminated

The Outlook reflects the elimination of \$49.4 million in landfill capital needs that were reflected in last year's report. The needs identified in last year's report have either since been allocated funding; are being funded within existing project budgets; or are being reevaluated.

## Projected Funding Over the Outlook Period

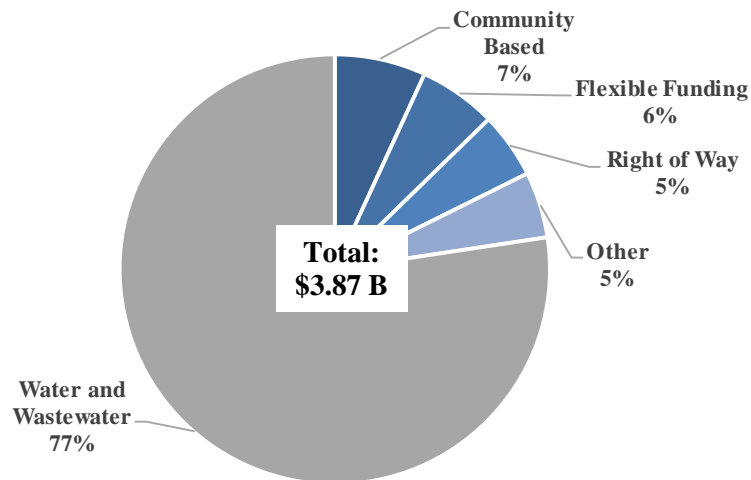
### *Projected Funding Increased by 3%*

The funding projected in the CIP Outlook increased by about 3%, totaling \$3.87 billion. As shown in the pie chart below, over three-quarters of funding for the CIP comes from water and wastewater fees which can only go to support improvements to water and wastewater infrastructure. Currently, PUD is conducting a cost of service study to evaluate the level at which these fees should be set. The CIP Outlook assumes sufficient rate capacity is obtained to support capital needs throughout the five-year projection.

Assets that do not have a dedicated funding source must compete for limited resources. Allocation of these resources is done within the parameters of each funding source's allowable use, which could require spending in a certain community or on a specific asset type. Many capital needs do not meet these restrictions and therefore must rely on flexible funding sources.

The pie chart below shows how much funding is projected over the Outlook period in five major categories: water and wastewater restricted-funds; community-based funds; flexible funding; funding restricted for use in the right-of-way; and other restricted funding sources (i.e. those that must be spent on certain assets or projects). Flexible funding sources (Infrastructure Fund and financing) only make up 6% of projected revenue during the Outlook period.<sup>3</sup>

**FY 2021 - FY 2025 Projected Funding by Use**  
(*\$ in millions*)



### *Some Funding Assumptions May Not Be Realized*

In this section we note some assumptions that may not be realized. If this is the case, it would augment the \$2.16 billion five-year funding gap.

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<sup>3</sup> Capital Outlay funds are also a 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.

Community-based funding includes Facility Benefit Assessment (FBA) and Development Impact Fee (DIF) revenue. These fund sources come from impact fees based on private development activity and generally must be spent in the community from which they were generated. The CIP Outlook allocates \$85.7 million out of the total projected \$155.0 million in FBA on the design and/or construction of nine fire stations.<sup>4</sup> Regardless of the ability to produce to this level, this allocation assumes the revenue is generated in the appropriate community for the desired fire station and comes in at a sufficient level. Impact fee revenue generation varies across communities according to their remaining development potential and current fee rates. Projects also have to be included in the plan that identifies needed public facilities in each community (known as an Impact Fee Study or Public Facilities Financing Plan). Some projects assumed for impact fee funding are not included in these plans.

The CIP Outlook also assumes significant funding will be available for CIP projects in the right-of-way using Gas Tax and Infrastructure Fund. However, the FY 2020 Adopted Budget allocated \$16.5 million in Infrastructure Funds that both directly and indirectly – by freeing up Gas Tax for other activities – benefitted the General Fund. Because the Infrastructure Fund and Gas Tax were used to mitigate the General Fund shortfall in the FY 2020 Adopted Budget, this may need to carry forward unless additional funding is identified, leaving less available for the CIP.

Finally, the CIP Outlook assumes a total of \$181.5 million in commercial paper proceeds will be available for General Fund assets during the Outlook period. This adds to the initial \$88.5 million that was authorized in 2018, for a total financing plan of \$270.0 million. According to staff, a request for budget authority and project types for the next phase of borrowing is anticipated to come to Council in FY 2021, though issuance of the debt is planned for FY 2022. This reflects a one-year delay from last year's report.

In FY 2019, \$19.5 million in commercial paper proceeds was spent, excluding encumbrances. If expenditures in this current fiscal year keep at the current pace, an additional roughly \$30 million will be spent, leaving another roughly \$40 million to be spent down in FY 2021. Therefore, it will likely take the City a total of three fiscal years to spend the first phase of commercial paper proceeds, while the next two phases of \$88.5 million each are anticipated to be spent over two years. Any future delay in the General Fund Commercial Paper Program would mean less funding available for General Fund capital needs during the Outlook period.

### **Funding Gap Increased by 16%**

#### *Not Enough Funding Requires Resource Prioritization*

The CIP Outlook estimates that capital needs will exceed projected funding available by \$2.16 billion, which is a 16% increase over last year's report (or \$298.1 million). The overall net increase in the funding gap over last year's report is almost all attributed to existing facilities growing by \$143.8 million and storm water growing by \$137.4 million.

The table below shows that all Enterprise assets, or self-supporting assets with a dedicated funding source, do not have a funding gap. It also shows that nearly \$3 billion in General Fund capital

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<sup>4</sup> This includes design and construction of five new stations and one replacement. Design funding is assumed for three stations.



needs, or those without a dedicated fund source, must compete with \$834.9 million in projected available funding, much of which has its own funding restrictions. Therefore, decisions must be made to fund some asset types over others using more flexible funding sources. These sources include TransNet funds which are eligible for multiple uses in the right-of-way to reduce congestion, and the Infrastructure Fund and financing, which can fund any General Fund asset. Fully funding street pavement using these sources shows that it continues to be the top priority among General Fund assets.

**Summary of Total Projected Capital Needs, Funding, and Gap in FY 2021-2025**

*(\$ in millions)*

<b>Asset</b>	<b>Needs</b>	<b>Funding</b>	<b>Gap</b>	<b>Portion of Gap</b>
Storm Water	\$ 959.1	\$ 101.9	\$ 857.2	40%
Existing Facilities	503.4	108.1	395.3	18%
Parks	341.6	123.5	218.1	10%
Streetlights	199.3	4.0	195.3	9%
Traffic Signals and ITS	148.5	27.4	121.2	6%
Bike Facilities	131.7	20.0	111.7	5%
Sidewalks	152.8	45.0	107.8	5%
Bridges	80.1	28.2	51.9	2%
Streets - Modifications	121.5	79.4	42.1	2%
New Libraries	30.6	-	30.6	1%
New Facilities	30.0	-	30.0	1%
New Lifeguard Stations	6.8	5.8	1.0	0%
Streets - Pavement	219.5	219.5	-	0%
New Fire Stations	72.2	72.2	-	0%
<b>General Fund Asset Total</b>	<b>\$ 2,997.1</b>	<b>\$ 834.9</b>	<b>\$ 2,162.2</b>	<b>100%</b>
Pure Water	1,386.3	1,386.3	-	46%
Water	886.7	886.7	-	29%
Wastewater	718.6	718.6	-	24%
Airports	35.2	35.2	-	1%
Golf	4.1	4.1	-	0%
<b>Enterprise Asset Total</b>	<b>\$ 3,030.8</b>	<b>\$ 3,030.8</b>	<b>-</b>	<b>100%</b>

**Council Can Reflect Different Priorities Through Adoption of FY 2021 Budget**

When it adopts the FY 2021 budget, Council can reflect different priorities than shown above by choosing to fund different eligible assets with TransNet, Infrastructure Fund, and financing. Most of the \$80.2 million projected for these funds in FY 2021 is anticipated to support streets pavement, storm water, and existing facilities. Since street pavement is the only fully-funded asset, **Council could choose to reallocate some of this funding for other priorities such as additional streetlights, street modifications, or traffic signals, which are capital priorities supported by most districts in Councilmember Budget Priority Memoranda. Or it could choose to increase funding for priority storm water and facility needs since the funding gaps are so high.** We also note that, Road Maintenance and Rehabilitation Act funds, currently anticipated to primarily support slurry seal maintenance, can 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.

The table below reflects the capital priorities that the majority of Councilmembers supported in their Budget Priority Memoranda, including the level of anticipated funding and gap for FY 2021.

**FY 2021 Needs, Funding, and Gap for Assets Prioritized by Councilmembers**  
*(\$ in millions)*

Asset Type	Need	Funding	Gap
Streets - Pavement	\$ 43.9	\$ 43.9	\$ -
Library Facilities <sup>1</sup>	7.1	3.0	4.1
Fire Facilities <sup>1</sup>	12.2	2.9	9.2
Parks and Recreation Facilities <sup>1</sup>	47.9	32.5	15.4
<b>Transportation Safety and Mobility</b>			
Street - Modification	23.5	19.7	3.8
New Sidewalks	11.3	8.5	2.8
Sidewalk Replacement	11.0	6.0	5.0
Traffic Signals	28.5	2.5	26.0
Bike Facilities	37.7	4.5	33.2
Streetlights	44.5	2.2	42.3

<sup>1</sup> Includes new and existing facilities

**Closing the Funding Gap Depends on the Capacity to Deliver the CIP**

A critical piece of any strategy to close the funding gap is the CIP’s capacity to deliver projects. The CIP Outlook discusses a regionally strong CIP, making it challenging to compete for staff, as well as private consultants and contractors needed to meet the growing demand of the CIP. Though there are many factors outside of the department’s control, one of the ways the Public Works Department plans to increase the CIP output is to try to reduce its nearly 20% vacancy rate (equating to over 150 vacancies) by 5% each year with more aggressive recruitment. The report assumes that if this were achieved, all other factors held constant, the CIP could increase its capacity from \$600 million up to about \$730 million by the end of the five-year period.

Given that the available funding projected in the CIP Outlook averages about \$770 million per year, it appears that keeping up with the funds that have already been identified will be difficult, especially since the CIP carried forward \$1.06 billion from FY 2019 to FY 2020. Therefore, it is unrealistic that the City currently has the capacity to meet additional demand if funds were identified to close even just the priority funding gap of \$1.29 billion.

**Making Progress Within Current Constraints**

Though additional revenue will eventually be needed to meet the City’s most urgent needs, as well as other discretionary needs that are important in increasing communities’ quality of life, the City must have the capacity to deploy this funding. Our Office has identified several things the City can do to prepare itself for additional capacity so that it can begin to make progress on addressing the funding gap.

### Identify How Funds can be Expended Quicker

Though the biannual CIP Budget Monitoring Report includes a consolidated action that transfers funding from projects that no longer need it to those that do, which is a good cash management practice, we are still seeing significant funding, including flexible fund sources, carried over from year to year in the CIP and delays in the City's financing plan for General Fund assets. Identifying where and why planned expenditures are delayed will help inform future resource allocation and whether additional funding can actually be spent. It will also help determine what actions are needed to spend or optimally redirect existing balances. One example of this is \$5.0 million for sidewalk repair budgeted in FY 2019 that is unspent and has yet to be encumbered.

### Continue to Closely Evaluate Needs and Assumptions That Drive Them

Each year that the Outlook has been developed, the City's capital needs are refined by incorporating updated condition data, additional input, and further analysis. The more capital needs are defined, the better the City can prioritize limited funding as well as inform a long-term funding strategy. Revisiting service level standards, which drive needs reflected in the Outlook, and bringing them to a more reasonable level, wherever possible, can drive down costs. This was done with streetlights as staff reduced the service level standard for installing streetlights to those that have been reviewed and approved by the City.

### Make Strategic Plans for High Priority Assets

As discussed further in Attachment 1, TSW is currently updating the WAMP in order to better inform a financing strategy which should be finalized in January 2021. As currently forecasted, solving the storm water funding gap alone would address 67% of the City's total priority funding gap. Once the targeted need is updated, a funding strategy to meet that need can be developed and the necessary staff to enable delivery of associated projects can be identified. Having similar plans for other high priority assets that address what is needed to deliver projects would assist in the creation of broader long-term funding strategy.

### Mitigate Growth of Future Funding Gap

Prioritizing preventative maintenance and regular capital renewal is critical in mitigating the growth of the funding gap. It is also the most cost-effective way to maintain assets, as opposed to being reactive to emergency needs. In FY 2019 there were 10 emergency storm drain projects with initial capital contract costs totaling \$11.5 million. This is in addition to emergency projects that are ongoing from previous years. To address these needs, funding had to be reallocated from other drainage projects which will need to be backfilled to stay on schedule. Reducing the occurrence of emergency projects would allow existing capital funds to go further.

### Pursue Efficiency Measures

The Public Works Department continues to identify ways that processes can be streamlined so that projects can be implemented more efficiently. The Active Transportation and Infrastructure Committee will soon consider another series of proposed streamlining measures intended to reduce staff time spent on internal processes, as well as time spent on docketing items that come to Council, in exchange for greater transparency. Our Office will be reviewing these proposals. In addition, the Enterprise Asset Management system's asset management component is currently identifying opportunities to bundle CIP projects with multiple assets within the same location. Addressing as many capital needs within a single project may help increase the CIP's capacity.

## CONCLUSION

The CIP Outlook reflects total capital needs over the five-year period of \$6.03 billion and funding available to support these needs totaling \$3.87 billion, resulting in a \$2.16 billion funding gap. This year's CIP report provides additional valuable detail by categorizing capital needs as priority and discretionary. This provides a better understanding on what are the City's most urgent needs that can inform the most impactful allocation of limited resources. However, many discretionary needs must also be addressed.

Addressing the infrastructure funding gap will require more resources, but the City is currently constrained in its ability to meet the *existing* demand of the CIP with already identified funding sources. One major contributing factor is the significant number of vacancies within the Public Works Department which the department plans to reduce significantly. This report offers ways the City can work within these constraints and move toward increasing CIP capacity to be able to carry out a long-term funding strategy to address the funding gap.

As Council prepares for the upcoming budget season, we emphasize that it can choose to reflect different priorities than those reflected in the CIP Outlook. For example, Council could choose to reallocate some funding for street pavement to support other Council priorities such as additional streetlights, street modifications, or traffic signals. Or Council could choose to increase funding for priority storm water and facility needs. Finally, though addressing the sidewalk repair backlog is a priority of most Councilmembers, before investing significant additional funding, Council should be informed on what is needed to spend down existing balances.



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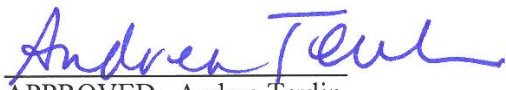
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Independent Budget Analyst

Attachment 1: A Closer Look at Storm Water Capital Needs

## **Attachment 1**

### **A Closer Look at Storm Water Capital Needs**

#### How the Storm Water Need is Determined

The City's storm water needs are driven by the WAMP, which was published in 2013 and updated in 2017. This plan takes into account all of the City's storm water needs, both operating as well as capital, and develops a plan to provide for both the maintenance and improvement of the flood risk management system as well as the development of additional infrastructure to comply with water quality improvement targets, which are set by the Regional Water Quality Control Board (RWQCB). Taken together, the WAMP provides the City's commitment to meeting all of its storm water needs over the long term, with spending plans covering a five-year, ten-year, thirty-year, and even one hundred-year time horizon.

When it comes to the storm water infrastructure needs which are contained in the Capital Outlook, the needs are broken down into two discreet categories: flood risk management and water quality compliance. Flood risk management needs total \$442.1 million, or 46.1% of the total need over the five-year period, while water quality compliance needs are \$516.9 million, or 53.9%.

Flood risk management is the more traditional storm water infrastructure that the City has been developing for a number of years, and includes items such as the corrugated metal pipes, pump stations, and storm drains. To determine the capital financing needs, the City, through the WAMP, does a determination on the life cycles and risk profiles of all the hard assets, and then determines the timeline upon which they all need to be replaced. The WAMP also includes any new flood risk infrastructure that would need to be developed, including additional stream restoration projects as well as storm drain inlets, outlets, and other structures.

Water quality compliance projects focus more on improving the water quality within the storm drain system so that when the water flows to its receiving waters, it is not polluting those waters in a way that is overly detrimental to the surrounding environment. The need for these projects is determined by the water quality standards set by the RWQCB, and those standards are measured in Total Maximum Daily Loads (TMDLs), which include allowable loads for everything from bacteria and nutrients to metals, trash sediment, and other materials. In order to contain these allowable loads, the City must design and implement a number of Best Management Practices (BMPs), which include specific project types such as swales, infiltration and detention basins, and other storm water capture projects. Most of these projects are also known as multi-benefit green infrastructure, as these types of projects can be integrated into other asset types and create new open spaces and other amenities. Water quality compliance also includes the restoration of lagoons and wetlands within the City, including the ongoing restoration of the Los Penasquitos Lagoon.

#### Future Need Beyond the Outlook Period

As the WAMP is currently constructed, the need for storm water projects is going to continue to grow, especially if the City does not address the current backlog of projects. In the FY 2017 update of the WAMP needs, new CIP needs just for storm water over the next five years totals \$752.7 million, with the majority of this need comprised of water quality compliance projects. This is due to the fact that, as currently negotiated, there are numerous TMDL target deadlines over the next few years that the City must comply with in order to avoid penalties for noncompliance, which can reach up to \$10,000 per day per violation. However, the department is currently negotiating

with the RWQCB on a number of TMDL targets. If these negotiations are successful, as they have been in the past, then the amount of infrastructure needed to comply with the water quality standards will decline.

Currently, as mentioned in the CIP Outlook report, the Transportation and Storm Water Department (TSW) is developing a financing plan to address the financing gap for storm water infrastructure. This process will also include an update to the WAMP in order to provide a more accurate assessment of the storm water need based on their negotiations with the RWQCB. Once the department has determined a new long-term need, and the financing available, then the department will propose additional financing resources. The final report is anticipated to be presented to the City Council in January 2021.

#### Addressing the Storm Water Funding Gap – Storm Water Fee Increase

With the WAMP update, there will be a new funding timeline for storm water infrastructure needs, as well as a new financing plan to fully fund the plan. At that time, if necessary, TSW will propose a plan to close the financing gap, including a potential storm water fee increase. This financing will have to cover not only the current gap in CIP funding of \$857.2 million over the next five years, but also an operating funding gap which is estimated to be \$53.3 million over the next five years based on the most recent Financial Outlook.

When discussing a storm water fee increase, it is important to note that the City will need to follow one of potentially three methods to increase the fee:

- Special Tax: This would require a two-thirds majority approval of registered voters within the City that voted at a general or special election. This method, while requiring a high approval rate, also provides more flexibility for funding than a property related fee since it does not have to meet proportionality or benefit nexus requirements.
- Property-related Fee: This method requires both a protest vote, and then subsequently the approval by fifty percent, plus one, of the property owners who respond to the ballots mailed to them. However, a property-related fee would have to meet certain requirements mandated by Proposition 218, including that the fee shall not exceed the funds required to provide the service, and that the amount of the fee imposed shall not exceed the proportional cost of the service attributable to the parcel.
- Additional Sewer Fee (SB 231): Effective January 1, 2018, the legislature through SB 231 amended the definition of a “sewer” fee under Proposition 218 to include the work and structures necessary to collect and dispose of storm water. Under this change, the City could increase the storm water fee utilizing the same process that the City would use to increase water and sewer fees. However, as this is a relatively new law, there is some hesitation as to whether an increase under this new law would withstand a potential court challenge.

Currently, the City only imposes a storm water fee of 95 cents per month per single family home, or \$0.0647 per hundred cubic feet of water use for multi-family and commercial water users. This fee has remained unchanged since the imposition of Proposition 218 in 1996. However, numerous other cities throughout the State have increased their storm water fees under Proposition 218 using the special tax and property-related fee methods, and the cities of Del Mar and Coronado are currently considering a storm water fee increase. For reference, a \$1 per month increase in the City’s current storm water fee would generate approximately \$6 million in revenue.