



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: November 7, 2007 REPORT NO: 07-188
ATTENTION: Budget & Finance Committee
 Agenda of Nov. 14, 2007
SUBJECT: CIP Prioritization Policy
REFERENCE: None

REQUESTED ACTION:

For information only.

STAFF RECOMMENDATION

For information only.

BACKGROUND

The City of San Diego's Capital Improvement Program (CIP) is implemented through an interrelationship of client departments, service departments, new and redevelopment, and multiple funding sources. Capital investments are necessary for the construction, maintenance and operations of all parts of municipal infrastructure. Major infrastructure within the City's area of responsibility includes streets and related right-of-way features; storm water and drainage systems; water and sewer systems; public buildings such as libraries, recreational and community centers, police and fire stations, and lifeguard facilities; and parks. Decisions about capital investments affect the availability and quality of most government services. The municipal infrastructure is often taken for granted, yet it is vital to the city's economy, with implications for health, safety, and quality of life.

PURPOSE

The purpose of this CIP prioritization policy is to establish an objective process for ranking CIP projects to allow decision-makers to have a basis for choosing the most compelling projects for implementation. This process allows for the analytical comparison of the costs and benefits of individual projects, as well as an opportunity to evaluate projects against one another on their relative merits. Ideally, it should provide a citywide perspective, explore various financing options, and facilitate project coordination. All projects being considered for funding will be prioritized in accordance with the guidelines of this policy. It is proposed that this single CIP

prioritization policy address all funding sources and asset classes, including enterprise funded projects (golf, water, sewer and landfill) and transportation and drainage projects. Council Policy 800-14 dated January 19, 2006, which is the current prioritization policy addressing only transportation and drainage CIP projects, will be superseded by this policy. The goal of this CIP prioritization policy is to establish a capital-planning process that ultimately leads to policy decisions that optimize the use of available resources, resulting in the maximum benefit from the projects delivered.

BEST PRACTICES

Best practices were researched and incorporated to the maximum degree practical. For a number of years, the City of San Diego has participated in the California Multi-Agency Capital Improvement Projects Benchmarking Study, which involves the six major cities in California. This Benchmarking Study has identified common best management practices recommended for effective planning of capital projects. These practices have been incorporated in this policy. Furthermore, the Government Finance Officers Association's recommended best management practices were considered in the development of this CIP prioritization policy. Attachment 1 contains detailed information on CIP prioritization best practices.

IMPLEMENTATION

To initiate an effective capital project process, it is recommended that the City establish and budget for a revolving fund for capital planning, to allow improved development of the scope, feasibility and funding requirements of projects prior to them becoming a CIP. The implementation of a capital planning process will result in better information, planning, and analysis of proposed capital projects.

A. Project Funding

Projects within restricted funding categories will compete only with projects within the same funding category. Prioritization within these restricted funding categories will occur in accordance with this CIP prioritization policy. For example, water system CIP projects are funded with enterprise funds paid by water ratepayers. All water CIP projects will be prioritized in accordance with the prioritization policy, but will not compete for funding with projects not funded by Water Enterprise funds.

The following is a partial listing of some of the restricted funding categories:

1. Community Development Block Grants
2. Developer Impact Fees
3. Enterprise Funds (Airport, Environmental Services, Golf, Metropolitan Wastewater, and Water Departments)
4. Facilities Benefit Assessments
5. Grants
6. State and Federal Funds
7. TransNet Funds

Projects that are not within a restricted funding category will compete within capital outlay funds/general obligation funds in accordance with this CIP prioritization policy. Although capital needs from these restricted funds or revenue-producing departments are often separate from the General Fund, the capital investments of all City departments should be planned together to allow better coordination of capital projects in specific parts of the City and over time. Citywide coordination of capital project planning can increase the cost-effectiveness of the City's capital programs by allowing more efficient infrastructure investments.

B. Project Categories

To ensure that the comparison is conducted between similar types of projects, the CIP projects will be separated into categories according to the predominant type of asset in the project. The project categories will include:

1. Facilities and structures, with the following project subcategories:
 - a. Police facilities and structures
 - b. Fire facilities and structures
 - c. Libraries
 - d. Park & Recreation facilities and structures
 - e. Community support facilities and structures
 - f. Water department facilities and structures (e.g., treatment plants, pump stations, reservoirs, dams, standpipes)
 - g. Metropolitan Wastewater department facilities and structures (e.g., treatment plants and pump stations)
 - h. Operations facilities and structures (e.g., maintenance shops and offices)
 - i. Other City facilities and structures
2. Parks and open space
3. Golf courses
4. Airport assets
5. Water distribution systems
6. Wastewater collection systems
7. Reclaimed water system
8. Landfills and supporting facilities and structures
9. Storm drain systems including pipes, channels, BMPs and pump stations
10. Flood control systems
11. Transportation facilities, with the following project subcategories:
 - a. New roads, roadway widening, and roadway reconfigurations
 - b. Street enhancements including medians and streetscape
 - c. Bridge replacement, retrofit and rehabilitation
 - d. Bicycle facilities (all classifications)
 - e. Pedestrian facilities including sidewalks but not curb ramps
 - f. Pedestrian accessibility improvements including curb ramps
 - g. Street lighting including mid-block and intersection safety locations
 - h. New traffic signals
 - i. Traffic signal upgrades and modifications
 - j. Traffic signal interconnections and other signal coordination work
 - k. Traffic calming, flashing beacons, and other speed abatement work

- l. Guardrails, barrier rails, and other structural safety enhancements
- m. Erosion control, slope stabilization, and retaining walls supporting transportation facilities.

Capital Improvement Program budgets will reflect project allocations according to these categories. These project categories will include resource allocation for all project components, including environmental mitigation, property acquisition, and other activities, necessary to complete the project.

Infrastructure-related terms used in this report are defined below to provide common terminology for effective discussion.

<u>Term</u>	<u>Definition</u>
Capital Improvement Program (CIP)	This term refers to the City of San Diego’s Multi-Year Capital Improvement Program plan as adopted by the City Council.
Capital Improvement Project	A Capital Improvement Project is any project that typically involves the erection, construction, demolition, alteration, upgrade, or improvement of any public structure, equipment, building, leased space, infrastructure, park, road, utility, or right-of-way feature. Generally, these projects require the City of San Diego’s involvement in funding, design, site or building acquisition, site preparation, utilities placement, installation, construction, or reconstruction. These projects either increase the level of service provided to the public (in the case of new infrastructure) or increase the expected service life of the asset (for recapitalization of existing assets).
Maintenance Project	A Maintenance Project is a minor project to repair or maintain an existing public asset, without increasing the level of Service provided to the public or the expected service life of the asset. In general, maintenance projects are required to realize the expected service life of the asset. Examples of maintenance projects include crack sealing and slurry sealing of streets, painting exterior and interior walls, major servicing of HVAC equipment, and storm drain cleaning.
Operations and Maintenance	On-going operations and maintenance refers to the continuing work required to support and sustain the operation and useful service life of any City asset. On-going operations and maintenance includes:

- 1) Expenditures required to provide the specified level of service to the public, including program functions, utilities, custodial, etc.
- 2) Expenditures for scheduled maintenance that is necessary to achieve the useful service life of the asset.

C. Project Phases

To ensure that the prioritization is conducted between projects with a similar level of completion, all CIP projects will be separated into the following standard phases of project development within each project category:

1. **Planning** – includes development of a feasibility study, detailed scope, and budget.
2. **Design** – includes development of the environmental document, construction plans and specifications, and detailed cost estimate.
3. **Construction** – includes site preparation, utilities placement, equipment installation, construction, reconstruction, and environmental mitigation.

In order to ensure a continuous development of CIP projects and prepare for grant opportunities, a goal will be established that a predetermined minimum of CIP resources will be allocated to projects in the Planning phase and the Design phase.

D. CIP Review and Advisory Committee

A cross-departmental CIP Review and Advisory Committee (CIPRAC) will be formed to provide a high level, cross functional review of the prioritization process to ensure the adherence to established practices. This committee will be chaired by the Chief Operating Officer and will include Directors (or their designated representatives) of the major “asset owning” departments (Environmental Services, Fire, Libraries, Metropolitan Wastewater, Park & Recreation, Police, Water), the “asset maintenance” department (General Services), Comptroller, Financial Management, Engineering & Capital Projects, Inter-Governmental Relations, Development Services, and City Planning & Community Investment. This Committee’s charter will be to ensure conformance with the Mayor’s and Council’s policy goals, departmental priority needs, and anticipated funding sources. Cross-departmental coordination of capital planning will increase the cost effectiveness of CIP and minimization of community disruptions whenever possible. In addition, public capital needs should be coordinated with long-term plans for land use changes, including new development, anticipated in-fill, and redevelopment. A capital-planning process allows for at least some level of analytical comparison of the costs and benefits of individual projects, as well as an opportunity to evaluate projects against one another on their relative merits. The CIPRAC will provide a citywide perspective, exploring various financing options and facilitating project coordination.

E. Multi-Year Capital Improvement Program

During each annual budget development cycle, the City Council will adopt a Multi-Year CIP plan that consists of infrastructure asset capital investments. The CIP forecasts capital needs

over a multi-year period (currently 11 years), with the funding schedule formally reviewed and adopted annually to reflect any changes in project needs or conditions. Outside the budget development process, the City Council may adopt independent resolutions that authorize the application for, acceptance, and appropriation of funds as grant or other possible funding opportunities arise for the creation of new Capital Improvement Projects.

F. Prioritization Factors

The City must prioritize capital needs to help determine which projects will receive available funding, and/or compete for bond funding based on criteria that is aligned with Departmental priorities, the Mayor's long-term plans, and City Council's objectives.

For all non-transportation projects (project categories 1-10 above), the following are the key prioritization factors (listed in order of importance):

1. **Health & Safety Effects:** This criterion will include an assessment of the degree to which the project improves health and safety factors associated with the infrastructure asset. For example, projects that result in the reduction in accidents, improved structural integrity, and mitigation of health hazards would score higher. The evaluation of this criterion will constitute twenty-five percent (25%) of the project's total score.
2. **Regulatory or mandated requirements:** This criterion will include an assessment of the degree to which the project is under a regulatory order or other legal mandates. For example, projects that are required by consent decrees, court orders, and other legal mandates would score higher. The evaluation of this criterion will constitute twenty-five percent (25%) of the project's total score.
3. **Implication of Deferring the Project:** This criterion will include an assessment of the consequences of delaying a project. For example, projects that would have significantly higher future costs, negative community impacts, or negative public perception should they be deferred, would score higher. The evaluation of this criterion will constitute fifteen percent (15%) of the project's total score.
4. **Annual recurring cost or increased longevity of the capital asset:** This criterion will include an assessment of the degree to which the project reduces operations and maintenance expenditures by the City. For example, a roof replacement project that reduces both maintenance requirements and energy consumption or a storm drain replacement project that reduces the need for periodic cleaning would score higher. On the other hand, a new library that increases maintenance, energy and staffing costs would score lower. The evaluation of this criterion will constitute ten percent (10%) of the project's total score.
5. **Community Investment:** This criterion will include an assessment of the degree to which the project contributes toward economic development and revitalization efforts. For example, a project within an approved Redevelopment Area or Community Development Block Grant eligible area would score higher. The evaluation of this criterion will constitute ten percent (10%) of the project's total score.

6. **Implementation:** This criterion will include an assessment of the degree to which the project is in compliance with the General Plan, Community Plan, or approved City-wide master plan. An assessment of other issues involved in completing the project (e.g., significant environmental issues, project complexity, and level of public support) will also be included in this criterion. For example, projects that would benefit the City of Villages Strategy, further smart growth, or receive overwhelming support from the community would score higher. The evaluation of this criterion will constitute five percent (5%) of the project's total score.
7. **Project Cost and Grant Funding Opportunity:** This criterion will include an assessment of the amount of funding needed to complete the current project phase and the entire project, and shall also include assessment of the amount of City funding in the project compared to the amount of funding provided by grant funds from outside agencies. For example, a project that would bring grant funds from an outside agency into the City would score higher, while a project that relies only on City funds would score lower. The evaluation of this criterion will constitute five percent (5%) of the project's total score.
8. **Project Readiness:** This criterion will include an assessment of the time required for a project to complete its current project phase (i.e., planning, design or construction). For example, a project with a completed environmental document or community outreach would score higher, while a highly complex project requiring longer design time would score lower. The evaluation of this criterion will constitute five percent (5%) of the project's total score.

For transportation projects (project category 11 above, previously adopted as City Council Policy 800-14), the following key prioritization factors will be used in lieu of the above factors:

1. **Health & Safety:** This criterion will include an assessment of the degree to which the project improves the safety of the public using the facility. This criterion also includes an assessment of the degree that a project is under a regulatory order or other legal mandates relating to public safety. For example, projects that result in reduction in traffic accidents, improved seismic safety rating of a bridge, upgrade of an undersized storm drain to address flooding problems, and reduction of response times by emergency vehicles would score higher. The evaluation of this criterion will constitute twenty-five percent (25%) of the project's total score.
2. **Capacity & Service (Mobility):** This criterion will include an assessment of the degree to which the project improves the ability of the transportation system to move people under all modes of travel including vehicle, transit, bicycle, and pedestrian usage. This criterion will also include an assessment of the degree to which the project improves the overall connectivity and reliability of the City's transportation and drainage system. For example, projects that reconfigure intersections to reduce delays, improve a parallel road to bypass a congested intersection, and interconnect traffic signals to reduce travel time along a congested corridor would score higher. The evaluation of this criterion will constitute twenty percent (20%) of the project's total score.
3. **Project Cost and Grant Funding Opportunity:** This criterion will include an assessment of the amount of funding needed to complete the current project phase and

the entire project, and shall also include assessment of the amount of City funding in the project compared to the amount of funding provided by grant funds from outside agencies. For example, a project that would bring grant funds from an outside agency into the City would score higher, while a project that relies only on City funds would score lower. The evaluation of this criterion will constitute twenty percent (20%) of the project's total score.

4. **Revitalization, Community Support & Community Plan Compliance:** This criterion will include an assessment of the degree to which the project is in compliance with the General Plan, Community Plan, Regional Transportation Plan, or an approved City-wide master plan. This criterion shall also include an assessment of the degree to which the project is officially supported by the Community Planning Group(s), the Councilmember(s), or a Regional Agency (such as SANDAG). This criterion shall also include an assessment of the degree to which the project contributes towards economic development and revitalization efforts. For example, projects that benefits a pilot village in the City of Villages strategy or furthers smart growth, implements a portion of the City-wide master plan or corridor study, has overwhelming and documented support from the community, implements a portion of an approved Redevelopment Area infrastructure plan, and provides transportation facilities for a Community Development Block Grant eligible area would score higher. The evaluation of this criterion will constitute fifteen percent (15%) of the project's total score.
5. **Multiple Category Benefit:** This criterion will include an assessment of the degree to which the project provides highly rated facilities for multiple project categories (see Section IV.A for project categories). For example, a roadway project that also provides for the replacement of a deteriorated storm drain, a streetscape project that also provides street lighting at critical intersections, and a bikeway project that provides slope stabilization at an area of known erosion problems would score higher. The evaluation of this criterion will constitute ten percent (10%) of the project's total score.
6. **Annual recurring cost or increased longevity of the capital asset:** This criterion will include an assessment of the degree to which the project reduces operations and maintenance expenditures by the City. For example, a roof replacement project that reduces both maintenance requirements and energy consumption or a storm drain replacement project that reduces the need for periodic cleaning would score higher. On the other hand, a new library that increases maintenance, energy and staffing costs would score lower. The evaluation of this criterion will constitute five percent (10%) of the project's total score.
7. **Project Readiness:** This criterion will include an assessment of the time required for a project to complete its current project phase (i.e., planning, design or construction). For example, a project with a completed environmental document or community outreach would score higher, while a highly complex project requiring longer design time would score lower. The evaluation of this criterion will constitute five percent (5%) of the project's total score.

To be functional, the CIP prioritization system must use a rating system to facilitate decision-making. A detailed point system will be developed for the prioritization factors described above.

G. Future Operations and Maintenance (O&M) Costs

An estimate of the future O&M costs associated with capital improvement projects will be developed and identified prior to submission of the project for approval. The request to Council to establish a CIP project will include a summary of the expected O&M costs. The estimated O&M costs will be refined, along with the project cost estimate, during the planning and design phases of the project. The future O&M costs will then be used in the prioritization factors as described above.

Upon approval of a project, the future O&M costs associated with the project will be incorporated in the Five Year Financial Outlook and the annual budgets beginning the year that the project is completed. To the extent that a capital project recapitalizes or replaces existing facilities, the incremental cost additions or, in certain cases, cost savings will also be analyzed and incorporated in the projections.

H. Implementation Process

With the approval of the Engineering Business Process Reengineering (BPR), the responsibilities for planning of all capital projects except water and sewer system projects, and the design and construction of all City capital projects, has been consolidated with the Engineering and Capital Projects (E&CP) Department. E&CP Department will be responsible for the intake of all potential CIP projects and completion of planning and preliminary engineering for the viable projects. E&CP Department will also be responsible for using the project categories, phases, and prioritization factors to develop a prioritization score for each non-Enterprise fund CIP project. All Enterprise fund projects, including water, sewer, golf and environmental services, will be prioritized in their respective departments using the Citywide prioritization process.

E&CP will prepare and continuously update a multi-year plan for major capital improvements. The following steps will be coordinated with relevant departments for development of a capital plan:

1. **Needs Assessment** - The plan should contain a needs assessment, annually or biannually updated based on current data, with a comprehensive list of all capital needs from each City department, including enterprise departments.
2. **Long-term Planning Horizon** - The plan should be based on six-year (or longer) time horizon. A longer time horizon than the one-year budget cycle is appropriate for planning large capital projects.
3. **Prioritization** - The plan should prioritize capital needs to help determine the order in which projects should receive funding based on a transparent and objective set of criteria.
4. **Funding strategies** - The plan should explore funding strategies for different projects.

The proposed CIPRAC would review, and re-prioritize as necessary, the rankings established by E&CP and the Enterprise fund departments. The CIPRAC's goal would be to ensure that the projects are appropriately ranked on a City-wide perspective, balancing needs and budget against known policy objectives. After the CIPRAC establishes its prioritization list, those recommendations will then be considered by the Mayor. In case of ties, the Mayor will evaluate the overall infrastructure deficiency within the City for each project as the deciding factor.

The resulting ranking list for each category and phase of CIP projects will be reported by the Mayor to the Council as part of the annual CIP budget, with recommendations for funding within the list.

Upon approval of the CIP budget by the Council, the Mayor will pursue the completion of each project phase according to the priority ranking resulting from this prioritization process up to the amounts authorized by Council for each project category. The Mayor will also use the resultant priority ranking for the pursuit of all outside grant funding opportunities.

The Mayor will update the priority score as the conditions of each project change or other new information becomes available. For instance, if grant funding becomes available for a lower ranked project, the priority score would be re-evaluated with this new information. When changes occur that would alter a project's priority ranking, the priority list will be revised. The City Council will receive an informational brief of changes to the priority list at mid-year, and the annual update of the list will be part of the budget process. Resources will not be withdrawn from a project prior to the completion of its current phase, unless reallocation is authorized by the annual appropriation ordinance or approved by Council.

Based on the project prioritization list and project execution schedules, the Mayor will develop the Multi-Year CIP plan. The Mayor's CIPRAC will perform affordability testing on the Multi-Year CIP plan, and will ensure that it is in conformance with the Five-Year Financial Outlook. During each annual budget development cycle, the City Council will review and adopt the Multi-Year CIP plan for infrastructure asset capital investments.

FISCAL CONSIDERATIONS: None.


PREVIOUS COUNCIL and/or COMMITTEE ACTION: None

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: None.



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Appendix: A. CIP Prioritization Best Practices