



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: February 22, 2012 REPORT NO. 12-021  
ATTENTION: Budget and Finance Committee  
SUBJECT: Infrastructure Condition Update  
REQUESTED ACTION: Decision on Deferred Capital Funding Option.  
STAFF RECOMMENDATION: None.

**BACKGROUND:**

**Deferred Capital Backlog:**

At the February 8, 2012 Budget and Finance Committee meeting staff presented updated information on the current estimated backlog of deferred capital work for the City's streets, buildings and storm drains that are supported by the general fund budget. The source for this presentation was report number 12-012 dated February 1, 2012. With the most recent street condition assessment information reported to the Council Land use and Housing Committee in November 2011 and with the funding investments for these infrastructure assets over the last couple of years, the current deferred capital backlog is estimated to be as follows:

Streets	\$478 million
Buildings	\$185 million
Storm Drains	<u>\$235 million</u>
<b>Total Backlog</b>	<b>\$898 million</b>

This result does not include assessments of non-general fund infrastructure (e.g. water and sewer) and some specific general fund assets. Specifically, the following types of assets were excluded from previous condition assessments: water and sewer infrastructure; alleys and sidewalks; right of way features (signs, signals, guardrails); piers, seawalls and related Park and Recreation managed structures; storm drainage channels; bridges; San Diego Convention Center; and Qualcomm Stadium and Petco Park.

Staff also explained the information contained in Attachment 1: Updated projections of general fund surplus/deficits for fiscal years FY 2013 through 2017; the current funding option for

infrastructure reflected in the Mayor's FY 2013 five year outlook; the "status quo" funding option discussed above; and the funding options A and B which increase annually over the five year period.

**DISCUSSION:**

During the February 8, 2012 meeting, the committee requested additional information on performance measures, funding forecasts and project lists before recommending an infrastructure improvement funding option to the Council for consideration. For the "status quo" service level model and funding options A and B shown in Attachment 1, the Committee wanted to know what the expected condition of the City's streets, buildings and storm drains would be for these funding options for the 2013-2017 five year period. This information is shown on Attachment 2. It is important to note that expected service levels for funding option A and B are the same because the total investment objectives are the same. Service levels for funding options A and B are not as good as the status quo option because funding amounts over the 2013-2017 five year period are less than those for the status quo option. The Budget and Finance Committee also requested the types of projects funded out of routine operations and maintenance (O&M) and deferred capital funding. These lists are found in Attachment 3.

**SUMMARY:**

The level of deferred capital backlog for City street, building and storm drains is now estimated to be \$898 million. In March 2011, staff presented two models known as Alternative Service Level 1 and 2 to the Budget and Finance Committee for consideration. Staff recommended that the Committee and Council should set Alternative Service Level 1 as the initial goal for reducing the deferred capital backlog. Since these were information only items, the Committee did not take any specific action. Since last November, staff has reconsidered its earlier recommendation and has developed a more affordable and practical "status quo" alternative and an approach to gradually increase funding in order to achieve it. This represents the most realistic course of action at this time. Staff has estimated what the relative service levels will be with the status quo and funding option A and B scenarios and has provided lists of projects that typically are funded from annual O&M budgets as well as deferred capital bond proceeds.

As such, staff is recommending that the City Council consider this approach and decide the total associated funding that is reflected on either lines 21 and 28 of Attachment 1.

Respectfully submitted:

  
Tony Heinrichs  
Director  
Public Works

  
Garth K. Sturdevan  
Interim Director  
Transportation and Storm Water

Attachment 1: Deferred Capital Improvement Funding Options  
Attachment 2: Infrastructure Assessment Summary  
Attachment 3: Project List

## DEFERRED CAPITAL IMPROVEMENT FUNDING OPTIONS

(as of February 8, 2012)

	A	B	C	D	E	F
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
1	Projected Surplus (Deficit)*	(31,800,000)	(36,600,000)	(28,100,000)	(5,600,000)	22,700,000
2	Previous GF Pension Payment/Projections	(198,000,000)	(213,100,000)	(227,400,000)	(241,100,000)	(254,400,000)
3	Revised GF Pension Payment/Projections	178,400,000	182,400,000	187,500,000	193,000,000	199,100,000
4	Revised Projected Surplus (Deficit)	(12,200,000)	(5,900,000)	11,800,000	42,500,000	78,000,000
<b>CURRENT</b>						
Deferred Capital Component						
5	Operations & Mtce	45,800,000	45,800,000	45,800,000	45,800,000	45,800,000
6	Capital (Debt Service)		7,200,000	14,700,000	22,200,000	37,200,000
7	Total Budget Appropriations		53,000,000	60,500,000	68,000,000	83,000,000
8	New Bond Issuance (Net)	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
9	Total Capital/Maintenance Program	59,100,000	145,800,000	145,800,000	145,800,000	145,800,000
<b>"STATUS QUO"</b>						
Deferred Capital Component						
10	Operations & Mtce		53,800,000	54,876,000	55,973,520	57,092,990
11	Capital (Debt Service)		7,478,460	14,956,921	22,435,381	37,392,302
12	Total Budget Appropriations		61,278,460	69,832,921	78,408,901	95,627,152
13	New Bond Issuance (Net)	105,200,000	105,200,000	105,200,000	105,200,000	105,200,000
14	Total Capital/Maintenance Program		159,000,000	160,076,000	161,173,520	163,434,850
15	Adjusted Projected Surplus (Deficit)		(20,478,460)	(15,232,921)	1,391,099	30,993,168
<b>FUNDING OPTION A (Traditional)</b>						
Deferred Capital Component						
16	Operations & Mtce		45,800,000	50,000,000	53,000,000	56,000,000
17	Capital (Debt Service)		5,608,845	11,591,614	18,322,228	25,800,689
18	Total Budget Appropriations		51,408,845	61,591,614	71,322,228	81,800,689
19	New Bond Issuance (Net)	75,000,000	80,000,000	90,000,000	100,000,000	105,200,000
20	Bonds to Cash - Capital Funding Ratio	100%	100%	100%	100%	100%
21	Total Capital/Maintenance Program		120,800,000	130,000,000	143,000,000	156,000,000
22	Adjusted Projected Surplus (Deficit)		(10,608,845)	(6,991,614)	8,477,772	36,199,311
<b>FUNDING OPTION B (Incremental Cash vs Bonds)</b>						
Deferred Capital Component						
23	Operations & Mtce		45,800,000	50,000,000	62,000,000	66,000,000
24	Capital (Debt Service)		5,608,845	11,591,614	17,649,167	24,379,781
25	Total Budget Appropriations		51,408,845	61,591,614	79,649,167	90,379,781
26	New Bond Issuance (Net)	75,000,000	80,000,000	81,000,000	90,000,000	89,420,000
27	Bonds to Cash - Capital Funding Ratio	100%	100%	90%	90%	80%
28	Total Capital/Maintenance Program		120,800,000	130,000,000	143,000,000	156,000,000
29	Adjusted Projected Surplus (Deficit)		(10,608,845)	(6,991,614)	150,833	27,620,219

\* The projected surplus (deficit) in line 1 of this document updates the Mayor's October 2011 Five Year Financial Outlook to reflect the City's new Annual Required Contribution (ARC) received from SDCERS on January 13, 2012, as well as the projected future ARC contained in the same January 2012 Actuarial Valuation Report for the City of San Diego.

Attachment 2

Infrastructure Assessment Summary

	Assessments	Status quo service level	FY 2013 cost to maintain status quo (O&M and capital)	Estimated service level in five years Funding Option A or B
<b>Streets</b>				
Streets	Assess every 4 years (~\$400K) Next assessment scheduled for FY 2015	Condition - Good 42% Fair 36% Poor 22%	\$81.4M	
<b>Storm Drains</b>				
Reinforced Concrete Pipe (RCP)	~700 miles to televise Assess 1% (7 miles) annually (~\$250K) ~\$25M to assess all RCP Based on business risk exposure	Risk - Low 37% Medium 53% High 10%	\$22.6M (+\$5M channel maint.)	Estimated overall 5-10% service level reduction for all asset classes
Corrugated Metal Pip (CMP)	~40 miles to televise Completed in FY 2012 (\$1.7M)		\$15M	
Pump Stations	14 pump stations Completed recently (\$300K) Assess every 4 years (\$250K)	Condition - Good 14% Fair 72% Poor 14%	\$1M	
Canyon Outfalls	1,700 outfalls 642 assessed to date (\$645K) Completion in FY 2014 (\$400K) Assess every 10 years (\$1M)	Condition - Good 36% Fair 10% Poor 54%	\$2M	
<b>Facilities</b>				
Facilities	443 General Fund facilities Completed in FY 2009 (~\$1M) Assess every 4 years (\$500K-\$1M) Next assessment scheduled for 2014	Condition - Good 45% Fair 27% Poor 28%	\$32M	

**Project List**  
**Sample of Projects Using Operations & Maintenance and Capital Funding**

	<u>Operations &amp; Maintenance</u>	<u>Capital</u>
<b>Streets</b>	<ul style="list-style-type: none"><li>• Filling potholes</li><li>• Slurry seal</li><li>• Minor asphalt repairs</li><li>• Dig-outs</li><li>• Minor mill and pave</li></ul>	<ul style="list-style-type: none"><li>• Asphalt overlay</li><li>• Install ADA-compliant curb ramps</li><li>• Install concrete bus pads</li><li>• Replace cross gutters</li></ul>
<b>Storm Drains</b>	<ul style="list-style-type: none"><li>• Cleaning of pipes and channels</li><li>• Small repairs to drain structures (inlets/outlets) or pipes</li><li>• Replacement of small pump station components (valves, simple electronics, etc.)</li></ul>	<ul style="list-style-type: none"><li>• Rehabilitation (lining) or replacement of pipes</li><li>• Installation of new or replacement of failed inlets, outfalls, or energy dissipaters</li><li>• Replacement of large components (manifolds, complex electronics, etc.)</li><li>• Pump station pumps and motors</li></ul>
<b>Facilities</b>	<ul style="list-style-type: none"><li>• Repair doors, hardware, windows, and eaves</li><li>• Repair or replace lights, ballasts, and breakers</li><li>• Repair exhaust fans, air conditioners, and pool boilers</li><li>• Unclog drains, repair plumbing leaks, replace broken valves</li><li>• Patch roof leaks, re-hang gutters, and clean and repair roof drains</li><li>• Paint walls, doors, and cabinetry</li><li>• Replace locks and rekey doors</li></ul>	<ul style="list-style-type: none"><li>• Replace major wood sheathing or structures</li><li>• Replace generator or perform electrical upgrades</li><li>• Replace HVAC system or major component</li><li>• Replace complete plumbing line or fixtures</li><li>• Replace roofs, gutters, and drains</li></ul>