

EXECUTIVE SUMMARY

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Deferred Capital

In July 2011, the City's Audit Committee requested the Office of the IBA to review Structural Budget Deficit Elimination Guiding Principle 11 which calls for the City to develop a plan to fund deferred capital infrastructure and maintenance needs and develop recommendations for a five-year infrastructure budget and finance program. This report responds to the Committee's request and also consolidates information released over the last year by staff and the IBA regarding the City's Deferred Capital Program into a comprehensive document to be heard by the Budget & Finance Committee (B&FC). In addition, our office has provided a number of recommendations to better address the City's Deferred Capital needs in the future. Examples of items discussed in this report include:

- The City currently has an \$840 million Deferred Capital backlog for the three main asset classes (Facilities, Streets, and Storm Drains). Although the elimination of the deferred capital backlog would be the ideal goal, even if funding were available this is not realistic due to the City's existing capacity to manage and monitor projects at this level of funding.
- In March 2011, Mayoral staff identified and presented to the B&FC service levels and funding alternatives to "Catch-Up" to a specific level as well as the funding needed for "On-Going" annual maintenance for each of the three main asset classes. These Alternatives (I & II) were based on future funding availability in the context of the City's total budget and also projected staffing capacity. At the time, staff recommended Alternative I.
- This report reviews the Alternatives and the March 2011 recommendations in the context of the Mayor's recently released FY 2013-2017 Financial Outlook. The level of bond funding (\$500 M) included in the latest Outlook to "Catch-Up" far exceeds both Alternative Levels I & II funding needs while the funding assumed in the Outlook for "On-Going" Maintenance appears to fall far short of both Alternatives. While some level of "On-going" projects will qualify for bond funding (asphalt overlay), others will not. Additionally, bond funds should not be considered a viable source for "On-Going" maintenance needs due to their recurring nature.
- Identifying and committing to an achievable service level goal for both "Catch-Up" and "On-Going" categories will drive future funding and capacity requirements which should then serve as the baseline for future Outlooks.
- Historically, the significant funding sources for deferred capital have come from Bond Funds, TransNet, Proposition 42, and the Capital Outlay Fund (Proceeds from land sales). Our report reviews other funding sources that could be considered in the future to either directly assist with funding for deferred capital related expenses or leveraging for future bond issuances.
- This report also discusses the City's Project Management and Oversight Capacity and ideas for increased transparency of project information.