



## THE CITY OF SAN DIEGO

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### OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** April 15, 2015

**IBA Report Number:** 15-14

**City Council Docket Date:** April 21, 2015

**Item Number:** 336

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# IBA Review of the Mayor's Five-Year Street Pavement Repair Program

## OVERVIEW

On March 11, 2015 the Infrastructure Committee considered three separate proposals from the Mayor related to infrastructure process enhancements. The three proposals were: five-year funding for street repairs; changes to cash management processes to expedite project delivery; and streamlining of project delivery processes to make them more efficient. The Infrastructure Committee unanimously accepted and approved forwarding all three items to the full City Council. On March 18, 2015, the Budget and Government Efficiency Committee also reviewed the cash management component of the proposals. On Tuesday, April 21, 2015 the City Council is being asked to consider and accept the following reports. Staff will return to Council in the near future for items that require further Council approvals.

- ITEM 336 Report No. 15-026 Street Pavement Repair Program
- ITEM 337 Report No.15-024 Capital Improvement Program (CIP) Cash Management Process Improvements
- ITEM 338 Report No. 15-020 Process Improvement and Streamlining for CIP Delivery

This report provides our office's review of ITEM 336—Street Pavement Repair Program and discusses recommendations for future Infrastructure Committee follow-up.

## FISCAL/POLICY DISCUSSION

### Mayor's Street Repair Plan Goals

#### Doubling the Miles of Streets Repaired and Repairing 1000 Miles of Streets Over the Next Five Years

The chart on the following page shows total miles of streets that have been repaired since FY 2011 and the miles planned for FY 2016. To achieve the goal of doubling the miles of streets repaired, the Mayor has used 2014 as the comparison year, when 152 miles of streets were repaired. The Mayor's plan roughly doubles that number, and commits to repair 308 miles of streets in FY 2016. The average number of miles repaired annually for FY 2011-FY 2015 is 174.

<b>Street Miles Repaired Fiscal Years 2011-2016</b>				
<b>Fiscal Year</b>	<b>Asphalt Paving Miles</b>	<b>Slurry Seal Miles</b>	<b>Concrete Repair Miles</b>	<b>Total Miles</b>
2011	55	129	0	184
2012	55	129	0	184
2013	76	95	0	171
2014	74	74	4	152
2015	50	125	4	179
2016	94	210	4	308

Source: Street Pavement Repair Program Report No. 15-026

The total number of miles repaired is important, but the type of repair—repaving or slurry seal (or concrete replacement in some cases)—is key. Repaving, which is a long lasting asphalt overlay treatment, is considered a capital project, and has the greatest impact on the Overall Condition Index (OCI) of City streets. Slurry seal is a temporary treatment, and is considered to be a form of maintenance, not a capital project. It has a lower impact on the OCI than repaving or concrete. The cost to slurry seal a street is estimated at roughly \$100,000 per mile, while repaving is estimated at \$500,000 per mile, and concrete replacement is estimated to cost \$1.0 million per mile.

When comparing treatment methods used in FY 2014 (the comparison year) to the FY 2016 proposal, repaving would increase from 74 miles to 94 miles. Ninety-four miles of repaving is more miles than the City has repaved in a given year since 2001. Repaving as a percentage of total miles repaired would decline from 49% in 2014 to 30% in 2016 due to the sizable increase in slurry seal. Slurry seal will nearly triple from 74 miles in 2014 to 210 miles in 2016, and be used on 68% of repair miles compared to 49% in 2014. While the plan doubles the total miles repaired in FY 2016 over FY 2014, the ratio of repaving miles to slurry seal miles differs considerably.

The chart below shows the total street repair funding (including lease revenue bonds and cash) that is proposed for FY 2016 through FY 2019 (no funding is yet proposed for FY 2020)<sup>1</sup>. The number of miles planned for repair beyond FY 2016 is not discussed in the report (nor is the contemplated treatment). Due to the significant difference in the costs of treatment methods, it is not possible to determine the miles of streets that are planned for repair over the next five years based on funding alone.

<b>Mayor's Streets Repair Plan</b>						
		<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
<b>Proposed Funding* (in millions)</b>		\$73.6	\$89.3	\$84.8	\$87.0	TBD
<b>Number of Miles</b>	<b>Repaving</b>	94	TBD	TBD	TBD	TBD
	<b>Slurry Seal</b>	210	TBD	TBD	TBD	TBD
	<b>Concrete</b>	4	TBD	TBD	TBD	TBD
<b>Total Miles</b>		308	TBD	TBD	TBD	TBD

\* Includes up to \$60 million of lease revenue bonds and cash from the Gas Tax, Prop 42, TransNet and General Funds.

<sup>1</sup> The Mayor's Proposed FY 2016 Budget also adds 7.0 FTE positions for a new street repair crew to implement the Mayor's street repair goals.

Since the City repaired a total of 870 miles of streets over the past five years, a goal of 1000 miles of repairs over the next five years is feasible. Based on the Mayor’s plan to repair 308 miles of streets in FY 2016, more than 1500 miles of streets could be repaired over a five-year period, based on funds projected to be available, and if the same ratio of repaving to slurry seal is applied.

However, in order to achieve the goal of an OCI of 70 by 2025, the mix of repaving to slurry seal will need to be reexamined for 2017 and beyond, and should favor more costly repaving due to its longer term effects and impact on OCI. With repaving costing five times more than slurry sealing, future decisions about the appropriate ratio of these two methods will considerably impact the number of miles that are repaired each year and/or the amount of funding required. The updated pavement OCI results expected this fall will be a major factor in informing these decisions. Until there is a more specific street repair plan over the five-year period, it is difficult to determine whether the goal of repairing 1000 miles, while also making the progress necessary to achieve an OCI of 70 by 2025, is achievable.

Achieving an OCI of 70 by 2025

The chart below shows the level of street repair funding needed for FY 2016-2020 to achieve the goal of an OCI of 70 by 2025 (this assumes similar expenditures for FY 2021-2025), and compares it to the funding proposed in the Mayor’s Street Repair program. These figures are based on increasing the OCI of City streets from 54.6 to 70 by 2025. It is likely that the City’s current OCI will be above 54.6 when the results of the street condition assessments, currently underway, are finalized. Any improvement in the current OCI will reduce future funding needs. Based on the OCI from the last full streets assessment, and staff cost estimates, the current street repair funding plan falls \$206.3 million in funds needed and 950 miles in street repairs short of what is needed in the first five years.

This shortfall is in addition to the \$1.7 billion funding shortfall for all other asset classes identified in the Multi-Year Capital Plan (MYCP). While the OCI goal of 70 for streets was discussed in the MYCP report, funding needed to achieve this goal was not included. Unless there are fairly significant increases in the current OCI, the only other alternative for achieving an OCI of 70 by 2025 is to make up this shortfall in years FY 2021 through FY 2025. If additional funding is needed to meet the goals established for street repairs, this could impact the City’s ability to fund other priority assets such as sidewalks and facilities.

<b>FY 2016-2020 Streets Repair Funding Needed for an OCI of 70 vs. Proposed</b>						
	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>Total</b>
<b>OCI 70 Need (Millions)*</b>	\$108.2	\$108.2	\$108.2	\$108.2	\$108.2	\$541.0
<b>Mayor's Plan (Millions)**</b>	\$73.6	\$89.3	\$84.8	\$87.0	-	\$334.7
<b>Shortfall (Millions)</b>	\$34.6	\$18.9	\$23.4	\$21.2	\$108.2	\$206.3
*Needs are based on 2011 streets assessment and may be less depending on results of updated assessment planned for completion in Fall 2015						
**Includes combination of cash for Gas Tax, Prop 42, Transnet, General Fund, as well as lease revenue bonds						

As shown on the following page, \$186.1 million of the \$206.3 million shortfall is attributable to the number of repaving miles determined necessary to achieve an OCI of 70 by 2025, which illustrates the impact that repaving has on improving OCI.

<b>FY 2016-2020 Asphalt Overlay Funding Needed vs. Proposed (in millions)</b>						
	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>Total</b>
<b>Need*</b>	\$83.1	\$83.1	\$83.1	\$83.1	\$83.1	\$415.5
<b>Proposed Lease Revenue Bonds**</b>	\$44.4	\$65.0	\$60.0	\$60.0	-	\$229.4
<b>Shortfall</b>	\$38.7	\$18.1	\$23.1	\$23.1	\$83.1	\$186.1
*Includes asphalt overlay, reconstruction and concrete.						
**Lease revenue bonds issued in FY 2015 will be largely expended in FY 2016; FY 2017 includes \$5M of carryover lease revenue bond funds; FY 17, 18 and 19 each include “up to” \$60M annually for streets from new \$90M bond issuances.						

### Mayor’s Streets Repair Funding Plan FY 2016-FY 2020

The total lease revenue and cash funding that has been identified in the Mayor’s five-street repair plan is shown below:

<b>Projected Fiscal Year 2016-2020 Streets Funding (in millions)</b>					
	<b>FY 16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
	<b>Projection</b>	<b>Projection</b>	<b>Projection</b>	<b>Projection</b>	<b>Projection</b>
Cash - New	\$15.8	\$6.2	\$24.8	\$27.0	TBD
Cash - FY15 Continuing Appropriations	\$13.4	\$18.1	TBD	TBD	TBD
Debt – New*	-	up to \$60.0	up to \$60.0	up to \$60.0	TBD
Debt - FY15 Continuing Appropriations	\$44.4	\$5.0	-	-	TBD
<b>Total</b>	<b>73.6</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>
*Funds from \$90M lease revenue bond issuances					
Source: Street Pavement Repair Program Report No. 15-026					

### Lease Revenue Funding

The majority of street repair funding is proposed to come from issuance of lease revenue bonds for streets and other priority capital projects. This proposal increases the amount of planned issuances for FY 2017 and FY 2018 from \$84 million to \$90 million, and adds a new \$90 million issuance in FY 2019. The Mayor is additionally proposing to increase the amount dedicated to street repairs from \$40 million annually up to \$60 million in FY 2017, 2018 and 2019, with the remaining funds to be expended on other assets.<sup>2</sup>

This plan increases the amount of lease revenue bonds to be issued over the next five years by \$102.4 million, as compared to the Mayor’s FY 2016-2020 Outlook. While this is an increase over the Outlook, it is actually consistent with the original Enhanced Option B plan adopted by the City Council in March of 2012. While Enhanced Option B originally anticipated expending \$419.4 million over five years from FY 2013 through FY 2017, several unanticipated delays have led to nearly the same amount of lease

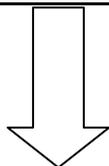
<sup>2</sup> If additional cash funding is identified in these years, the staff report notes that the level of lease revenue bond funds used may be decreased.

revenue bond expenditures (\$425.0 million) spanning a period of seven years—FY 2013 through FY 2019—as shown in the chart below.

## Deferred Capital Lease Revenue Bond Plans

### March 2012

Enhanced Option B – Adopted by Council March 2012* (in millions)					
FY13	FY14	FY15	FY16	FY17	Total
\$80.0	\$81.0	\$90.0	\$84.2	\$84.2	\$419.4
*Would slow deterioration of assets to 5-10% over five years, but does not stop it; program funding reduced from staff proposal to curtail debt service impact on the General Fund.					



### March 2015

Mayor's Proposed Lease Revenue Funds FY 2016-2020 – March 2015 (in millions)								
FY13*	FY14*	FY15*	FY16	FY17	FY18	FY19	FY20	Total
\$35.0	-**	\$120.0	-	\$90.0****	\$90.0****	\$90.0****	-	\$425.0***
*FY13, FY14, and FY15 are outside of the proposal period but are shown for funding comparability. **Delayed due to litigation. ***Provides \$5.6 million more than Enhanced Option B but extends program from 2017 to 2019. ****Up to \$60 million of the \$90 million is proposed to be used for streets repair, leaving \$30 million each year for other assets.								

In March 2012, Public Works estimated that this level of funding would slow the deterioration of assets to 5-10% if expended as they anticipated. In November 2011, staff had originally recommended approval of \$526 million of lease revenue bonds, which they projected would stop further deterioration of assets over a five year funding period. Due to constraints on the General Fund at the time, Enhanced Option B was instead adopted to provide \$419.4 million.

In the past, our office has suggested caution in expanding the use of lease revenue bonds, due to the long-term impact on the General fund and the pledging of a limited pool of City properties. However, these concerns related to going **beyond** what was adopted by the Council in March 2012. The Mayor's proposal matches closely to the original lease revenue bond proposal approved in 2012 and is consistent with the property commitments and debt service requirements that were carefully considered and analyzed at that time. Total debt service payments for existing bonds and planned issuances through 2019 will total \$36.7 million beginning in 2020 as shown in Attachment 1. Proposals for lease revenue bond issuances, beyond those included in this plan, should be carefully weighed at the appropriate time.

### Cash Funding

The Mayor's street repair plan also relies on new and re-appropriated cash funding from Gas Tax, Prop 42, Transnet and General Funds of approximately \$24-\$29 million annually for FY 2016-FY 2019. As

noted previously, no funding is shown in the fifth year (2020) at this time. Additional cash is expected to be generated for street repairs in the future through various cash management improvements and streamlining efficiencies; and \$60 million in Transnet funding is currently available which has not yet been programmed. The Chief Financial Officer is currently scouring hundreds of existing capital project accounts to determine if some existing funding can be reallocated to higher priority projects including streets projects. This effort is discussed in greater detail in IBA Report No. 15-12 “IBA Review of CIP Cash Management Process Improvements.”

## CONCLUSION AND RECOMMENDATIONS

The Mayor’s Street Pavement Repair Program is an important step toward more fully addressing the City’s critical street infrastructure needs. The need to fund a much higher standard of street repair is commonly cited by residents as a top priority. The Mayor’s plan establishes funding sources through FY 2019 and sets a new and aggressive goal of achieving an OCI of 70 by 2025. On another positive note, the Plan increases the amount of lease revenue bonds by \$102 million over the Mayor’s November 2014 Outlook, consistent with Enhanced Option Plan B adopted by Council in March 2012.

Given the significant shortfall in funding and miles of repair needed to achieve an OCI of 70 by 2025, difficult decisions lie ahead regarding the number of miles to repair, the best mix of treatment methods, and the amount of funding needed for FY 2017 and beyond.

The IBA recommends the following:

1. When the results of the new Street condition assessments and the OCI are available in the Fall of 2015, we recommend the Infrastructure Committee request staff to facilitate a comprehensive discussion at Committee on the costs and benefits of both repair methods—slurry seal and repaving—for achieving 1000 miles by 2020 and an OCI of 70 by 2025—including how the ratio for the two methods was determined for FY 2016; best practices for determining the mix for FY 2017 and beyond; scenarios with the number of street repair miles and methods to be used annually; and the potential additional funding required to meet these goals.
2. Following this discussion, we recommend the Infrastructure Committee request the Mayor to update the Five-Year Street Pavement Repair Program to incorporate the recommended number of miles, treatment methods and funding sources for each year of the five-year plan.



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Attachments: 1. Debt Service Projections for Lease Revenue Bonds

<b>Estimated Debt Service For Deferred Capital Lease Revenue Bonds</b>						
	<b>Debt Service (in millions)</b>					
<b>Deferred Capital Bond Issuance</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
DC 1 (\$103.3 million issued in FY09 & refinanced in FY10)	\$7.4	\$7.4	\$7.4	\$7.4	\$7.4	\$7.4
(No bonds issued in FY11)	-	-	-	-	-	-
DC 2 (\$75 million issued in FY12)	\$4.6	\$4.6	\$4.6	\$4.6	\$4.6	\$4.6
DC 2a (\$35.0 million issued in FY13)	\$2.2	\$2.2	\$2.2	\$2.2	\$2.2	\$2.2
(No bonds issued in FY14)	-	-	-	-	-	-
DC 3 (\$120.0 million issued in FY15)	-	\$6.9	\$6.9	\$6.9	\$6.9	\$6.9
<b>Subtotal - Existing Debt Service for CIP/DC Bonds:</b>	<b>\$14.2</b>	<b>\$21.1</b>	<b>\$21.1</b>	<b>\$21.1</b>	<b>\$21.1</b>	<b>\$21.1</b>
<b>Current Planned Issuances</b>						
(No bonds planned for issuance in FY16)	-	-	-	-	-	-
DC 4 (\$90.0 million planned for issuance in FY17)	-	-	-	\$5.2	\$5.2	\$5.2
DC 5 (\$90.0 million planned for issuance in FY18)	-	-	-	-	\$5.2	\$5.2
DC 6 (\$90.0 million planned for issuance in FY19)	-	-	-	-	-	\$5.2
(No bonds planned for issuance in FY20)	-	-	-	-	-	-
<b>Subtotal - Estimated Debt Service for Planned CIP/DC Bonds:</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$5.2</b>	<b>\$10.4</b>	<b>\$15.6</b>
<b>Total Debt Service for CIP/DC Bonds:</b>	<b>\$14.2</b>	<b>\$21.1</b>	<b>\$21.1</b>	<b>\$26.3</b>	<b>\$31.5</b>	<b>\$36.7</b>