

## Backgrounder: City of San Diego Capital Improvement Program

January 2013

This document is intended to provide an update on the state of the City of San Diego’s Capital Improvement Program (CIP) processes as well as funding that has been dedicated, and is expected to be dedicated, toward CIP programs in the future, including the City’s projected \$898 million deferred capital backlog. A more comprehensive review of the City’s CIP can be found under the City’s [“A Citizen’s Guide to the Capital Improvements Program.”](#)

### Deferred Capital Needs and Funding

Funding toward deferred capital projects within the City are intended to address the \$898 million in needs for buildings, streets and storm drains. This figure does not include sidewalks water and sewer pipes within the Public Utilities Department and other enterprise funds. Figure 1<sup>1</sup> outlines the City’s needs by category and the basis for the estimate.

In March 2009, the City issued its first bond of \$103 million to address these projects. As of October 2012, 91 percent of these funds have been encumbered or expended for projects.

In early 2012, the City Council approved an on-going five-year deferred capital funding plan called “Enhanced Option B” to further address deficiencies. The plan relies on both cash and bond funding, with the total amount increasing each year until FY 2017 when funding is intended to maintain the status quo quality of the City’s infrastructure. This option also utilizes \$8.3 million of Fiscal Year (FY) 2012 surplus funds toward deferred capital funding in FY 2013. The \$75 million in bond

funding for FY 2013 was approved in FY 2012, and an additional \$25 million in bond funding for FY 2013 was approved in October 2012 (FY 2013). Over the five years, a total of \$721.3 million is projected to be spent on deferred capital, but \$806 million is needed to maintain the status quo and prevent further deterioration of the City’s infrastructure (Figure 2). Under this funding plan, the City expects a five to 10 percent deterioration rate of assets.

### CIP Budgeting

The CIP is constrained by limited available funding and funding sources that have specific restrictions on how they can be used. The General Fund is not a primary source of funding for the CIP, because it is used to fund the City’s core community services. Often funding sources have restrictions written into the contracts. For example, projects that are even partially funded by federal and state grants are required to use prevailing wages for the entire project, which increases the overall cost.

The CIP Budget is a “rolling” CIP which means that it includes five years of funding for: (1) projects started in previous years that are ongoing, and (2) new projects starting in the current fiscal year. Currently, the CIP Budget does not include the City’s unfunded needs or new projects starting in later fiscal years.<sup>2</sup>

The Fiscal Year 2013 Adopted Capital Improvements Program (CIP) Budget is \$214.9 million and will be added to the City’s \$6.7 billion multi-year CIP. This budget allocates existing funds and anticipated revenues to both new and continuing projects. An additional \$295.9 million in previously unanticipated funding is now expected to be received during Fiscal Year 2013. City Council previously approved \$3.0 billion towards projects that are continuing from previous fiscal years.<sup>3</sup>

**Figure 1: City of San Diego Deferred Capital Backlog**

Asset Type	Estimated Backlog	Basis for Estimate
Buildings	\$185M	Three condition assessments conducted on (1) 31 public safety buildings in 2007; (2) the 5 Civic Center Complex facilities condition assessments in 2008 (Staubach Report); and (3) 443 major facilities in 2009 (Parsons Report).
Streets	\$478M	Comprehensive condition assessment of 100% of streets completed in November 2011.
Storm Drains	\$235M	Assessments/inspections conducted between 2010 and 2012 for all pump stations and corrugated metal pipe (CMP). Risk-based modeling for reinforced concrete pipe (RCP).
<b>Total</b>	<b>\$898M</b>	

<sup>1</sup>“[Review of the Mayor’s Five-Year Financial Outlook for FY 2014 – 2018.](#)” Office of Independent Budget Analyst. November 19, 2012.

<sup>2</sup> “A Citizen’s Guide to the Capital Improvements Program.” Office of the Independent Budget Analyst.

<sup>3</sup> City of San Diego Fiscal Year 2013 Capital Improvement Adopted Budget.

**Figure 2: Funding Under Enhanced Option B**

\$ in millions	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Total
Operations & Maintenance	\$54.1	\$50.0	\$62.0	\$66.0	\$79.0	\$311.1
Net Bond (for Capital Projects)	\$75.0	\$80.0	\$81.0	\$90.0	\$84.2	\$410.2
New Issuance of CIP Bonds	\$25.0					\$25.0
<b>Total</b>	<b>\$154.1</b>	<b>\$130.0</b>	<b>\$143.0</b>	<b>\$156.0</b>	<b>\$163.2</b>	<b>\$746.3</b>
Status Quo Funding Needed	\$159.0	\$160.1	\$161.2	\$162.3	\$163.4	\$806.0
<b>Difference</b>	<b>(\$4.9)</b>	<b>(\$30.1)</b>	<b>(\$18.2)</b>	<b>(\$6.3)</b>	<b>(\$0.2)</b>	<b>(\$59.7)</b>

An estimated \$3.5 billion of additional funding will be needed in future years to complete the projects currently in the City's CIP and to fund annual ongoing capital expenses, such as road resurfacing and pipe replacements. The CIP budget involves various players and funding sources and differs across departments and asset types.<sup>4</sup>

### ***CIP Streamlining & Transparency***

Over the past year, a number of measures were implemented in an effort to reduce the amount of time it takes to complete projects once they are approved by the City Council. The measures have included organizational changes, implementation of streamlining practices as well as the use of technology.

As a way to reduce the amount of time needed to award bids for CIP contracts, former Mayor Jerry Sanders consolidated Contracting Services and the Public Works Department. Under the reorganization, 14 positions were transferred from Purchasing and Contracting to the Public Works Department.

In September 2011, the City Auditor issued a report regarding the City's CIP program and offered 24 recommendations to improve management of projects. Fifteen recommendations have been completed or are near completion and implementation of eight other recommendations is ongoing.

On March 20, 2012, the City Council approved nine Streamlining and Contracting improvements. The measures significantly change how CIP projects are approved. Shortly after the organizational changes to consolidate Contracting Services with the Public Works Department and the approval of the streamlining processes, the time between the Bid Opening Date and

the Contract Award was reduced from six months to less than three months and continues to improve.<sup>5</sup> City staff has stated the goal is two months from bid to award. As of October 24, 2012, ten contracts have been awarded under these new rules.

As part of the agreement for these new streamlining measures, a number of transparency methods were adopted to keep the public informed about the projects being funded and their respective status. [Council Policy 000-31](#) establishes the standard requirements for enhancing CIP transparency and improving access to publicly available information related to the CIP. It also establishes the framework for making the information readily available to the stakeholders by using a combination of presentations to the City Council, stakeholder meetings, and media including the City's Website.<sup>6</sup>

Two important transparency measures include the development of the City's CIP website and the development of a multi-year CIP plan. The multi-year CIP plan will be discussed under *Community Involvement in CIP Development*. The City's CIP website, which can be viewed at [www.sandiego.gov/cip](http://www.sandiego.gov/cip), project information is provided by Council District, address, status, description, and budget. The user-friendliness of the website has been questioned though as project names include acronyms that may not be understood by the public and mapping software may be overly cumbersome. Additionally, while bid award amounts and contract vendors are posted under various sections of the City's website, scanned copies of contracts are not provided on the website as required under Proposition A (passed by voters in June 2012) or the Sunshine Act (passed by the City Council in October 2012).

### ***CIP Performance Measures***

In order to evaluate the success of the execution of the City's entire Capital Improvements Program, the following performance measures will be tracked and reported to the Budget and Finance Committee every six

<sup>4</sup> The City has the following 11 asset types: airports, environmental services, fire-rescue, library, park & recreation, police, public utilities, general services, real estate assets, streets and storm drains.

<sup>5</sup> "Fiscal Year 2012 State of the CIP Status Report." Report No. 12-116.

<sup>6</sup> [City Council Policy 000-31](#).

months as part of the State of the CIP Report. These five measures were designed to give an accurate and transparent account of ongoing CIP activity:

- The percentage of CIP projects that are within 20 working days of their original Baseline Schedule. The program target is to have 85 percent of all CIP projects on schedule or no more than 20 working days behind schedule.
- The percentage of CIP projects that are within their initial total project cost estimate. The program target is to have 90 percent of all CIP projects within the initial estimated total project cost.
- The percentage of available budgeted CIP funds that have been expended.
- The average number of days from bid opening to contract award. The target is 60 working days.
- The percentage of all CIP funds awarded through construction and consultant contracts that are restricted to Small/Local Business Enterprise (SLBE)/Emerging Local Business Enterprise (ELBE) certified firms. The program target is to have 15 percent of all such funds awarded to SLBE/ELBE certified firms.

### ***CIP Managed Competition***

Currently the Preliminary Statement of Work (PSOW) for CIP delivery is awaiting a hearing at a City Council committee prior to moving forward through the managed competition process.

At a presentation to the City's Budget & Finance Committee on October 24, 2012, staff indicated that the full effects of the streamlining processes approved in early 2012 would take an additional full year before the department would run as effectively as envisioned under the streamlining improvements. In addition, staff has indicated additional streamlining measures will be pursued in early 2013 to further reduce the amount of time to award contracts for projects.

The time needed to implement these additional measures may delay bringing forward the PSOW for CIP delivery because councilmembers may feel the department is not prepared to move forward with developing an accurate PSOW as well as producing a true bid should the competition move forward. The original timeline for this particular managed competition had a Request for Proposals to be released by the City in late 2013 following Council approval of the PSOW and final development of the Statement of Work. The potential savings from this managed competition are unknown.

### ***Community Involvement in CIP Development***

At the September 26, 2012 Budget & Finance Committee meeting, staff presented an update to the Committee regarding outreach efforts to the community in developing the FY 2014 CIP budget. Based on feedback from councilmembers, staff increased its outreach efforts to community groups, including increasing the role of the Community Planners Committee (CPC) and with the help of the Independent Budget Analyst's (IBA) Office, developing a Citizen's Guide to the CIP. In November 2012, recommended CIP projects were submitted to the Mayor and City Council from the CPC and Community Planning Groups. These recommended projects will be scored by Capital Projects staff and the availability of funds will be determined by Financial Management. The resulting projects will be included in the Mayor's Proposed Budget released in April 2013.

In addition to the annual budgeting process, the new Council Policy outlines the intent to develop a multi-year CIP plan. Moving to multi-year planning has also been supported by the IBA. Following the development of the FY 2014 CIP Budget, outreach efforts may be transitioned to developing a multi-year plan for FY 2015. City staff has also expressed support for moving to multi-year planning but a timeline for development of such a plan has not been produced.

### ***San Diego Regional Chamber of Commerce CIP Proposal***

In February 2012, the San Diego Regional Chamber of Commerce supported an outline to a potential infrastructure initiative that would include the following:

1. The development and adoption of a City of San Diego infrastructure needs assessment and funding strategy;
2. The adoption by the Mayor and Council of revised infrastructure, planning and land use policies; (2012)
3. The initiation of a reliable and sustainable process to assess necessary community needs and funding scenarios; (2013)
4. The presentation of fund estimate and community project needs assessment by Spring, 2014; and
5. The ratification of project and funding alternatives by the voters. (November, 2014)

The infrastructure initiative includes a package of reforms, and a list of neighborhood/community specific

public projects identified by the citizens and business owners located in that area.

The reform package contemplates a set of policy alternatives to ensure that money dedicated to any infrastructure process or project will be money spent well and for which the City will be held accountable. The reforms address:

1. Affordable housing costs reforms – In order to get maximum value out of each dollar dedicated to affordable housing production, a number of reforms must occur.
2. Oversight and accountability – City Hall must commit to a set of oversight and accountability standards to track infrastructure funds and avoid waste, fraud, abuse, and diversion. Some of these are being accomplished through Capital Improvement Project reforms.
3. Project delivery – A set of standards must be set that govern the timing and process by which projects occur.
4. Budgetary set-asides for maintenance – Reforms must take place within the City budget that creates accounts dedicated to project maintenance. Projects must not be funded as one-time events but must anticipate future maintenance costs.
5. Land use and planning reforms – Community plan updates, traffic mitigation requirements, and programmatic EIRs must all be considered as ways to decrease the costs and times of infrastructure projects.

Lastly, the Chamber of Commerce adopted a proposed timeline for the initiative:

#### **Phase One** – Adoption of Infrastructure Reform Package

- Identify necessary planning, land use, and other reform items
- Encourage mayor and city council members to support reform items
- Provide necessary support from business and community leaders to ratify reform items.

#### **Phase Two** – Infrastructure Project Needs and Funding Assessment

- Mayor proposes, City Council adopts, list of infrastructure needs City-wide and for each of the 9 City Council Districts

- Mayor proposes and Council confirms one citizen committee for city-wide project needs and nine Council District committees
- 53 Plans adopted by citizen commissions – forwarded to Mayor for final proposal
- Mayor proposes, and City Council adopts 5 year Infrastructure Funding Forecast and allocation framework to guide neighborhood committee decisions
- Mayor proposes infrastructure funding and project plan informed by the Citizen committees
- Council adopts infrastructure funding and project plan informed by Mayor and Citizen committee plans

#### **Phase Three** – Project list and funding adoption

- City Council constructs ballot measure including final list of infrastructure needs and funding method.
- City Council places measure on the ballot through referendum
- Voters confirm or deny ratification