



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: March 25, 2011

TO: Members of the Budget & Finance Committee

FROM: Tony Heinrichs, Public Works Director
Kip Sturdevan, Transportation and Storm Water, Interim Director

SUBJECT: Response to Additional Questions Regarding Report No. 11-037 "Deferred Capital Update"

The following responses address the additional questions provided by members of the Council's Budget and Finance Committee following presentation of our "Deferred Capital Update" report on March 16, 2011. The questions provided in memorandum by Councilmember Lightner and the Committee's questions provided by the office of the Independent Budget Analyst are answered below.

1. Does the City have a comprehensive, long-term Capital Expenditure Plan? If a plan exists, please provide details and address how it compares to the San Francisco Capital Expenditure Plan. If no plan exists, is one being developed? What are Best Management Practices for long-term capital planning?

The Deferred Capital Update provided to the Committee covers only those assets developed and/or maintained through the General Fund. San Francisco's Capital Expenditure Plan includes both General Fund and Enterprise Fund activities and strives to cover an exceptionally long period for budget forecasting.

Our city does have both plans and forecasts for its capital improvement program and maintains these within appropriate financial planning horizons. The Five-Year Financial Outlook, the Capital Improvement Program Plan and the completed and ongoing condition assessment surveys enable the City to determine the future needs of its infrastructure assets.

Staff has reviewed the "best management practices" for long-term capital planning recommended by the Government Finance Officers Association and continues to research how

other municipal agencies may be applying those standards. The City has already adopted best management practices for the identification and accounting of Capital Improvement Needs.

Those practices involve both the condition assessments and frequent meetings of the Capital Improvement Program Review and Advisory Committee. All parties involved in the planning and implementation of capital projects coordinate their efforts with the City's financial management work group.

2. Does the City consider any environmental factors when prioritizing projects?

The City actively considers environmental factors and the potential impact on the environment for every work activity and project it undertakes.

The Facilities Division considers the presence of lead, asbestos and other hazardous materials as part of its project prioritization effort. It also plans projects to minimize ancillary impacts on the environment employing best management practices to reduce the potential for air, water and ground pollution in every job.

Though the prioritization of streets needing work is based on an Overall Condition Index, the Street Division also strives to minimize impacts to the surrounding environment in every job. It requires the use of recycled materials in its overlay and slurry sealing contracts and recycles asphalt materials removed from roadways.

The Storm Water Division's work is completely related to improving San Diego's environment. It maintains and improves channels, pipes and pumps to minimize the disastrous effects flooding has on water quality. It employs best management practices to prevent storm water pollution in its work activities and plans projects to avoid additional impacts on the environment.

3. How are future projects prioritized to achieve the condition desired? For example, is it staff's priority to move projects from a "Poor" to a "Fair" or "Good" assessment classification or is priority given to move projects from a "Fair" to a "Good" assessment classification?

Prioritization processes vary slightly from division to division though all are based on the condition assessments and analysis described in the Deferred Capital report. This prioritization effort is separate and distinct from that described in Council Policy 800-14. That policy deals with the prioritization of projects already planned and not the selection of deferred capital priorities requiring attention.

For the Facilities Division, priorities are established from the findings of the condition assessments and are described as either:

- a. Priority 1 – critical/immediate needs
- b. Priority 2 – tending critical,
- c. Priority 3 – necessary,
- d. Priority 4 – recommended, or,
- e. Priority 5 – needed in the future.

In general, the highest priorities for facility improvements are given to fire, life and safety related facilities. The goal is to have these consistently classified in the “Good” range in condition assessments. Decisions about whether to move other facilities to “Good” or from “Poor” to “Fair” would depend on availability of funds for the necessary work. The Division’s management target is to maintain all like facilities comparable throughout the City in the best condition that resources will allow.

For Streets, the general goal is to move those in poor or fair condition to good condition. Repairing and slurry sealing a street in fair condition will bring it to good condition, similarly, overlaying a street in poor condition will bring it to good condition after all the necessary repairs have been performed in advance of the overlay.

Given its large network of street assets, the Street Division uses an objective point system to prioritize streets for its annual resurfacing program. The Division considers several factors including; overall pavement condition, maintenance history, resurfacing history, proximity to emergency facility/tourist attraction/school, street functional classification in addition to input from the community, Mayor and Council as parts of the prioritization process.

The Storm Water Division focuses its efforts on minimizing flooding risks and maintaining facilities that protect water quality. Given its broad network of facilities and the current condition of some assets, the Division is primarily concerned with a number of emergency and thus high priority capital improvement projects.

4. What are best management practices related to the determining what percentage of projects should be in each classification level?

While there is no specific BMP for determining the number of buildings that should be maintained in any given classification, the Facilities Division is working to bring all facilities to a “Good” rating in future condition assessments. It is important to restate that this does not mean that all deficiencies will be eliminated but rather the goal is to eliminate any priority 1 or priority 2 deficiencies.

The generally available description of best management practices for streets is to have 75% of streets in good condition, 20% in fair condition, and 5% in poor condition. This BMP was established at the national level through a survey of cities throughout the county and may not adequately capture local needs. Staff has compared our practices and condition targets with other municipal agencies and finds they are generally similar.

There is no industry-wide BMP for storm water facilities. City staff has adopted a risk-based approach to prioritizing capital projects linking the potential for asset failure with the consequences should that same asset fail. This is derived from what is known about each of the storm water system assets such as age, type of material used and the conditions surrounding the asset.

5. How often will assessment ratings be updated?

Condition assessments for all asset classes will be updated and/or expanded as funding permits.

A comprehensive street condition assessment is planned every four years. Storm Water plans to conduct assessments for its highest risk assets every year and will continue with its overall condition assessment efforts. Facilities will update its existing assessment information as work to correct deficiencies is performed with the intention of conducting comprehensive assessments every three years.

6. When will the City include sidewalks and alleys in the cost estimates for infrastructure needs?

This year's comprehensive condition assessment for street assets will include alleys. That information will be analyzed following the assessment's completion (September 2011) and used to refine future cost estimates for maintaining alleys throughout the City. Sidewalks are not included in condition assessment efforts because their maintenance and repair is the responsibility of the adjacent property owners (California Streets and Highways Code, Section 5610-5618).

7. What is the City's policy regarding building retention? Specifically, how is it determined if a building remains an asset that the City should maintain, or an asset that should be released or sold?

The City follows the industry standard practice that recommends if the cost of deficiencies totals more than 30% of the building's current replacement value (CRV), it should be considered for replacement. As with all City assets, many other factors are considered as part of any decision to replace or retain a given facility. For instance, even though the City Administration Building and Civic Center Exhibition Hall have measured deficiencies totaling more than 50% of CRV, staff has been able to continue operating these facilities in a safe and effective manner.

8. What are the operations and maintenance expenses by funding source for each of the programs included in the Deferred Capital Outlook report?

The Facilities Division receives its operations and maintenance funding from many sources contingent on the type and level of work requested by client departments. Those sources are not consistent from year-to-year nor are budgets allocated or derived in the same way year-over-year. In addition to the General Fund, the Facilities Division is funded by CIP Bond funds, Public Utilities – both water and wastewater, ADA project funds, Environmental Services (Energy Efficiency and others), Golf revenue funds, CDBG grants (homeless shelter support and more), the Communications fund, Qualcomm stadium revenue accounts, the Airport enterprise funds and other grant funding among other potential sources.

The Streets Division also received funding from multiple sources including the General Fund, Gas Tax funds, TransNet, Transient Occupancy funds, Proposition 42 and Proposition 1B funds, damage recovery funds and other sources.

Operations and maintenance funding for storm water is provided exclusively by the General Fund.

9. What are the capital expenses for the “catch-up” and “on-going” needs described in the report?

The capital expenses for the catch-up and ongoing costs needed for each division vary between alternatives. There is not an exact percentage breakdown common to each group. However, the programs are all close to an even split between the capital and maintenance costs in each section of each alternative.

For the Facilities Division, Alternative 1 would include approximately \$47 million for capital costs in the catch-up phase and approximately \$16 million for ongoing capital costs and an additional \$16 million for ongoing maintenance costs. For Alternative 2, the Facilities Division would allocate approximately \$70 million for catch-up costs and \$24 million for ongoing capital costs and an additional \$24 million for ongoing maintenance costs.

The Street Division would allocate approximately \$43 million for capital costs and \$14 million for maintenance costs during the catch-up phase of Alternative 1. The Division would also allocate approximately \$38 million for ongoing capital costs and an additional \$32 million in ongoing maintenance costs in that alternative. For Alternative 2, the Street Division would allocate approximately \$116 million for catch-up capital costs and \$41 million for catch-up maintenance costs. The Division would also allocate approximately \$53 million for ongoing capital costs and \$36 million in ongoing maintenance costs in that alternative.

Storm Water would allocate approximately \$88 million for capital costs in the catch-up phase of alternative 1. The Division would also allocate approximately \$35 million for ongoing capital costs and \$10 million for ongoing maintenance costs in that alternative. The division would allocate approximately \$165 million for catch-up capital costs, \$35 million for ongoing capital costs and \$10 million for ongoing maintenance costs in that alternative.

10. Does the Department have adequate capacity?

The Department only has enough staff and contract capacity to execute its current work plan. Any additional work efforts approved by Council, including the alternatives described in the Deferred Capital Update report, would require the implementation of new purchasing and contracting efficiencies and the authorization to assign appropriate staff resources to the project management aspects of that work. The Department would rely on the improvements anticipated from using the Multiple Award Construction Contract (MACC) process currently being considered for adoption at the City.



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