

Capital Improvements Program

Program Overview

Budgeting Best Practices

The City of San Diego Capital Improvements Program (CIP) is a multi-year forecast of capital needs which includes new construction projects and planned improvements of existing facilities. The CIP establishes structure and consistency by identifying, prioritizing, approving, and funding capital improvement projects through coordination of the participating City departments and approval by the Capital Improvements Program Review and Advisory Committee (CIPRAC). Implementation of CIP projects is based on the City's adopted General Plan and applicable community plans.

In accordance with the City's budget policy (City Council Policy 000-02), CIP descriptions clearly establish that a project is capital in nature. Projects include, but are not limited to, the construction, purchase, or major renovation of buildings, utility systems, and other facilities; in addition to land acquisition and roadway projects. All capital projects are clearly represented by a City department and categorized by project type and improvement type. Project types provide a categorized breakdown of the type of facility being constructed or improved. Improvement types describe the project's impact on existing assets and may be identified as providing *betterment*, *expansion*, *replacement* or *widening* of an existing City asset or the project may result in a *new* asset to the City.

The City's CIP prioritization process establishes clear and concise guidelines for project selection and an objective process for ranking projects which then allows decision-makers a basis for optimizing the use of available funding resources. City Council Policy 800-14 details purpose, process and implementation of the City's prioritization process. For further information on priority scores and policies see the Prioritization Policy discussion on the following page.

Funding for the CIP is programmed from a variety of sources, such as: sewer and water fees, a one half-cent local sales tax for transportation improvements, development impact fees, facility benefit assessments, Redevelopment Agency funding, private donations, the sale of City-owned property, and State and federal grants. Financing in the form of bonds may be utilized for large and/or costly projects, and deferred capital project needs.

Additionally, funding options utilizing the available resources are taken into consideration in the programming of projects. Annual allocations are budgeted each year and allow the City to better plan for the expansion, renovation, reallocation, or replacement of facilities, as well as providing for emergency and accelerated construction needs. This type of financial planning has allowed the City to better address State and federal standards. Phase funding provides a process by which large projects are budgeted in an efficient manner that maximizes the use of available funds. This method of funding allows the contract or project to be divided into clearly defined phases which are contracted for independently, allowing the funds to be phased into the project based on the timing of expenses.

Identification of unfunded needs, or unidentified funding, provides a method for communicating resource requirements of projects that are not fully funded and for which a fund source has not yet been identified. Some CIP project schedules indicate an undetermined timeline with unfunded needs as a mechanism to convey political intentions or community support for improvements.

The operating budget effect included on most CIP projects provides a reasonable estimation of a capital project's impact on the operating budget of the asset-owning department. New or expanded capital projects can lead to increased programs which require additional personnel and non-personnel expenditures. Conversely, capital enhancements, such as energy efficiencies, may reduce on-going operating or maintenance expenditures. Explanation of the operating budget effect

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establishes the connection between the construction of an asset and the required operational needs following project completion.

CIP project cost estimates are developed by City departments based on capital asset type and commonly accepted methodology to determine a project cost that is complete, reliable, attainable and easily verified. Project budgets consist of identified or potential funding sources and previously allocated funding. City departments are responsible for the regular monitoring of expenditures, encumbrances and continuing appropriations of authorized CIP budgets in order to ensure accuracy and accountability within each project. Financial data referenced in the budget includes total costs and fund allocations from project inception.

The CIP budget is the mechanism that implements the CIP and fulfills a requirement of the City Charter (Section 69). The City Council annually approves the CIP budget and the allocation of funds for the included projects via the Appropriation Ordinance (AO) which establishes capital spending limits for a given fiscal year. These limits include appropriations carried forward from prior years as authorized in the City Charter (Section 84). Although the budget includes a provision for current year anticipated funding, these funds are not included in the AO as they are either not certain to be received within the fiscal year or the appropriation of the funds will require additional legal authority. Spending limits, based on updated information, can be amended during the year through City Council action. For example, a grant may be shown as anticipated until all related documents are fully executed. The agreements must be accepted and the funding appropriated via an approved Council resolution.

Prioritization Policy

A CIP prioritization policy (Council Policy 800-14) was adopted for transportation projects in Fiscal Year 2007. The Council Policy was then revised in Fiscal Year 2008 to incorporate the prioritization of all capital projects. Projects are scored in accordance with the detailed requirements of the Council Policy. Priority scores for all projects have been provided as part of the Fiscal Year 2012 Adopted CIP Budget. This process for scoring projects continues to be a work-in-progress as the scoring method is refined.

The intent of the Prioritization Policy is to establish an objective process for ranking CIP projects to allow decision-makers to have a basis for choosing the most compelling projects for funding. It must be noted, however, that a low scoring project may proceed due to unique funding source restrictions.

Briefly, the policy states that:

- Projects within restricted funding categories will compete only with projects within the same funding category.
- Projects will compete only with projects within the same asset type (project type).
- Projects will compete only with projects within the same level of completion or project development phase (planning, design and construction).
- Projects scores will be updated as the condition of the project changes or other information becomes available.

In addition, projects that are in construction or have completed construction have not been scored. These projects are noted as not applicable (N/A). Annual allocation project types, funded yearly for ongoing repair and replacement of smaller projects, are not scored. Rather the sub-projects funded by the annual allocation receive scores. These projects are noted as Annual.

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The following table lists, in order of importance, the prioritization factors taken into consideration when projects are scored.

Non-Transportation Projects	Weight	Transportation Projects	Weight
Health and Safety Effects	25%	Health and Safety Effects	25%
Regulatory or Mandated Requirements	25%	Capacity and Service (Mobility)	20%
Implication of Deferring the Project	15%	Project Cost and Grant Funding Opportunity	20%
Annual Recurring Cost or Increased Longevity of the Capital Asset	10%	Revitalization, Community Support and Community Plan Compliance	15%
Community Investment	10%	Multiple Category Benefit	10%
Implementation	5%	Annual Recurring Cost or Increased Longevity of the Capital Asset	5%
Project Cost and Grant Funding Opportunity	5%	Project Readiness	5%
Project Readiness	5%		
Total	100%	Total	100%

Priority scores for CIP projects, within each major asset category, have been grouped into the following priority categories. However, major asset types with six or fewer scored projects are defaulted to Medium.

- High: Priority scores in the upper third or the highest 33 percent of priority scores by major asset type category.
- Medium: Priority scores in the middle third or the middle 33 percent of all priority scores by major asset type category.
- Low: Priority scores in the lowest third or the lowest 33 percent of all priority scores by major asset type category.

Schedule V in the Financial Summary section provides a comprehensive list of CIP projects' priority categories and scores.

Budget Process

The CIP budget is developed in conjunction with the City's operating budget and follows the timeline codified within the City Charter. Development of the CIP budget begins earlier than that of the operating budget and is initiated by a review of project status and needs conducted by Public Works - Engineering and Capital Projects in coordination with City asset-owning departments. The CIP budget process considers project priorities and funding availability.

October – January: Budget development training on the budgeting system and the current CIP budget process is provided to City departments with CIP project responsibilities. Departments develop fiscal year needs and submit proposed CIP funding requests to Financial Management which are then brought to CIPRAC for approval. During this timeframe, Financial Management also confirms the availability of funds to support the budget to be approved by CIPRAC. The CIP budget development and CIPRAC approval calendar is established by Financial Management and Public Works – Engineering and Capital Projects.

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January – March: In coordination with asset-owning departments, Financial Management reviews all project pages and prepares the proposed budget publication.

April: The Mayor releases the Proposed Budget to the public on April 15th in compliance with the City Charter [Article XV, Section 265, Item (b) (15)].

May: During the month of May, the City Council holds a series of public budget hearings. Council members may recommend changes to the Proposed CIP Budget. Also in May, the Mayor's May Revision to the Proposed Budget is released. This report recommends changes to specific CIP projects' budgets based on updated information.

June: Council reviews final modifications and approves the budget in June. The Mayor's veto period follows Council's initial approval. Once the budget is approved, the final changes to the Proposed CIP Budget will be implemented. Once these changes are made, preparation of the Adopted CIP Budget will be completed. The Change Letter will be created to summarize the May Revision and Council Action changes to the Proposed Budget by CIP project.

July: The annual Appropriation Ordinance is presented to the City Council and adopted in July. This codifies the Adopted CIP Budget into law.