

# IBA Review of the FY 2023-2027 Five-Year Capital Infrastructure Planning Outlook

City Council

Item 330

March 8, 2022



Office of the Independent Budget Analyst



## Overview

- This is the 8<sup>th</sup> CIP Outlook; the first was issued in January 2015 (for FY 2016-2020).
- The CIP Outlook provides a five-year citywide assessment of infrastructure needs and outlines the proposed capital priorities.
- A long-term capital plan was first recommended by the City Auditor in its June 2011 performance review of the CIP, to provide an overall citywide perspective on asset and funding needs and support informed financial decisions on infrastructure investments.
- This presentation provides highlights of our review ([IBA Report 22-04](#)).

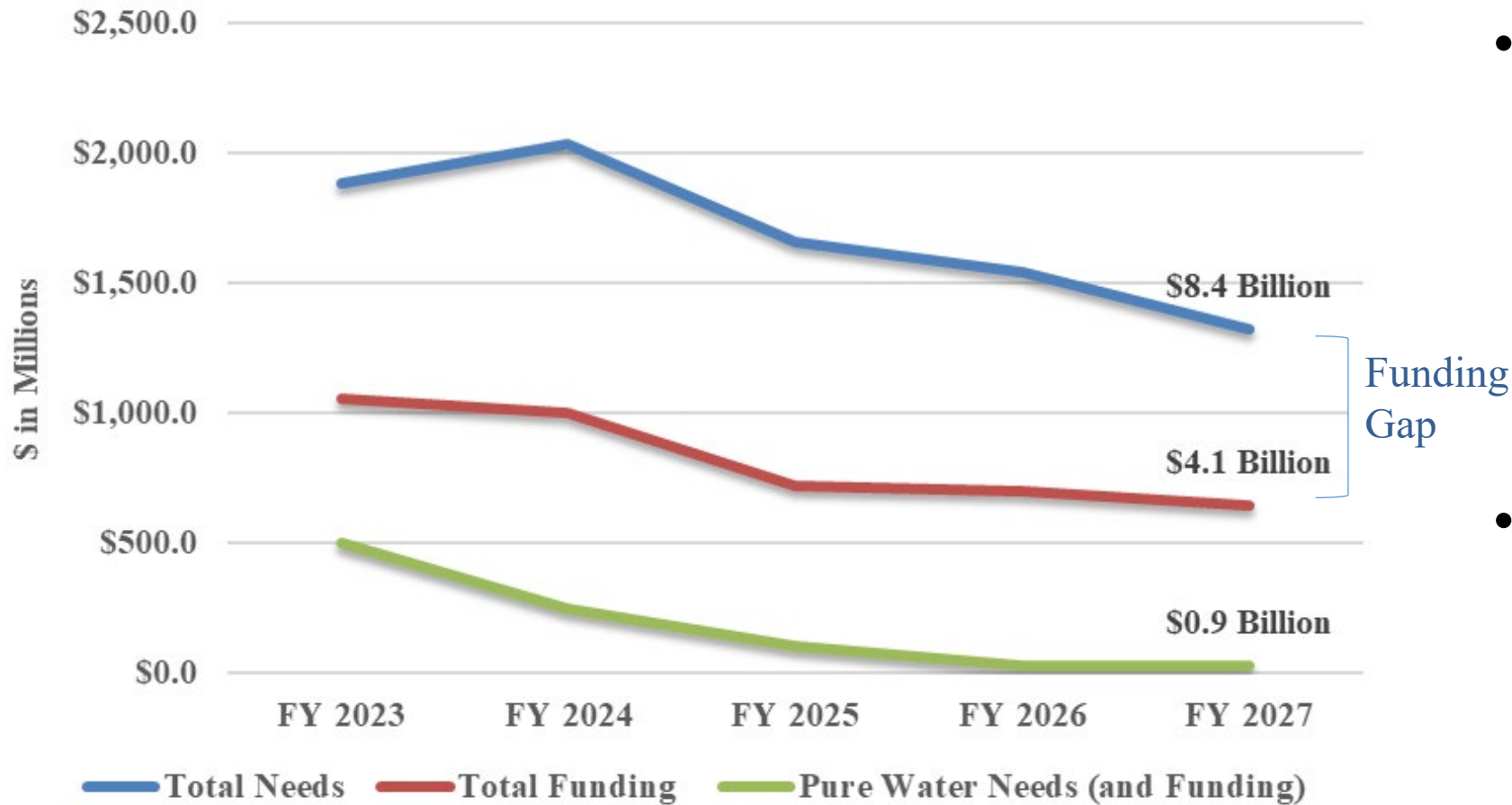
## Overview

- As shown in the CIP Outlook, the City's capital needs far exceed available funding, and the Mayor and Council must therefore make strategic decisions regarding capital infrastructure investments during the annual budget process.
- Absent new resources, many needs identified in the CIP Outlook will remain unfunded.
- Ultimately, the City will need a large-scale and holistic financing and project delivery strategy to address the growing backlog of unfunded needs and ensure the City's strategic goals and policies are fully implemented.

## Key Takeaways

- CIP Outlook has been enhanced and expanded to include more asset types which we believe is a positive step to reflect key current infrastructure needs.
- Departmental Asset Management practices provide a sound basis for identifying capital needs.
- The City has a well-supported understanding of many of its capital needs.
- As a result, the City is in a good position to:
  - Compete for unprecedented federal Infrastructure Innovation and Jobs Act (IIJA) Funds and
  - Develop a financing and project delivery strategy to close any remaining funding gap.

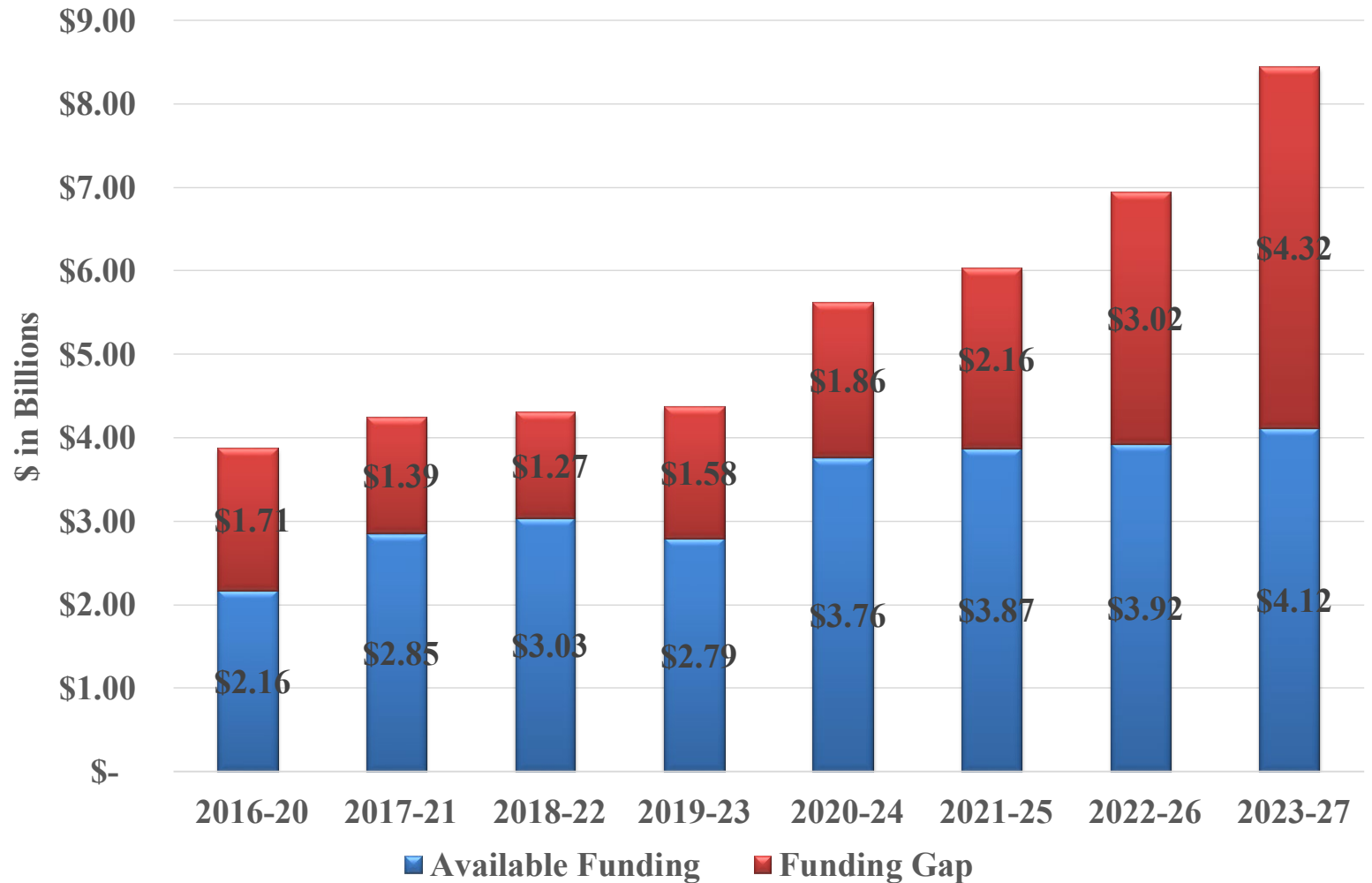
# High-level Overview of the CIP Outlook



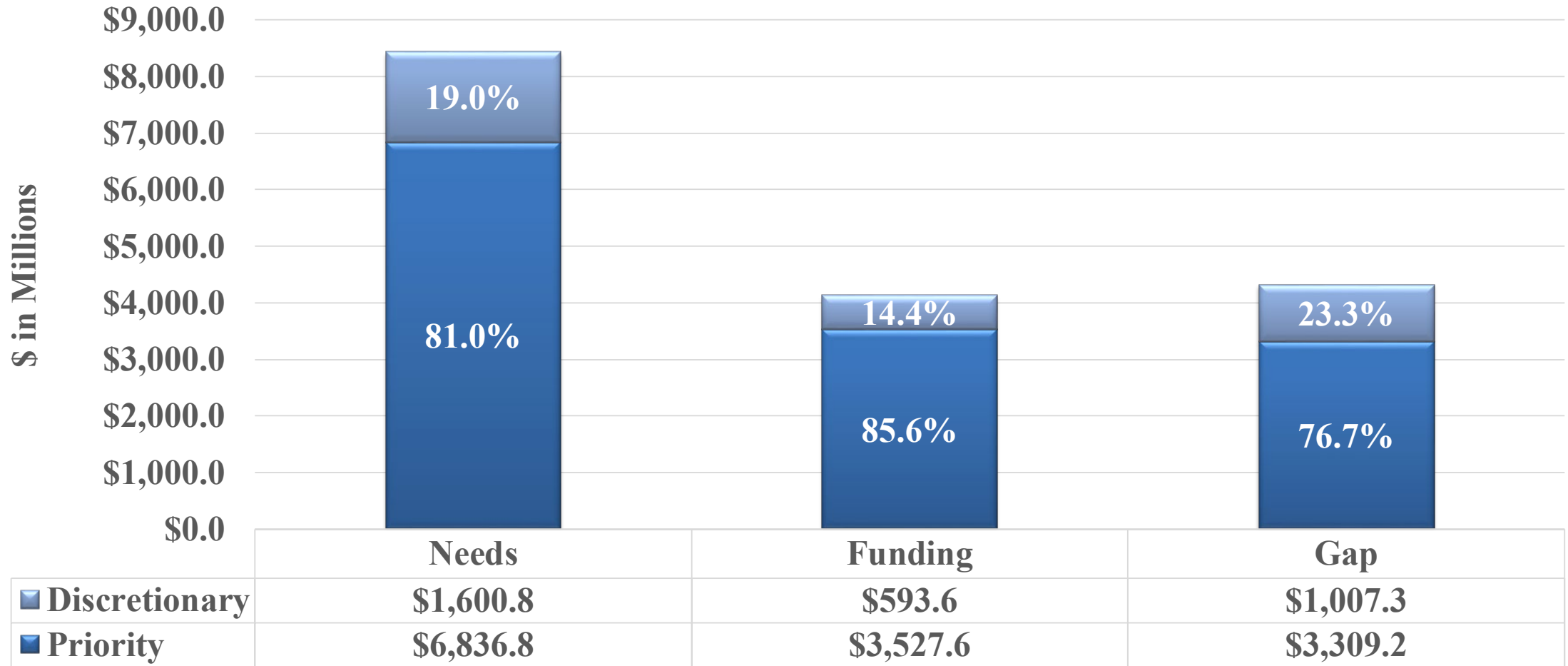
- The CIP Outlook projects total capital:
  - Needs of \$8.44 billion,
  - Available funding of \$4.12 billion, and
  - Funding gap of \$4.32 billion.
- Projected needs peak in FY 2024 due to Pure Water Phase 1 becoming operational in FY 2025.

# Prior Year Comparison

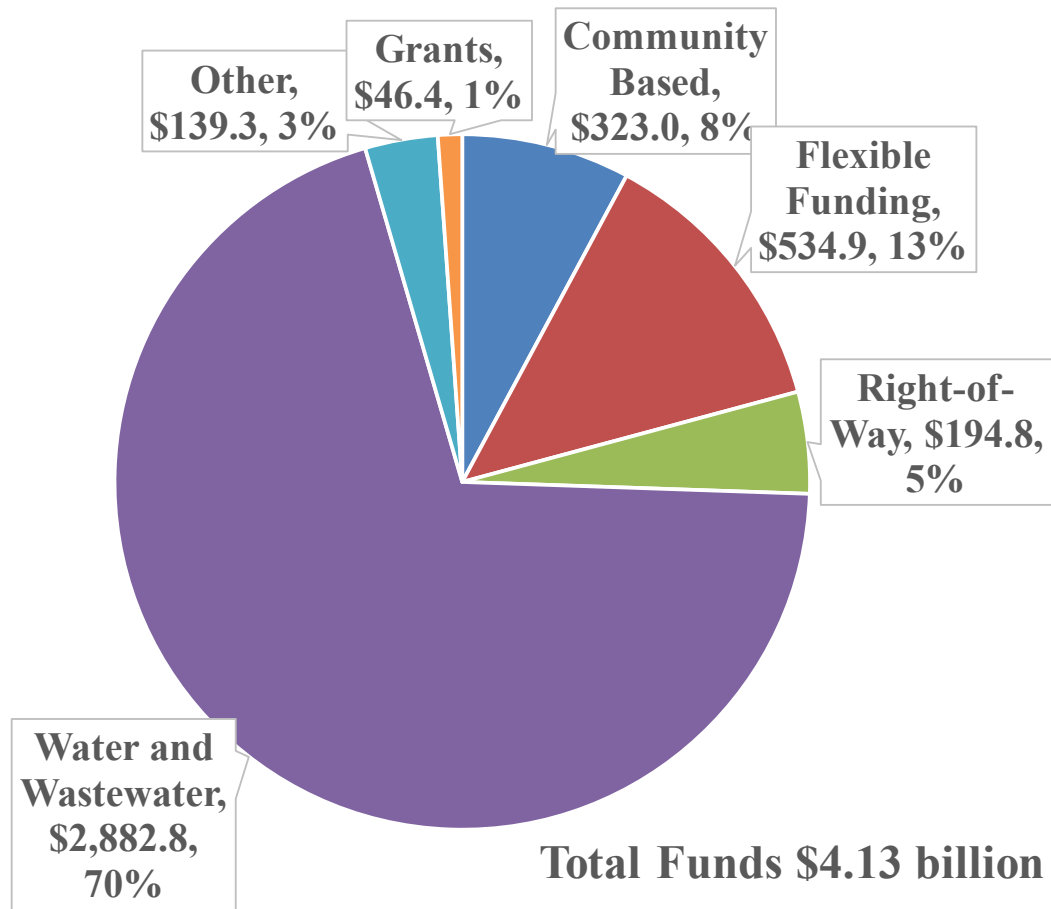
- Compared with the 1<sup>st</sup> CIP Outlook:
  - total needs have increased by 118%,
  - available funding by 90.7% and
  - funding gap by 152.6%.



# Outlook Projections by Category



## Projected Funding Over the Outlook



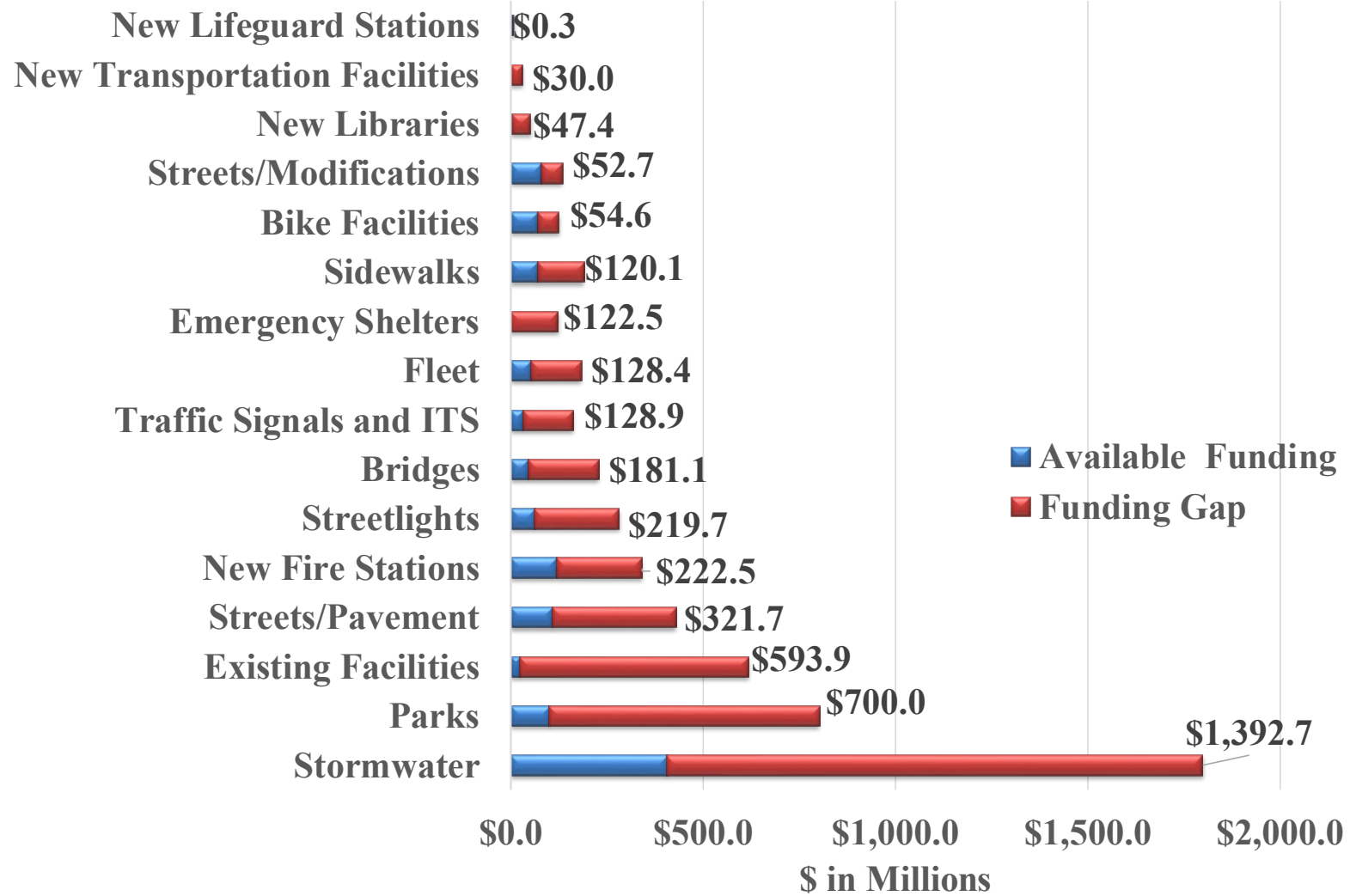
- Overall projected funding increased by about 5.1% from the prior year, and totals \$4.12 billion.
- About 70% of funding comes from water and wastewater fees and can only be used to support improvements to water and wastewater infrastructure,
- Flexible funding is \$535.9 million or 13% of projected, including the Infrastructure Fund and financing.



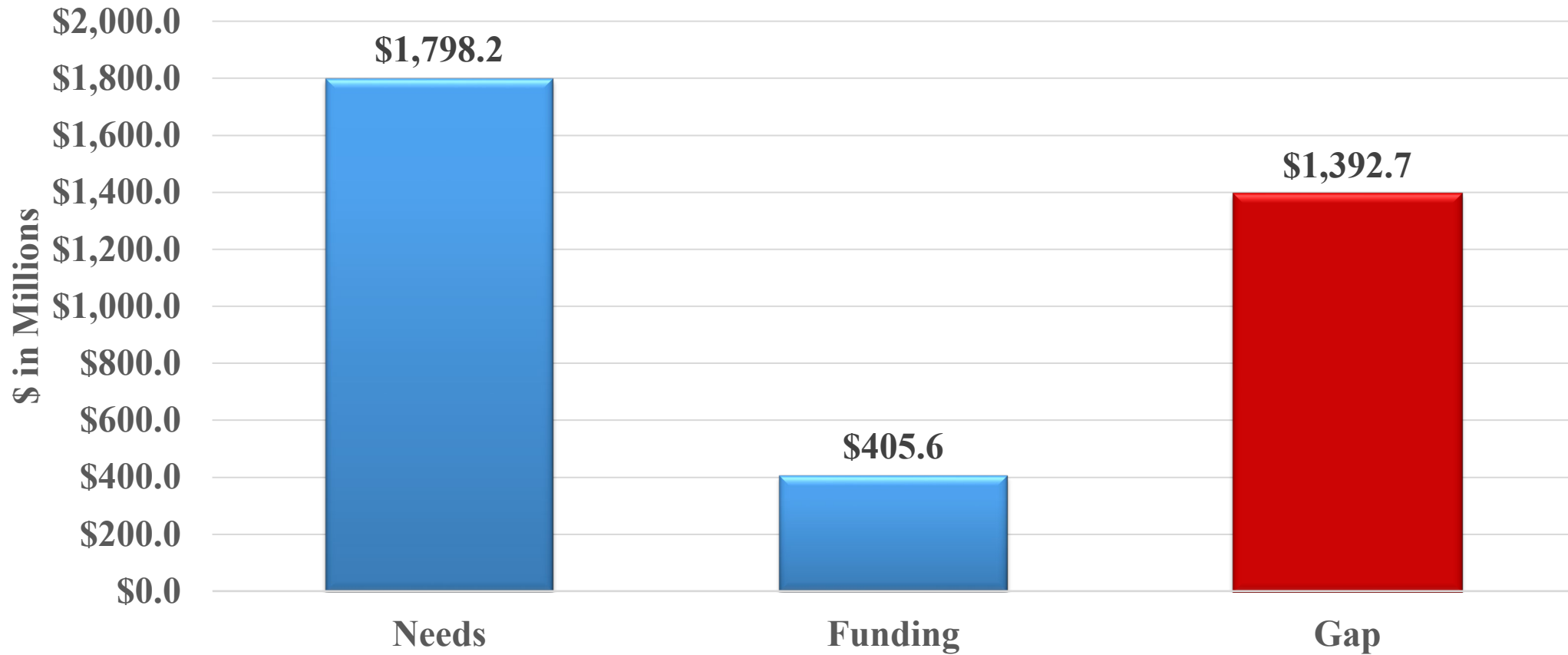
## CIP Projections by Asset Type

- All enterprise assets are projected to fully fund their capital needs with anticipated expenditures and revenues totaling \$2.94 billion.
- The enterprise fund asset types with the highest needs and funding:
  - Water (\$1.19 billion),
  - Pure Water (\$916.8 million), and
  - Wastewater (\$776.7 million).
- The \$4.32 billion total funding gap is entirely attributed to General Fund assets.

# Funding Gap for General Fund Assets

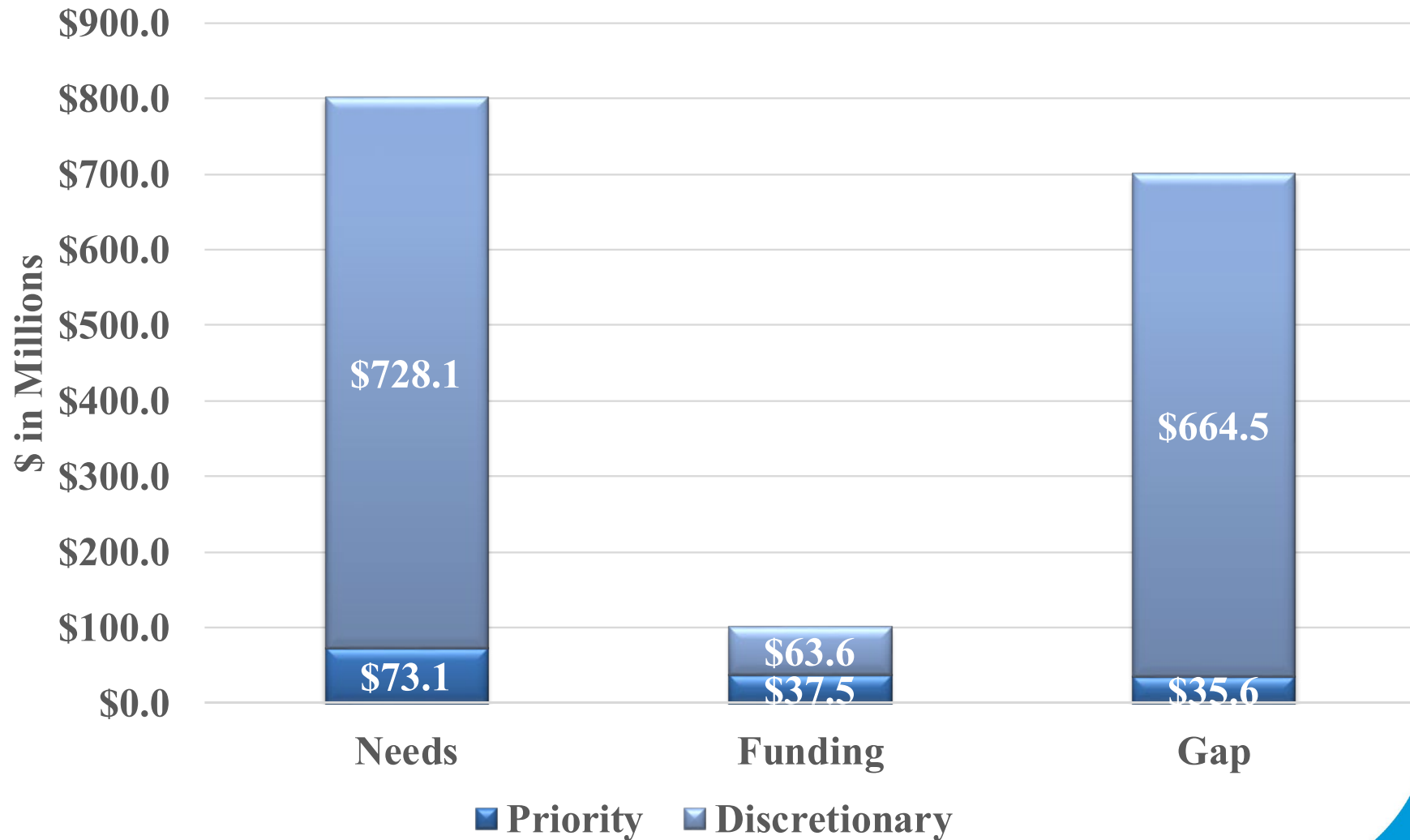


# Stormwater



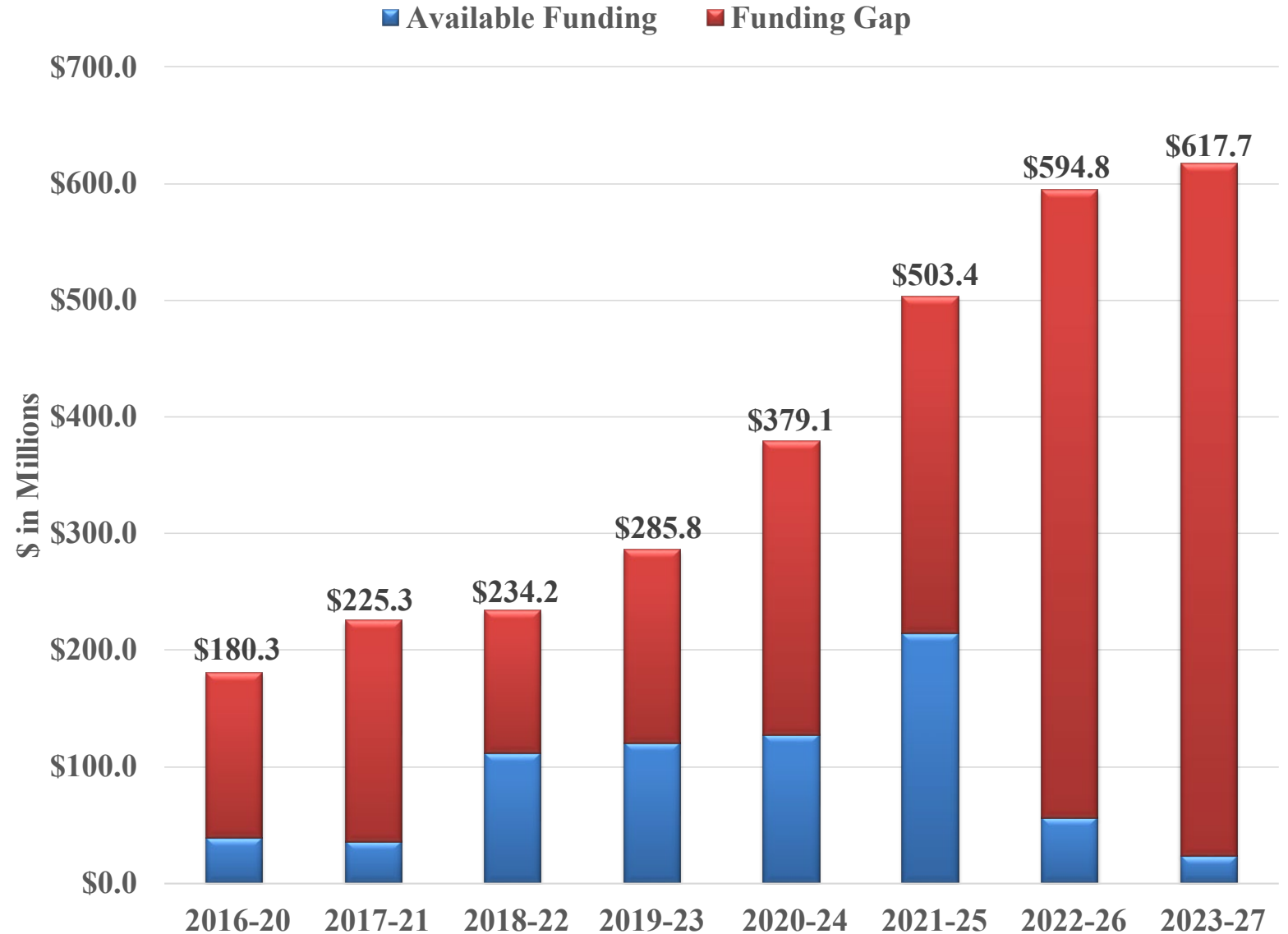
## Parks

- Total needs for Park assets are \$801.2 million, with available funding of \$101.2 million, resulting in a total funding gap of \$700.0 million.

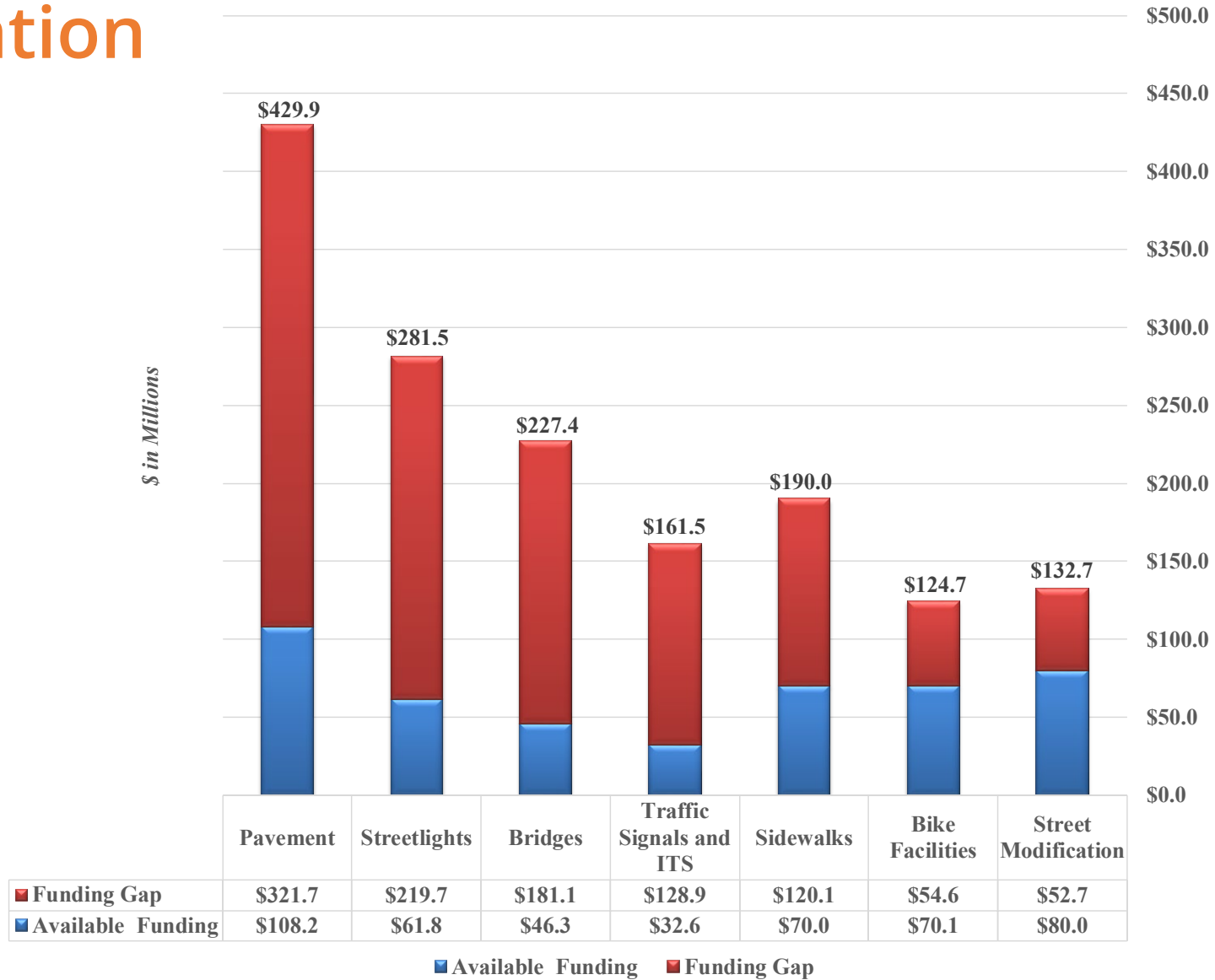


## Existing Facilities

- Facilities needs have increased dramatically since the first CIP Outlook (FY 2016-2020), more than tripling
- Chronic underfunding especially in recent years, has increased the funding gap to \$593.4 million over the five years of this CIP Outlook.



# Transportation



## Other Assets

### Fire Stations

- Outlook includes both new Fire Stations and improvements to existing facilities.
- New Fire Station needs significantly increased from the prior year Outlook because they include \$171.8 million for a new Fire Training Facility.

### Emergency Shelters

- For the first time, this CIP Outlook includes projected funding needs for the creation of 700 additional homeless shelter beds over the next five years, totaling \$122.5 million.
- The Outlook does not include funding, which results in a \$122.5 million gap; however, staff intends to pursue state and federal resources to support these capital costs.



# Council FY 2023 Budget Priorities

<b>Asset Type (\$ in Millions)</b>	<b>Needs</b>	<b>Funding</b>	<b>Funding Gap</b>
<b>Transportation and Mobility Safety</b>			
Bike Facilities	\$124.7	\$70.1	(\$54.6)
Streetlights	\$50.9	\$1.2	(\$49.7)
Traffic Signals	\$31.1	\$2.8	(\$28.3)
<b>Streets - Modifications</b>	\$45.0	\$24.0	(\$21.0)
<b>Streets - Pavement</b>	\$86.0	\$7.2	(\$78.7)
<b>Sidewalks</b>	\$27.4	\$3.4	(\$24.0)
<b>Stormwater</b>	\$313.0	\$24.7	(\$288.3)
<b>New and Existing Facilities</b>			
Fire-Rescue	\$16.5	\$8.7	(\$7.8)
Library	\$4.5	\$0.0	(\$4.5)
Park & Recreation	\$155.4	\$17.0	(\$138.5)
<b>Total</b>	<b>\$854.4</b>	<b>\$159.0</b>	<b>(\$695.4)</b>



## Infrastructure Innovation and Jobs Act (IIJA)

- IIJA, considered to be a once in a generation infrastructure opportunity, will provide:
  - Nationwide, an estimated \$1.2 trillion nationwide over the next ten years.
  - State of California estimated to receive \$46.6 billion.
- Various funds available under IIJA include:
  - Formula-based funding, for example, based on population, users, etc.;
  - Competitive funds, such as grant programs; and
  - Changes and funding of financing mechanisms.
- The City has established asset-specific working groups that are currently assessing both internal and regional competitive opportunities to develop an effective strategy to apply for competitive funds.

## Conclusions and Key Takeaways

### Asset Management Practices Have Provided a Good Understanding of Capital Needs

- Asset Management practices provide a sound basis for identifying maintenance and capital needs, such as:
  - Establishing service level goals,
  - Conducting condition assessments,
  - Prioritizing projects based on risk, and
  - Using Asset Management systems to support work management and capital planning.
- As departments are increasingly utilizing these practices and have learned more about the state of their assets, the City has developed a well-supported understanding of many of its capital needs.

## Conclusions and Key Takeaways

### Asset Management Practices (continued)

- To enhance and build on Asset Management practices, we believe it's important to:
  - Support departments who have robust programs and systems so they can utilize those systems to their fullest extent.
  - Support departments that do not have as robust Asset Management programs to gain needed systems, assessments, and plans.
  - Consider including some level of related maintenance in future CIP Outlooks to provide a full lifecycle view of asset needs.
  - Prioritize needs identified in condition assessments to meet minimum service level goals, even though they may be categorized as Discretionary.
- Our office is also conducting a review of Asset Management practices and the use of the EAM System planned to be issued in spring of 2022.

## Conclusions and Key Takeaways

### The City Is in a Good Position to Develop a Holistic Financing Strategy and Project Delivery Plan to Address the Funding Gap

- The ultimate goal is to have a citywide holistic view of needs and gaps so the City can determine how to address its infrastructure more broadly.
  - After the City determines what needs will be funded with IIJA, it should consider other creative options for remaining asset needs, like Public-Private Partnerships (P3) and General Obligation Bond programs.
- Without a financing strategy the City will continue to defer capital needs, which will result in the inefficient use of limited funds.

## Conclusions and Key Takeaways

### Effectively Delivering the CIP Will Require Sufficient Capacity and Continued Streamlining

- City needs to continue investing in capacity to attract and retain needed skills and fill vacancies in order to deliver funded projects.
- The City recently created the new Strategic Capital Projects Department, to efficiently manage larger projects like Pure Water.
- CIP Outlook also notes the external capacity to ensure the base of consultants, contractors and vendors are sufficient to support the current and future volume of work.
- The City continues to experience potential long-term impacts of the COVID-19 pandemic, which are resulting in overall higher costs for projects.

## Conclusions and Key Takeaways

### Future Outlooks Should Evolve to Reflect Current City Needs

- The Outlook has been enhanced and expanded to include more asset types and information which we believe is a positive step to reflect key current infrastructure needs.
- Certain assets/projects have not been included, given the information currently known.
  - For example, capital projects needed to achieve Climate Action Plan (CAP) goals are not included because the implementation plan is not complete.
- Information Technology (IT) capital projects are also not included in the Outlook, we believe relevant projects should be included in future Outlooks to provide a full picture of needed investments.

# Questions

<https://www.sandiego.gov/iba>