THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED:	February 1, 2012	REPORT NO. 12-012
ATTENTION:	Budget and Finance Committee	
SUBJECT:	Deferred Capital Program Update	
REQUESTED ACTION:	Information only.	

STAFF RECOMMENDATION: None.

BACKGROUND:

Deferred Capital Backlog:

On March 16 and March 30, 2011, staff presented a report to the Budget and Finance Committee which provided a snapshot of the City's deferred capital backlog related to the general fund supported streets, buildings and storm drain infrastructure assets. As a result of the condition assessments of these assets that had been completed as of March 2011, the total backlog of deferred capital projects was estimated to be:

Streets	$378 million
Buildings	$216 million
Storm Drains	$246 million
Total Backlog	**$840 million**

This analysis did 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. 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 Streets, Buildings and Storm Drains 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	$235 million
Total Backlog	**$898 million**

Service Levels:

As discussed in March 2011, while the entire elimination of the deferred capital backlog may be an admirable objective, it is not considered an asset management "best practice" to do so. A more realistic approach would be to establish a practical, affordable and achievable level of service to reach a certain asset condition. For example, management would determine what percentage of assets should be in "good" condition, what percentage "fair", and so forth. Once a level of service is set, funding levels can be determined and projects developed to reach and sustain this service level. In March, staff presented two service level models for consideration, known as Alternative Service Level 1 and Alternative Service Level 2. Both models included "catch-up" (funding required to reach a designated service level) and "on-going" (the annual, recurring funding required after catch-up is achieved to maintain the desired service level) funding requirements.

DISCUSSION:

Since the March presentations and the subsequent November 2nd presentation to the Budget and Finance Committee, staff has refined its deferred capital needs and funding requirements. The two previously described alternative service levels were based on an analysis of the funding resources required to transition from existing good, fair and poor asset conditions to the improved percentages reflected in the two alternative service level models.

Based on the last discussion with the Budget and Finance Committee, staff developed a "status quo" service level model that sets O&M and capital resources at a level necessary to hold existing condition levels constant and avoid further deterioration. The five year funding requirement for this model is contained in the Deferred Capital Improvement Funding Options spreadsheet (Attachment 1).

Attachment 1 shows the following information: 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 funding options A and B that are meant to ultimately achieve the "status quo" option. Funding options A and B represent lower funding amounts compared to the "status quo" in the early years and gradually providing additional funding in the latter years. Both options A and B provide for the same annual total capital/maintenance investments, but they differ in that option B represents greater cash contributions relative to capital bond requirements resulting in lower annual debt service payments. The consequence of choosing either option A or B as compared to the "status quo" option is that street, building and storm drain infrastructure assets would continue to slightly deteriorate over time but at a slower rate. Options A and B provide for a "ramping up" infrastructure investment over the next five years that approximates the "status quo" total capital/maintenance funding amount in FY 2017.

There are several factors to consider that influence the choice of the preferred funding option, i.e. staffing capacity, bonding capacity and debt service payments, Council policies and rules, and cooperation from labor organizations. While Alternative Service Level 1 should be the overall goal to eventually accomplish, striving for the "status quo" funding via one of its variations, either option A or option B, is the most realistic and achievable course of action at this time. With either option A or option B, capacity (in-house staffing and contracting capability) to execute the "ramping up" investment could increase over time in a more realistic fashion. Either option A or option B provides a more affordable alternative given the continuing challenges of balancing the City's general fund budget that nevertheless presents a five year path forward to get a handle on the infrastructure deferred capital backlog. Furthermore, to be successful with the "status quo" alternative or option A or B, the CIP Streamlining Recommendations that staff has presented to the Budget and Finance Committee would need to be approved and implemented.

SUMMARY:

The level of deferred capital backlog for City street, building and storm drain assets 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.

As such, staff is recommending that the City Council consider this approach and the total associated funding that is reflected on either lines 21 and 28 of Attachment 1. A decision as to how much of the capital program is funded through the issuance of bonds versus paid for with cash does not need to be made at this time.

Respectfully submitted:

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Public Works

Garth K. Sturdevan
Director
Transportation and Storm Water

Jay M. Goldstone
Chief Operating Officer

Attachment 1

ATTACHMENT 1

DEFERRED CAPITAL IMPROVEMENT FUNDING OPTIONS

(as of February 8, 2012)

		A	B	C	D	E	F
		2012	2013	2014	2015	2016	2017
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
	CURRENT						
	Deferred Capital Component						
5	Operations & Mtce	45,800,000	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	29,700,000	37,200,000
7	Total Budget Appropriations		53,000,000	60,500,000	68,000,000	75,500,000	83,000,000
8	New Bond Issuance (Net)	100,000,000	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	145,800,000
	"STATUS QUO"						
	Deferred Capital Component						
10	Operations & Mtce		53,800,000	54,876,000	55,973,520	57,092,990	58,234,850
11	Capital (Debt Service)		7,478,460	14,956,921	22,435,381	29,913,842	37,392,302
12	Total Budget Appropriations		61,278,460	69,832,921	78,408,901	87,006,832	95,627,152
13	New Bond Issuance (Net)	105,200,000	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	162,292,990	163,434,850
15	**Adjusted Projected Surplus (Deficit)**		(20,478,460)	(15,232,921)	1,391,099	30,993,168	65,372,848
	FUNDING OPTION A (Traditional)						
	Deferred Capital Component						
16	Operations & Mtce		45,800,000	50,000,000	53,000,000	56,000,000	58,000,000
17	Capital (Debt Service)		5,608,845	11,591,614	18,322,228	25,800,689	33,668,029
18	Total Budget Appropriations		51,408,845	61,591,614	71,322,228	81,800,689	91,668,029
19	New Bond Issuance (Net)	75,000,000	80,000,000	90,000,000	100,000,000	105,200,000	105,200,000
20	Bonds to Cash - Capital Funding Ratio	100%	100%	100%	100%	100%	100%
21	Total Capital/Maintenance Program		120,800,000	130,000,000	143,000,000	156,000,000	163,200,000
22	**Adjusted Projected Surplus (Deficit)**		(10,608,845)	(6,991,614)	8,477,772	36,199,311	69,331,971
	FUNDING OPTION B (Incremental Cash vs Bonds)						
	Deferred Capital Component						
23	Operations & Mtce		45,800,000	50,000,000	62,000,000	66,000,000	73,780,000
24	Capital (Debt Service)		5,608,845	11,591,614	17,649,167	24,379,781	31,067,020
25	Total Budget Appropriations		51,408,845	61,591,614	79,649,167	90,379,781	104,847,020
26	New Bond Issuance (Net)	75,000,000	80,000,000	81,000,000	90,000,000	89,420,000	84,160,000
27	Bonds to Cash - Capital Funding Ratio	100%	100%	90%	90%	80%	80%
28	Total Capital/Maintenance Program		120,800,000	130,000,000	143,000,000	156,000,000	163,200,000
29	**Adjusted Projected Surplus (Deficit)**		(10,608,845)	(6,991,614)	150,833	27,620,219	56,152,980

* 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.