THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2025-2029 Five-Year Capital Infrastructure Planning Outlook

OVERVIEW

On January 24, 2024, the Engineering & Capital Projects Department (E&CP) presented the City's FY 2025 – 2029 Five-Year Capital Infrastructure Planning Outlook (CIP Outlook) to the Active Transportation and Infrastructure (ATI) Committee. This report will be presented to the full City Council for discussion on February 12, 2024. As stated in *Council Policy 000-02: Budget Policies*, the CIP Outlook provides a five-year citywide assessment of infrastructure needs and outlines the proposed capital priorities in compliance with the City Charter.[1] The CIP Outlook is developed to closely follow the annual release of the Five-Year Financial Outlook to assist in accurately forecasting available funding and capital needs over the next five fiscal years, and serves as the basis for development of the annual Capital Improvement Program (CIP) budget.

This is the City's tenth CIP Outlook; the first was issued in January 2015, and covered FY 2016-2020.[2] The CIP Outlook is an important planning tool to identify capital needs and available funding within the five-year outlook period.

The City's large and complex network of infrastructure assets represents a significant and vital investment. Years of tight financial constraints and limited dedicated funding have led to underinvestment in infrastructure and a $4.8 billion funding gap over the next five years, as shown in the CIP Outlook. Because the City's capital needs far exceed available funding, the Mayor and Council must make strategic decisions regarding capital infrastructure investments during the annual budget process. Without new resources, many needs identified in the CIP Outlook will

[1] Charter, Article VII, Section 71.

[2] A long-term capital plan was first recommended by the City Auditor in its June 2011 performance review of the CIP, to provide an overall citywide perspective on asset and funding needs to support informed financial decisions on infrastructure investments.

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remain unfunded and lead to further deterioration of existing assets, costly emergency repairs, and inefficient allocation of resources.

Particularly given the City's budgetary constraints and aging and deteriorating infrastructure, it is critical for the City to identify a holistic financing strategy, including new revenue sources, to address the growing backlog of unfunded needs.

This report provides additional analysis and issues for Council to consider as it reviews the CIP Outlook and the upcoming proposed FY 2025 Budget.[3] Specifically, we provide high-level commentary about this year's CIP Outlook, how it compares to previous outlooks as well as Councilmember priorities. We also provide a deep dive by department found in Appendix A and provide our key findings and recommendations for future CIP Outlooks.

Our Office would like to thank staff from Engineering & Capital Projects (E&CP), Department of Finance (DOF), and asset managing departments (AMDs) for their collaborative approach with our Office for this CIP Outlook and responding to questions and providing information for this report.

How this Report is Organized

FISCAL/POLICY DISCUSSION

This is the first year since the CIP Outlook was developed in 2016 that the funding gap *decreased* from the prior year. The funding gap over the five-year outlook period decreased from \$5.2 billion to \$4.8 billion. This is attributed to a change in approach to what is included in the CIP Outlook – the five years of needs presented in the Outlook are intended to be a realistic view of what could be executed within that period, and longer-term needs of \$6.5 billion are reported in the "FY 2030 and Beyond" category. While we emphasize the decrease from the prior year does not represent an actual decrease in needs or the total size of the capital backlog, we believe the Outlook's new approach improves its accuracy and usefulness, moving it closer to be a plan of both execution and financing. Ultimately, more accurate planning allows for more productive conversations to occur regarding identifying new sources of revenue to address the significant and growing capital funding gap.

[3] Our Office also annually prepares a Public Guide to Infrastructure, which was updated in December 2023 and may further assist the public in understanding the CIP budget process. The Guide is available in both English and Spanish.

Data-driven Asset Management practices, including establishing levels at which assets should be maintained, conducting condition assessments, and using Asset Management systems to support planning, enable AMDs to provide an accurate and comprehensive view of needs for the CIP Outlook. As highlighted throughout this report, the sophistication and quality of Asset Management practices are inconsistent. While the City has made positive strides in collecting accurate information on its assets through the use of asset management systems, departments without legal mandates and/or dedicated funding often lack the resources needed to conduct prescribed ongoing maintenance or to update condition assessments which are important in understanding risks and creating an optimal maintenance and capital renewal plan. Deferring needed maintenance and capital rehabilitation results in the continued aging and deterioration of assets and in turn more costly capital or emergency projects. Providing the needed resources to support effective Asset Management ultimately helps to reduce costs.

This CIP Outlook includes revenue projections for the majority of known sources, such as debt financing, an improvement compared to last year's CIP Outlook. Known funding sources, however, are not enough to address the significant backlog and many funding sources have limitations or other considerations. For example, General Fund financing provides a flexible, unrestricted funding source to support capital projects such as street resurfacing, new and improved parks, fire stations, and libraries, but growth in debt service payments for that financing limits the City's ability to address other ongoing public service needs.

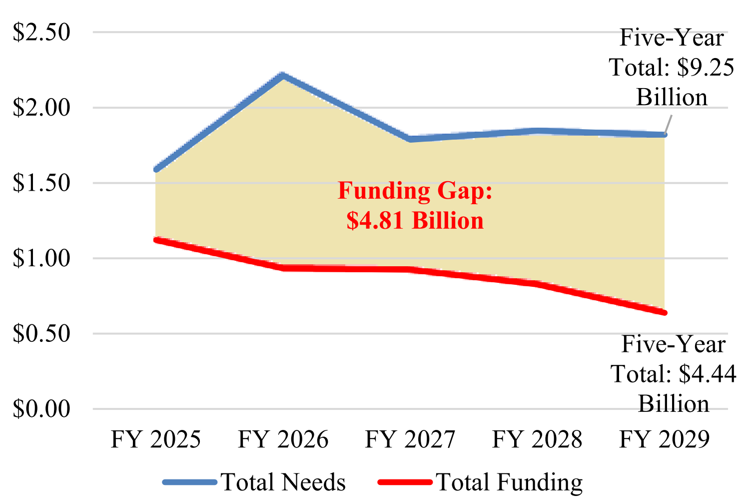
Given the magnitude of the City's infrastructure needs and funding shortfalls, it is critical the City explore new funding options besides General Fund financings, such as General Obligations (GO) bonds or asset-specific funding sources. Alternatively, the City could pursue general a general tax increase that would provide additional capacity for capital projects and maintenance. Given the magnitude of the backlog and projected operational deficits in the Five-Year Financial Outlook, it is likely that some combination of revenue will be needed as part of a holistic financing strategy.

Overview of the CIP Outlook

<u>Five-Year Snapshot</u>

The figure to the right reflects projected capital infrastructure needs, available funding, and the funding gap over the five-year CIP Outlook period. This includes total capital needs of $9.25 billion, and projected available funding of $4.44 billion, resulting in a $4.81 billion funding gap. Projected capital needs are at their highest in FY 2026, primarily due to the FY 2024 unfunded need for stormwater projects being included in FY 2026,[4] an increase for parks needs based on community input and the Ocean Beach Pier replacement project. Projected

FY 2025 – FY 2029 Projected Capital Needs Funding,
$ in Billions



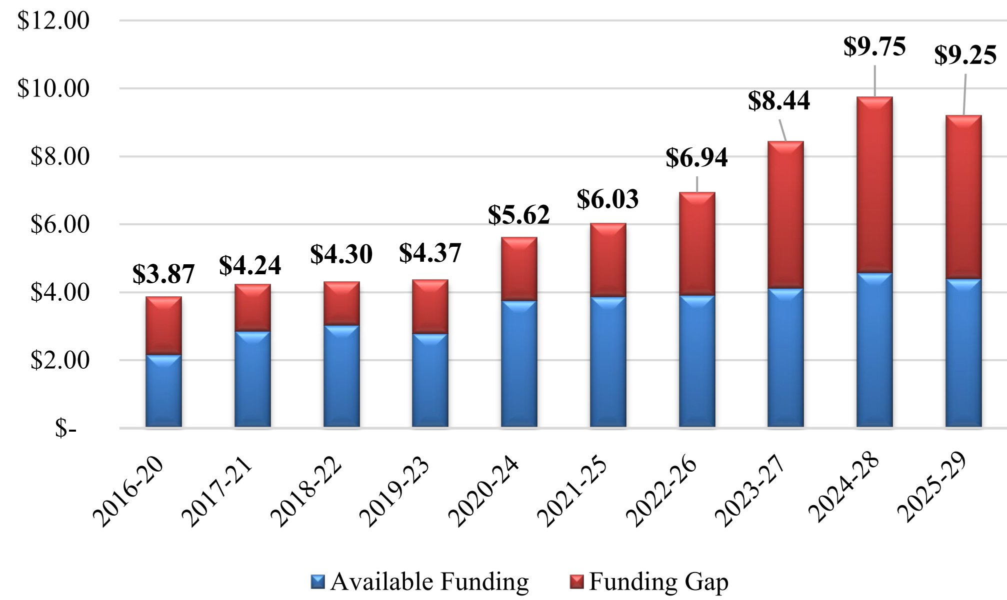
[4] In previous years, the carryover unfunded need would have been included in year 1 of the outlook, but this changed since E&CP requested year 1 should be realistic and executable.

revenue declines over the end Outlook period are primarily due to projected temporary decreases in Development Impact Fees over the Outlook period as a result of the shift in time when Fees are due to the City.[5]

Comparison with Prior CIP Outlooks

While CIP Outlook methodology has changed over the years, a comparison of prior years is nevertheless helpful to identify trends. The figure below shows total needs, funding, and the funding gap presented in the last ten CIP Outlooks. This is the first year that funding needs and the funding gap have decreased from the prior year Outlook. This is a result of the current CIP Outlook's change in methodology, with some longer-term needs previously included in the CIP Outlook five-year period are now being reported in a new "FY 2030 and Beyond" category.

Needs, Funding and Gap over 10 CIP Outlooks
$ in Billions



Although we agree with this new category, we look forward to it being further defined for greater consistency in future reports as some AMDs included needs in this category, while others did not. The "FY 2023 and Beyond" category includes a range of needs, including projects beginning during the Outlook period which will not be completed during that time (e.g., the construction dollars needed after the Outlook's five-year period for projects that begin design in outer years). The category also includes known needs beyond the outlook period that are based on asset management plan data for those years, or known needs that were not considered to be high enough priority to make it into the outlook period. AMDs with defined service level standards and more robust asset managing systems, better tracking, and more up to date condition assessments had more consistent approaches to what was included within the outlook period and what was in the "FY30 and Beyond" category. AMDs that did not include needs in this category may have known needs, but may not have been able to estimate or quantify them.

[5] The timing of Development Impact Fee payments was adjusted from permit issuance to final inspection. This shift may lead to a delay in receiving Development Impact Fee payments from some projects.

While the $6.5 billion total needs included in this category may not be the full picture of needs, it is clear the City's total capital needs – and the gap between those needs and funding available – continue to grow.

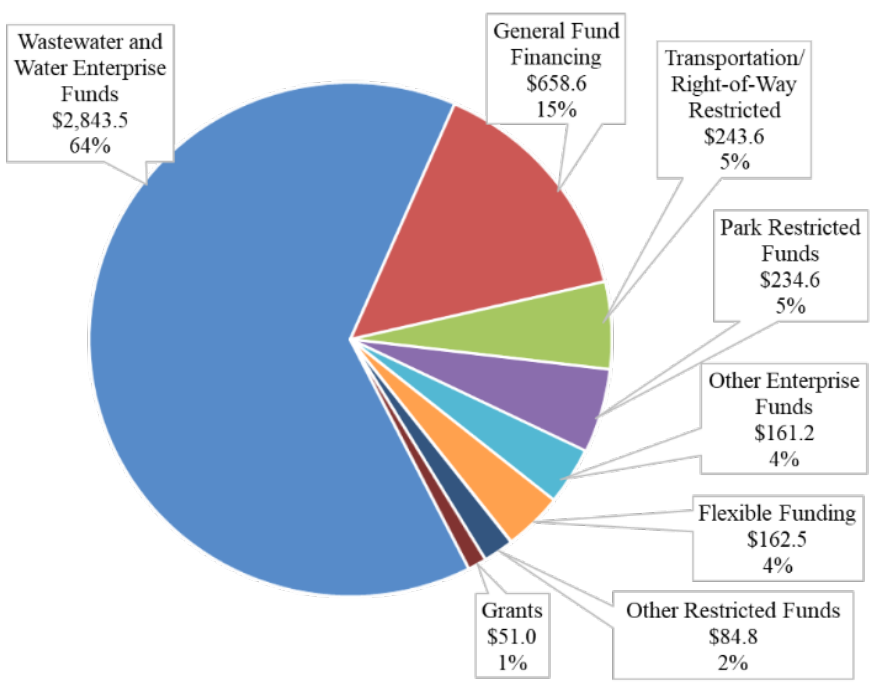
Over the ten years since the first CIP Outlook was released, total capital needs have increased from $3.87 billion to $9.25 billion. Funding has also increased over the same period, albeit at a slower rate, from $2.16 billion in the first CIP Outlook to $4.12 billion today. The funding gap has almost tripled since 2015, growing from $1.71 billion to $4.81 billion.

As discussed throughout this report, the significant gap is largely due to limited resources and a lack of dedicated funding sources for capital infrastructure. This has led to ongoing deferral of needed projects and resulted in continued aging and deterioration of existing assets.

Projected Revenues by Use

Funding availability is the primary driver for determining which projects are ultimately funded in the CIP budget. The CIP Outlook includes projected available revenue sources and their allocations to capital projects and needs. Various ongoing and one-time funding sources are appropriated based on DOF's specific fiscal year revenue forecasts.[6] Many funding sources have specific spending restrictions, generally based on the type of project (e.g., water or wastewater) and geographic location.

Percentage of Projected Funding by Use
$ in Millions



Total Projected Funding: $4.44 Billion

[6] Revenue sources included in the CIP Outlook, Five-Year Financial Outlook, and PUD Outlook are based on the same assumptions. These outlooks do not include all of the same revenue sources, however.

The figure above shows funding sources in the CIP Outlook, broken out by the use restrictions of those funding sources. As in previous years water and wastewater funding accounts for a significant majority ($2.8 billion, or 64%) of projected funding. Flexible funding sources and General Fund financing generally have few or no restrictions on use, and together account for 19% of total funding over the Outlook period. These are important sources of funding because there are many General Fund capital projects such as street resurfacing, new or improved parks, fire stations, and libraries, that are not eligible for more restricted funding and therefore must compete for these limited funds.

General Fund Financing

General Fund financing makes up 15% of the 19% of total flexible funding over the Outlook period. The City's current approach to financing General Fund capital projects includes both Commercial Paper and Lease Revenue Bonds. The City uses an $88.5 million General Fund Commercial Paper Program like a line of credit. Once Council approves appropriations to spend on capital projects, staff borrows funds for projects when they are needed using commercial paper notes (a short-term borrowing tool). When the City begins to approach the $88.5 million authorization limit, staff return to Council with a request to issue long-term Lease Revenue Bonds (LRBs) to pay off outstanding commercial paper notes. This restores the capacity to issue additional commercial paper notes up to the $88.5 million authorization limit. Commercial Paper financing allows for debt to be issued only when it is needed, and avoids the need to pay interest on long-term bonds that would otherwise sit idle before the proceeds can be spent down.

In contrast with the previous CIP Outlook (FY 2024-2028), this year's CIP Outlook includes anticipated General Fund financing proceeds to support additional projects for General Fund assets beyond stormwater projects. This is provides for a more accurate reflection of known funding sources anticipated over the Outlook period. In total, $658.6 million in unappropriated future General Fund financing proceeds are assumed over the Outlook period, of which $553.6 million is allocated towards Stormwater projects, primarily from Water Infrastructure Finance and Innovation Act (WIFIA) loan proceeds and the City's WIFIA-related matching funds.[7] The remaining $105.0 million in f General Fund financings assumed in the CIP Outlook is allocated towards various other asset types, including bike facilities, new fleet facilities, new fire stations, and street resurfacings.

In November 2023, the Five-Year Financial Outlook projected that General Fund debt issuances over the next five years would provide $534.0 million towards non-stormwater projects, of which $351.9 million would fund appropriations already approved by the Council in FY 2022 and FY 2023, and $182.1 million is assumed for new appropriations. Following the release of the Five-Year Financial Outlook, the City Council approved $15.3 million in additional project appropriations that were requested in the FY 2024 CIP Mid-Year Budget Monitoring Report (December 2023), which leaves $166.8 million remaining for future CIP appropriations as of the date of this report. As noted above, the use of $105.0 million in General Fund financing is assumed in the CIP outlook and, although IT improvements are not included in the CIP Outlook, an

[7] Under the terms of the City's 2022 Stormwater WIFIA Loan, the City must contribute 51%, or $373.8 million, of the $733.0 million in total project costs.

additional $62.0 million debt financing is assumed for the Enterprise Resource Planning (ERP) system modernization project. If ultimately proposed and approved by the City Council, these additional CIP appropriations would effectively encumber all financing capacity projected to be available over the next five years.

Introduction to the Deep Dive by Asset Managing Department (AMD)

Capital needs for future projects are independently determined and submitted for inclusion in the CIP Outlook by the AMDs, and each department has its own unique requirements and approaches in identifying needs. *Attachment A* provides a deep dive into the needs, priorities, and funds of each AMD to identify potential issues and get an understanding of what to expect for the FY 2025 CIP Budget.[8] This information highlights key unfunded priorities, so they can be the focus of a future financing strategy. Key issues and trends are discussed the *Key Findings and Recommendations* section.

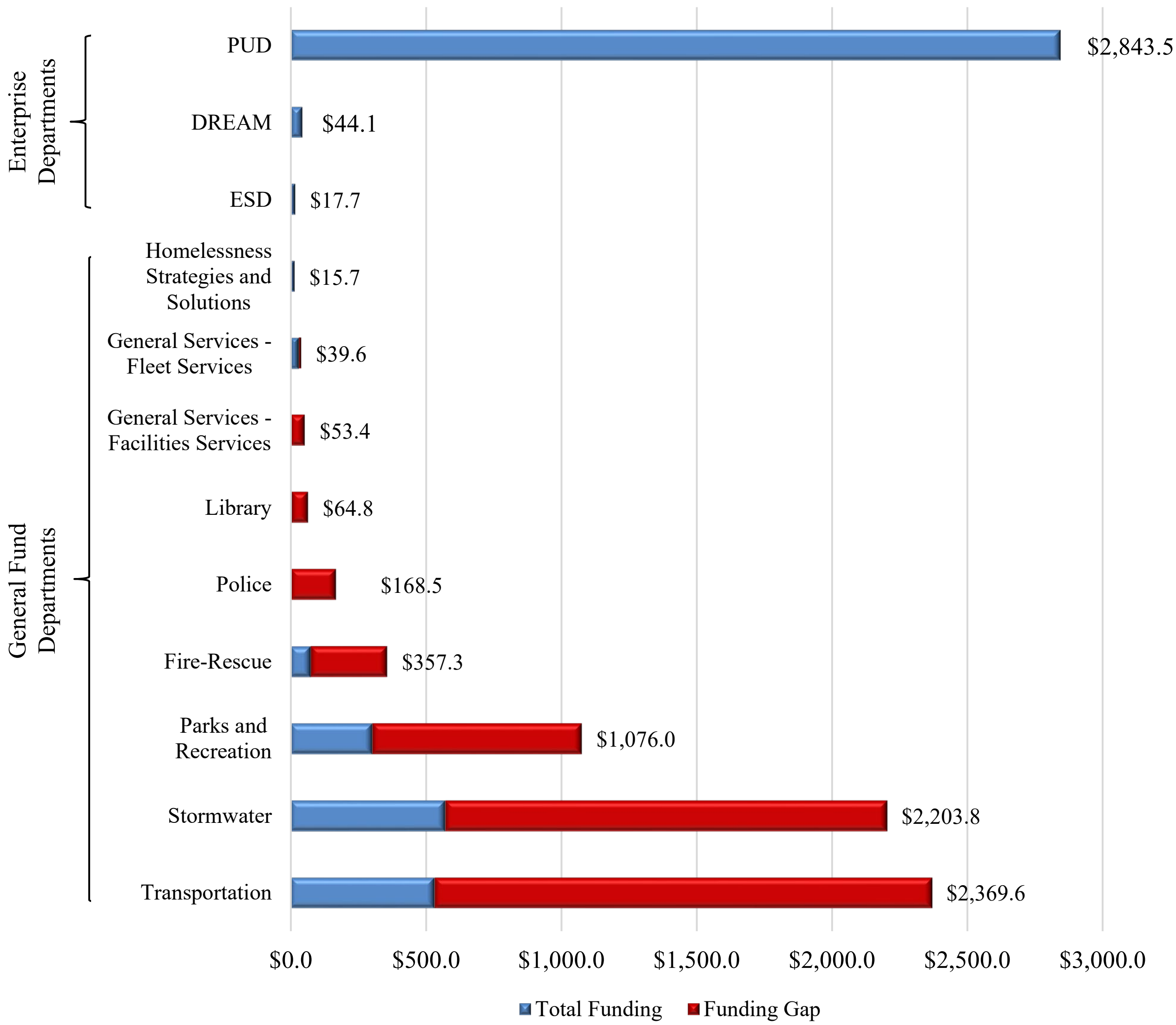
For this discussion, it is important to distinguish enterprise departments from General Fund departments: the assets of Enterprise Fund departments are considered self-supporting, as they have dedicated funding sources generated from fees or rates charged to customers. Enterprise funds support City airports, golf courses, recycling, water, and wastewater, and can only be used to support the services from which they generate revenue. This CIP Outlook assumes enterprise assets are fully funded, assuming future rate increases to support needs are approved.

In contrast, non-enterprise assets such as many city parks, libraries, police facilities, and fire-rescue facilities do not have dedicated funding sources and must compete for the City's limited unrestricted funding. These are known as General Fund assets, and account for 100% of the $4.8 billion funding gap.

The following figure shows the projected funding gap by AMD. Similar to the prior year, Transportation represents the largest funding gap with $1.8 billion, followed by Stormwater's $1.6. billion gap, and Parks with a $773.4 million gap.

[8] Note that we organized the deep dive by AMD rather than asset type to align needs with the department that manages them. For example, needs for existing facilities which were previously reported under Department of General Services (DGS) – Facilities Services are now reported under the AMDs that manage the assets, like Fire-Rescue and Library.

FY 2025-2029 Projected Total Funding, Funding Gap, and Total Needs by AMD
$ in Millions



City Council Infrastructure Budget Priorities

As discussed in our Office's report on the FY 2025 Updated City Council Budget Priorities, Councilmembers support a wide range of infrastructure needs. All nine Council members were unanimous in prioritizing transportation and mobility safety, streets, sidewalks, and stormwater maintenance and capital projects. Additionally, a majority of Councilmembers prioritized improvements or expansion of existing facilities managed by Fire-Rescue (including fire stations and lifeguard stations), Library, Parks & Recreation, and the Police Department, as well as the implementation of the projects to comply with the Americans with Disabilities Act (ADA). Councilmembers also supported expanding homeless shelter capacity. At the February 7, 2024 Budget and Government Efficiency Committee, Councilmembers recommended Council approve a priorities resolution with heightened focus on stormwater maintenance and flood disaster response.

The following table includes the infrastructure priorities supported by a majority of Councilmembers, and the FY 2025 capital needs, projected funding, and FY 2025 funding gap in the CIP Outlook. AMD staff indicated that Council Priorities are helpful in providing stakeholder feedback, and that funding limitations are the largest barrier to addressing Council priorities.

City Council FY 2025 Budget Priorities Needs, *$ in Millions*

Asset Type *($ in Millions)*	**Needs**	**Funding Source**	**Funding Gap**	**Funding Sources**
Transportation and Mobility Safety				
Pedestrian and Bicycle Safety	$ 31.5	$ 10.5	$ 21.0	DIF, Financing, RTCIP, TransNet
Traffic Calming	1.3	1.1	0.2	DIF, TransNet
Traffic Signals	10.5	5.8	4.7	CEF, DIF, TransNet
Streetlights	74.8	3.5	71.3	CEF, DIF, TransNet
Streets - Modifications				
Modifications (minus traffic calming)	$ 19.2	$ 18.2	$ 1.0	BSCIF, DIF, RTCIP, TransNet, Undergrounding Utilities Fund
Pavement	114.6	36.3	78.3	DIF, Financing, Infrastructure Fund, TransNet, Trench Cut/Excavation Fee Fund
Sidewalks	18.1	2.2	15.9	DIF, Infrastructure Fund, TransNet
Stormwater	322.8	116.9	205.9	DIF, Financing, Grants
Facilities				
Fire-Rescue	$ 30.2	$ 9.4	$ 20.8	EIFD, DIF
Library	8.7	4.3	4.4	DIF, Infrastructure Fund
Lifeguard	2.5	0.1	2.4	DIF
Park & Recreation	33.8	24.5	11.4	CEF, EIFD, DIF, Mission Trails Regional Park Fund, Regional Park Improvement Fund
Police	8.2	0.9	7.3	Infrastructure Fund
American With Disabilities Act (ADA)				
ADA Projects	$ 36.5	$ 17.3	$ 19.2	DIF, Mission Trails Regional Fund, TransNet
Homelessness Strategies and Solutions				
Expand Shelter Capacity	$ 11.0	$ 11.0	$ -	Infrastructure Fund
Total	**$ 723.7**	**$ 262.0**	**$ 463.8**	

Note : DIF - Development Impact Fee
RTCIP - Regional Transportation Congestion Improvement Program
CEF - Climate Equity Fund
BSCIF - Bus Stop Capital Improvement Fund
EIFD - Enhanced Infrastructure Financing District

The upcoming Proposed Budget will allocate funding sources to various infrastructure priorities; if the proposed budget does not adequately address Council priorities, Council could consider reallocating proposed funds to better align with its infrastructure priorities. Council has the most discretion to reallocated flexible funds, such as General Fund financing or Infrastructure Funds; other restricted fund sources are often limited to only being spent on one type of asset. Changes to capital funding proposals will require identifying funding or the potential reallocation of funds from other funded projects, which may come with significant tradeoffs.

Key Findings and Recommendations

Revised CIP Outlook Approach Provides a More Realistic View, but Consistency is Needed

The prior year CIP Outlook was transitional (as noted in our review) with the goal of improving the capital plan in future years. Over the last year our Office discussed with E&CP and DOF several changes in approach to improve consistency for reporting needs and transparency, and a move towards including a financing strategy in the CIP Outlook.

This year's CIP Outlook provides a more realistic view of what could be executed if funding were available, and includes longer term needs in a new "FY 2030 and Beyond" category. This more constrained view of needs improves the accuracy and usefulness of the CIP Outlook as both an execution and financing plan.

However, we look forward to future reports having improved consistency in the way AMDs report capital needs during the CIP Outlook period, as well as the "FY 2030 and Beyond" category. While AMDs were encouraged to use consistent approaches to identifying needs, and some departments have mature and robust asset management plans and systems to support identification, other AMDs do not have an accurate picture of needs, as will be discussed in the following *Asset Management Practices Are a Critical Component of Cost-Effective Capital Investment Planning* section. Additionally, some departments reported needs in the "FY 2030 and Beyond" category, while others did not, and there was inconsistency with what needs were included.

Another notable difference among AMDs is how they used requests in the public survey. [9] As an example, Parks and Recreation included essentially all public requests as needs in the five-year outlook period, and it is unlikely that funding for all these projects could be identified, or that they could all be executed during the CIP Outlook period. The Transportation Department took a different approach, and only included public survey requested projects if they were already vetted and prioritized projects in the pipeline.

An additional goal of DOF & E&CP was to more closely align year 1 of the CIP Outlook with the FY 2025 CIP Budget. This required AMDs to include more specific projects rather than general programmatic needs or goals. AMDs needs for year 1 were reviewed by the CIP Review and Advisory Committee (CIPRAC). E&CP staff noted that most needs followed this guidance. In cases where project details were not available, the timing for a project was moved to year 2+.

Finally, while this CIP Outlook provides a more realistic view of what could be executed during the five-year period absent funding constraints, the capacity of industry, supporting departments (e.g., Purchasing & Contracting), AMDs, and outside agencies should also be recognized as important. To the extent projects in the CIP Outlook are completed according to its timeline, it is also important to consider how they will impact the City's operating budget (e.g. programmatic funding needed to operate expanded shelters) – projects, once completed, should be supported with operating and maintenance funding to prevent future deterioration.

Recommendations

To improve guidance and consistency in future year CIP Outlooks as well as ties to the operating budget reflecting plans to operate and maintain new assets, we recommend:

- City staff should clarify how many years the "FY 2030 and Beyond" covers and what should be included in this category.

[9] The City recently updated its process for soliciting public input on infrastructure priorities – public input was primarily provided by completing an online survey on the department's Equity Forward: Infrastructure Prioritization Public Engagement website. Requests submitted via the survey are reviewed by AMDs for inclusion in the CIP Outlook and CIP Budget.

- Public survey project requests for inclusion in the CIP Outlook and CIP Budget should be handled consistently across all AMDs.

- Operating *and* maintenance costs for completed CIP projects should be assumed in the Five-Year Financial Outlook.

Asset Management Practices, including Ongoing Maintenance Funding Are Critical Components of Cost-Effective Capital Investment Planning

As outlined in our Review of Citywide Asset Management Practices and Use of the Enterprise Asset Management (EAM) System, data-driven Asset Management practices include establishing goals at which assets are to be maintained, conducting condition assessments, prioritizing projects based on risk, and developing maintenance and capital plans. As reflected in the CIP Outlook, Asset Management practices are inconsistent across AMDs. Departments with legal mandates and/or dedicated funding generally use Asset Management systems and have more accurate information on the condition of assets which is used to develop long-term Asset Management plans. For example, Stormwater is required to meet strict regional and federal clean water requirements and has a Watershed Asset Management Plan (WAMP) that outlines 30 years of maintenance and capital needs. This information provided the foundation for identifying resources for those needs, such as WIFIA funding and a potential proposal to increase stormwater fees.

The Transportation Department's recently released Pavement Management Plan (PMP) is another example of a capital and maintenance plan, and further underscores the importance of having updated condition assessments and the need to implement proactive Asset Management practices and ongoing maintenance: slurry seal and asphalt overlay for streets, while costly, is much less expensive than having to rehabilitate or rebuild streets. When these treatments are not conducted, streets can fall into poor condition and require more expensive rebuilds. Ongoing, prescribed maintenance should be budgeted for as part of the cost of owning and bringing online new assets – this principle is true both of streets as well as infrastructure assets more generally.

Capital and maintenance needs exist beyond stormwater and streets as well: chronic underfunding of DGS – Facilities Services, which provides maintenance services for other City facilities, has allowed the continued deterioration of existing facilities. Beyond that, the most recent condition assessment for existing facilities was conducted in 2014-16, and consequently the City no longer has an accurate picture on needs for existing City facilities.

The City is making progress in encouraging consistent Asset Management practices, but challenges remain especially for General Fund departments. Providing the needed resources to support effective Asset Management and maintenance now can ultimately help improve long-term capital planning and reduce asset lifecycle costs.

Recommendations

We recommend the following to support Asset Management practices:

- The Active Transportation and Infrastructure (ATI) Committee should hear an update from the EAM Steering Committee on progress made in implementing Asset Management improvements.
- An updated condition assessment for existing facilities should be prepared, and a phased approach may be the most realistic given funding limitations and availability of consultants.

- Council should ensure future budgets support key Asset Management practices, including ongoing maintenance of assets.

Key Sources for General Fund Projects Will Not Cover the Backlog, Have Limitations

Existing funding sources are not enough to address the significant capital backlog, and many of those funding sources have limitations. Further, the flexible fundings sources used to fund General Fund assets (i.e. the Infrastructure Fund, Climate Equity Fund, and Development Impact Fees) are not sufficient to address the significant funding gap for critical City infrastructure like fire stations, parks, and libraries.

The City has made use of lease-revenue bonds to support its capital program, and these have provided a flexible funding source for new capital projects, but this approach has limitations. Lease-revenue bonds are ultimately repaid with existing General fund revenues, and as the City's long-term debt service costs grow as a percentage of the City budget, they limit the City's ability to address other public service needs. Recognizing this, the City's Debt Policy includes Debt Ratio thresholds which dictate that annual debt service as a percentage of general fund revenues, should remain under 10% for all long and short-term debt and, when combined with pension and OPEB costs, the percentage should remain under 25%. While debt service payments during the CIP Outlook period remain well below the 10% limit, reaching a high of 6.4% of General Fund revenues, those payments combined with pension obligations approach the overall 25% limit, which suggests that the capacity to issue additional General Fund debt beyond that assumed by the Outlook may be limited.

Need for a Holistic Financing Strategy with New Revenue

Given the magnitude of infrastructure needs and funding shortfalls, it is critical the City explore new revenue sources, and it is likely that a combination of new revenue options will be needed as part of a holistic financing strategy. Without a financing strategy to address the $4.8 billion gap, along with additional funding to maintain existing infrastructure, the capital funding gap will grow, and many important priority projects will continue to struggle to find funding. This includes existing projects with large funding gaps such as the new Fire Training Facility, San Carlos Library replacement project, and permanent relocation of the Police Department's Traffic Division. We also note the CIP Outlook includes only $5.9 million in projected resources for deferred maintenance (i.e., for libraries, recreation centers, police stations and fire stations), to extend those facilities' lifecycle and ensure proper working conditions for staff and the public over the next five years.

We discuss several options for new revenue sources that could help address the significant infrastructure funding gap the following sections. Unity of City leadership and an effective communication strategy are key factors contributing to successful measures.

Sales Tax Measure

A sales tax increase would provide a flexible funding source that could mitigate future budget deficits and be used for both capital infrastructure and maintenance. Any sales tax increase would require approval from San Diego voters. A full cent increase to sales tax would double the amount of sales tax revenue the City receives and generate roughly $400 million per year based on the most recent Five-Year Financial Outlook. A general sales tax increase in which revenues may be expended at the discretion of the City on any program or service requires approval by a simple majority of voters. A special sales tax that is restricted for use on a specific purpose requires approval from two-thirds of voters. Notably, a full-cent increase in general sales tax revenue could both address projected operational deficits and provide additional capacity to issue capital bonds for deferred infrastructure projects. While such an amount may not be sufficient to provide support for all City priorities, it would bring the City's budget back into structural balance and allow for some expansion of services and the opportunity to begin meaningfully addressing the City's infrastructure backlog.

General Obligation (GO) Bond Program

A GO bond measure could provide funding for the City's overall capital infrastructure needs and begin to address the $4.8 billion deferred capital backlog. This could also free up other funding sources to be used for operations and maintenance and offset some projected deficits in the Financial Outlook. GO Bonds provide an alternative to lease revenue bonds that would not impact the City's existing General Fund revenues, as they are secured by the City's promise to levy *additional* property tax sufficient to pay annual principal and interest on the bonds. Because GO bonds generally result in additional property taxes, California law requires that those tax increases must achieve two-thirds voter approval. GO Bond measures generally include specific projects to be implemented with the bond funds, and public committees can be used to identify priority projects and provide oversight to ensure funds are spent as intended. In recent years, GO Bond programs have provided significant funding ($500 million to $1.2 billion) in several large US cities, including San Francisco, CA, Phoenix, AZ, and San Antonio, TX.

Stormwater Revenue Increase

In January 2021, the Transportation and Stormwater Department released a Funding Strategy Report in response to the June 2018 Performance Audit of the Stormwater Division. That report identified $4.5 billion funding gap through FY 2040, and concluded that the City needed to investigate the development and implementation of a new funding mechanism for stormwater activities.

In February 2022, the Stormwater Department presented its final analysis of a potential stormwater funding mechanism to the Environment Committee. That analysis focused on a measure that would tax the impermeable surface area of properties within the City at a rate between 4 to 5 cents per square foot of impermeable surface. Such a measure, which would cost the typical single-family residence between $10 and $14 per month, would generate between $74 million to $93 million per year for stormwater activities. For reference, the current storm drain fee within the City costs single family residences less than $1 per month, and generates approximately $5.7 million, all of which supports stormwater activities that would otherwise be supported by the General Fund.

Polling found a majority of voters would support such a measure, but support was within the margin of error of the two-thirds threshold that would be required for the passage of the measure. Additional information on Stormwater needs and potential funding sources is included in IBA Report 21-04 *Analysis of the Stormwater Division Funding Strategy Report*, including discussions on project prioritization, using new funds to cover existing expenditures, and the capacity of E&CP to deliver the amount of projects required for stormwater needs.

CONCLUSION

Our Office believes that this year's CIP Outlook represents continued improvement over prior CIP Outlooks. It presents a more realistic projection of both the City's capital needs and the projects that could be executed provided funding was available. We also appreciate efforts to ensure the first year of the CIP Outlook better represents projects that could feasibly be started in FY 2025, and that projects that cannot be feasibly implemented over the next five years have been moved to a "FY 2030 and Beyond" category. These shifts both help the City to better plan for capital projects moving forward.

As Council prepares for the upcoming budget season, it can ultimately choose to reallocate funding to its own priorities – including infrastructure and capital priorities – provided the budget remains balanced. Council will have the most discretion over allocation of flexible funding sources to fund priority CIP projects. However, because flexible funding is limited, prioritizing infrastructure needs will likely come with difficult tradeoffs.

The City faces significant resource and budgetary challenges, both with the $4.8 billion funding gap in the CIP Outlook and the projected operating deficits in the most recent Financial Outlook. Without new funding sources, many needs identified in the CIP Outlook will not move forward. Having an accurate, executable capital plan is a foundation for beginning to address the City's infrastructure needs, but that plan must be followed by identifying the resources and revenues needed to implement it. Developing a holistic financing plan – including additional revenues – continues to be needed to address the significant and growing capital funding gap.

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Appendix A: Deep Dive by Asset Managing Department (AMD)

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Capital needs for future projects are independently determined and submitted for inclusion in the CIP Outlook by the AMDs, and each department has their own unique requirements and approaches in identifying needs. We conducted a deep dive to provide an assessment for each AMD of needs, priorities, and funds to identify potential issues and get an understanding of what to expect for the FY 2025 CIP Budget. This information will also help highlight key unfunded priorities, so these can be the focus of a future financing strategy.

Note that we organized the deep dive by AMD rather than asset type to align needs with the department that manages them. For example, needs for existing facilities which were previously reported under Department of General Services (DGS) – Facilities Services are now reported under the AMDs that manage the assets, like Fire-Rescue and Library.

Key issues and trends are discussed the *Key Findings and Recommendations* section.

<u>Enterprise Departments</u>

Department of Real Estate and Airport Management (DREAM) – Airports

Department of Real Estate and Airport Management - Airports, *$ in Millions*

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Outlook Period Total	FY 2030 and Beyond
Capital Needs	$4.6	$15.6	$9.8	$2.9	$11.2	**$44.1**	$0.0
Revenue	4.6	15.6	9.8	2.9	11.2	**44.1**	
Funding Gap	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	

Capital needs for Airports are driven by the 2018 Pavement Maintenance and Management Plans (PMMPs) for each of the City's two regional airports – the Brown Field Municipal and the Montgomery-Gibbs Executive Airports – and the availability of federal and State grant funding. Projects are selected based on the pavement conditions identified in the PMMPs and then presented to the Federal Aviation Administration (FAA) for grant funding consideration.[10] Staff is also working on updating the Airport Master Plans for both airports which will establish long-term development plans to guide future development. The Master Plans are expected to be completed by December 2025.

Compared to the prior CIP Outlook period, Airport capital needs included in the current Outlook decreased by $30.3 million, or 41%, largely driven by the removal of the terminal replacement project at the Brown Field Municipal Airport. This project was included in the prior Outlook period as a viable candidate for the federal Infrastructure Investment and Jobs Act (IIJA) funding. However, staff was advised by the FAA that the City would have needed to substantially complete the design of this project to be considered for this funding. The City does not have as-needed consultant contracts for airport-specific projects in place, which hinders the City's ability to compete for grant funding opportunities. Staff is currently working with E&CP to procure several as-needed contracts for engineering and design, environmental planning, and independent fee estimate. These contracts will help the City to be more well-equipped to pursue grant funding and plan and execute airport-specific capital projects.

[10] The FAA prioritizes airport infrastructure projects based on the National Priority System, which uses a combination of quantitative and qualitative evaluation of airport development to rank project importance.

One project was raised in the public survey to install an unleaded fuel tank at the Montgomery-Gibbs Executive Airport. This project has been funded and staff is coordinating with E&CP on the project kick-off. Staff is also working on an alternative project to deliver unleaded aviation gasoline through a towable fuel bowser. The alternative project could achieve the intended goal of the original project in a more cost-efficient way.

Environmental Services Department (ESD)

Environmetal Services Department, *$ in Millions*							
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Outlook Period Total	FY 2030 and Beyond
Capital Needs	$8.7	$3.8	$0.7	$4.6	$0.0	**$17.7**	$0.0
Revenue	8.7	3.8	0.7	4.6	0.0	**17.7**	
Funding Gap	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	

For the Environmental Services Department (ESD), all projected capital needs are tied to improvements required at the landfills operated by ESD. These are typically smaller projects that address routine maintenance needs at the landfills and former landfills managed by ESD. The largest change from last year is that the largest current project, the new Organics Processing Facility (OPF), is not included in this Outlook as the project is already fully funded in the current CIP.

Funding for improvements at the landfill, including for the OPF, comes from tipping fees paid by haulers who deposit waste at the landfill. These fees are then deposited into the Refuse Disposal Fund, which is the enterprise fund that pays for landfill operations.

Public Utilities Department

Public Utilities Department, *$ in Millions*							
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Outlook Period Total	FY 2030 and Beyond
Capital Needs	$772.6	$561.6	$541.4	$532.5	$435.4	**$2,843.5**	$3,696.3
Revenue	772.6	561.6	541.4	532.5	435.4	**2,843.5**	
Funding Gap	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	

The projects included for the Public Utilities Department (PUD) include the Pure Water program, as well as the department's significant baseline CIP for water and wastewater assets. PUD has an Asset Management program to sustainably maintain, repair, and replace infrastructure assets, which helps to ensure critical water and wastewater assets are functioning properly and do not fail. Consequences of failing PUD infrastructure – such as water main breaks – can be significant, resulting in damage to private property, service outages, flooding, road closures, and other negative impacts.

The PUD Baseline CIP includes: regular, ongoing predictive maintenance to keep water and wastewater systems running smoothly and reduce pipeline breaks and emergency repairs; pump station improvements and replacements; and enhancements of treatment and distribution process technology. The baseline CIP also includes expansion and upgrade of the Water System to accommodate growth and maintain compliance with federal and State requirements.

Significant funding for the Pure Water program within the CIP Outlook is declining as significant construction funding is expected to conclude during FY 2025 for Phase 1. Additional Pure Water funding in the remaining years mostly includes final Phase 1 commissioning projects and initial planning funding for Phase 2. Phase 1 is anticipated to be delivering its full capacity of potable water in FY 2027, and Phase 2 is expected to be completed by FY 2035.

There are also significant needs for PUD in FY 2030 and beyond noted in the Outlook. This includes additional routine maintenance projects for pipelines, pump stations, and other assets, similar to what is currently included in the five years of the Outlook, as well as early estimates on other significant projects, including potential dam replacements. Currently, all of the City's dams are undergoing condition assessments to determine their remaining useful life and future potential projects. Dam rehabilitation projects are expected to be significant, with a preliminary estimated cost of $1 billion. A more accurate cost estimate for these projects will be known as condition assessments are completed.

PUD uses rate revenues from water and wastewater customers to finance PUD CIP projects. For more information about the PUD CIP, various financing methods, and how the CIP impacts PUD rates, please refer to IBA Report 23-38 *IBA Review of the Public Utilities Department FY 2025-2029 Five-Year Financial Outlook*.

General Fund Departments

DGS - Facilities Services and Citywide – Existing Facilities

Department of General Services - Facilities Services, *$ in Millions*							
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Outlook Period Total	FY 2030 and Beyond
Capital Needs	$2.0	$0.9	$6.0	$24.5	$20.0	**$53.4**	$640.1
Revenue	0.0	0.0	0.0	0.0	0.0	**0.0**	
Funding Gap	**$2.0**	**$0.9**	**$6.0**	**$24.5**	**$20.0**	**$53.4**	

As noted earlier in this report, capital needs for existing facilities previously reported for Facilities Services are now being reported under the AMDs that manage them. Needs for Facilities Division and Citywide total $53.4 million with no revenue projected, resulting in a $53.4 million funding gap. This includes projects for deferred maintenance to extend the facilities' lifecycle and ensure proper working conditions for staff and the public and are generally focused on facilities that aren't managed by another AMD.

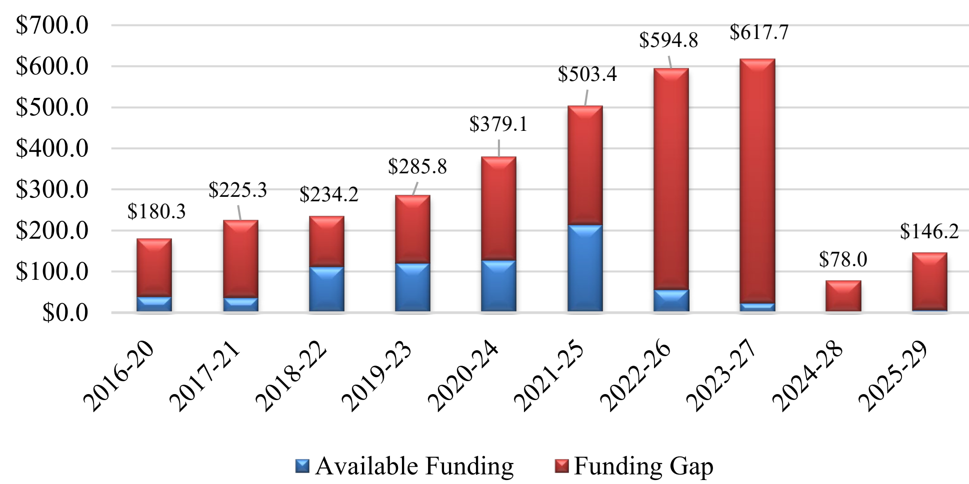
Existing Facilities by AMD, *$ in Millions*			
	Total Needs	Total Revenue	Funding Gap
Citywide	$53.0	$0.0	$53.0
Fire-Rescue	$10.9	$0.0	$10.9
DGS - Facilities	$0.4	$0.0	$0.4
DGS - Fleet	$8.3	$0.0	$8.3
Library	$21.8	$0.4	$21.4
Parks and Rec	$31.9	$5.6	$26.3
Police	$15.9	$0.0	$15.9
Transportation	$4.0	0.0	4.0
Total Existing Facilities	**$146.2**	**$5.9**	**$140.3**

Because the most recent facilities condition assessment (conducted between 2014 and 2016) is significantly outdated,[11] projects included in the CIP Outlook were identified by Facilities Services soliciting input from the AMDs who manage the facilities, researching existing condition assessment reports, and making site observations. Similar to the prior year, this approach for identifying needs is a significant underrepresentation of actual needs.[12] A projected $641 million is needed to fund the capital backlog identified in the 2014-1016 condition assessments, and this is reported in the "FY2030 and Beyond" category.

This was an important change to recategorize existing facilities under the AMD to highlight that these are not just City offices and workspaces, but include libraries, parks, and police and fire facilities. Total needs for existing facilities by AMD are shown in the following table. Examples of key projects are the Air and Space Museum Repairs, Police Headquarters EMS/HVAC Phase I and II, Fire Station 20 Roof and HVAC Replacement, and Rancho Peñasquitos Library Rehabilitation.

Needed capital projects for existing facilities have been deferred over many years, as shown in the following chart. Further, chronic underfunding of DGS – Facilities Services, which provides maintenance for existing facilities, has allowed the continued aging and deterioration of existing facilities, resulting in further increased costs and the need for more expensive, emergency projects. For additional context, last year's CIP Outlook reflected a need of $78.0 million, but only about $7.5 million was included for General Fund facilities improvements in the FY 2024 Adopted Budget only funded.

Existing Facilities - Needs, Funding, and Funding Gap since 2016
$ in Millions



Condition assessments for existing facilities conducted in 2014-26 are extremely outdated, and the City no longer has an accurate, full picture on needs of existing City facilities. All of this impacts Facilities Services as well as departments who manage and operate the facilities, such as Library,

[11] Industry standards recommend conducting building condition assessments every five years.
[12] In previous CIP Outlooks, capital needs for Existing Facilities were identified in condition assessments conducted between 2014 and 2016 and inflation was added each year to the condition assessment baseline.

Park & Recreation, Fire-Rescue, and Police. This impacts City employees as well as members of the public that use the facilities.

An updated condition assessment is critical for City facilities to get a better understanding of needs, risks, and priorities. Facilities Services estimates $3.9 million is needed for condition assessments, which will likely be phased over several years based on available funding and consultant capacity.[13] This was requested in the FY 2024 budget process but was not funded due to competing priorities for limited resources. We recommend a plan be developed for when an updated condition assessment can be funded and conducted.

DGS – Fleet Services

Department of General Services - Fleet Services, *$ in Millions*							
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**Outlook Period Total**	**FY 2030 and Beyond**
Capital Needs	$8.3	$17.8	$0.1	$13.2	$0.2	**$39.6**	$0.0
Revenue	0.0	17.8	0.1	13.2	0.2	**31.3**	
Funding Gap	**$8.3**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$8.3**	

The needs included for the DGS – Fleet Services are mostly related to new electric vehicle (EV) infrastructure that the City needs to develop in order to support the continued purchase of EVs. The need to purchase EVs is driven by the City's Climate Action Plan (CAP) goals to reach 100% electrification of passenger cars and light duty vehicles, and 75% electrification of medium and heavy-duty vehicles by 2035. Furthermore, the California Air Resources Board recently developed an Advanced Clean Fleets regulation, which requires State and local government fleets to ensure 50% of vehicle purchases are zero-emission vehicles (ZEVs) starting in 2024, with limited exceptions for Police and Fire-Rescue vehicles, and 100% of vehicle purchased being ZEVs by 2027. To meet these goals and requirements, the City needs to build out its infrastructure to support EV charging needs specifically for City fleet vehicles. Due to the City's aging infrastructure, this would require significant investment in installing charging infrastructure and upgrading existing facilities while ensuring the City is compliant with other requirements such as building codes and the Americans with Disabilities Act (ADA).

The needs noted in this CIP Outlook are mostly for the electrification infrastructure required for the City's four operations yards. The only exception is the unfunded need of $8.3 million in FY 2025, which is for new carwash facilities. The remaining $31.3 million in funded needs are for those projects that have been identified for the four operations yards and other related work. This work was identified in a fleet electrification assessment that was completed last summer.

The four yards, however, only support about 30% of the current City fleet. The Department is currently working through how to prioritize EV infrastructure across over 81 other sites and anticipates completing additional cost estimates after the division procures a private sector energy services partner through a competitive process over the next year. An EV Strategy document is

[13] The $3.9 million includes three priority assessments: $2.4 million for an updated condition assessment of facilities included in the 2014-16 assessments, which will provide data on most of the City's facilities including Zero Emissions Municipal Buildings & Operations Policy (ZEMBOP) requirements; $360,000 to assess about 60 facilities that were not included in the original assessments; and $1.1 million to assess three major service yards (Chollas, 20th and B, and Rose Canyon) which would also help advise requirements for fleet electrification.

also anticipated to be released in the next couple of months that will provide more information on the City's needs regarding EV infrastructure and vehicle purchases.

The revenue identified for Fleet Services is all General Fund Financing, which is one of the more flexible funding sources in the CIP Outlook.

Fire-Rescue Department

Fire-Rescure Department, *$ in Millions*							
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**Outlook Period Total**	**FY 2030 and Beyond**
Capital Needs	$39.8	$51.2	$173.1	$66.5	$26.7	**$357.3**	$483.9
Revenue	9.4	11.5	33.6	12.9	7.8	**75.3**	
Funding Gap	**$30.4**	**$39.7**	**$139.5**	**$53.7**	**$18.9**	**$282.1**	

The CIP Outlook identifies $310.8 million in new fire facility needs and $35.7 million for new lifeguard facilities over the Outlook period. New fire station needs are primarily based on, and prioritized by, the Standards of Response Coverage Study that was prepared by Citygate Associates, LLC in 2010 and subsequently updated in 2017. In total, the CIP Outlook includes four new or expanded fire stations, of which the Fairmont Avenue Fire Station is the Department's highest priority, as recommended by the Citygate report. A total of $32.4 million to fully fund the Fairmont Fire Station project is assumed in the CIP Outlook, including $5.1 million from Citywide DIF, $3.3 million from the Infrastructure Fund, and $24.1 million from future financing proceeds.

Other fire facility needs during the Outlook period include a new Air Operations Facility at the City's Montgomery-Gibbs Executive Airport and a new Fire Training Facility. The Fire Training Facility is a significant priority for the Fire-Rescue Department given that the current training facility located at the Naval Training Center (NTC) Station will be repurposed as a part of the Pure Water program in FY 2027. The CIP Outlook anticipates a $175 million need for the project, of which only $2.3 million of funding is identified.

Lifeguard facility improvement needs are prioritized by the Fire-Rescue Department based on facility condition assessments and any gaps in lifeguard service coverage. The CIP Outlook identifies $35.7 million in capital needs for one new lifeguard station in North Pacific Beach ($17.3 million) and the replacement of the Ocean Beach Lifeguard Station ($18.4 million). These two projects were among City Council Infrastructure Budget Priorities.

A total of $75.3 million in projected funding is assumed to be available for both fire and lifeguard needs over the CIP Outlook period which results in a funding gap of $356.2 million. Though it is not explicitly assumed in the CIP Outlook, General Fund contributions and/or financing (e.g., commercial paper/lease revenue bonds) are likely to be required, especially considering the size and time sensitivity concerning the Fire Training Facility project.

In addition to new Fire Facilities needs in the CIP Outlook, there is $10.9 million needed for various Fire-Rescue capital improvements managed by DGS – Facilities Services Division at existing fire stations and lifeguard facilities which were identified and prioritized by the Fire-Rescue Department.

Homelessness Strategies and Solutions Department

Homelessness Strategies and Solutions - Emergency Shelters, *$ in Millions*							
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Outlook Period Total	FY 2030 and Beyond
Capital Needs	$11.0	$4.7	$0.0	$0.0	$0.0	**$15.7**	$0.0
Revenue	11.0	4.7	0.0	0.0	0.0	**15.7**	
Funding Gap	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	

The CIP Outlook includes projected funding needs for the creation of 1,630 homeless shelter beds totaling $15.7 million in the Outlook period. Of the total, 700 beds would replace existing beds identified for relocation, costing approximately $5.2 million in FY 2025. The remaining 930 beds are new beds that expand shelter capacity at an estimated cost of $10.5 million in FY 2025 and FY 2026. The funding needs identified in the CIP Outlook represent a significant reduction from the $99.1 million identified for emergency shelter in the prior year Outlook, largely due to the changes in the overall methodology to the CIP Outlook mentioned earlier. Additionally, the Homelessness Strategies and Solutions Department (HSSD) took a different approach to identifying CIP needs this year, adopting a more neutral view on appropriate shelter settings, since the prior year CIP Outlook focused on more capital intensive and costly non-congregate shelter and permanent shelter options, and excluded lower cost temporary tent structures, which are called for in the current CIP Outlook.

The CIP Outlook includes a one-to-one replacement of roughly 700 shelter beds identified throughout the City's emergency shelter system for relocation prior to the end of 2024 for various site-specific reasons. For example, this includes relocation due to nearby affordable housing construction at the 16th and Newton bridge shelter (326 beds), terms established under a nonprofit operating agreement at the Community Harm Reduction shelter (44 beds), and fire permitting restrictions affecting the first floor of the Golden Hall bridge shelter (324 beds). The pending H-Barracks shelter project, which is expected to be operational starting summer 2024[14], is the planned site for two sprung shelter tents that will provide 700 replacement shelter beds, but the actual configuration of the site remains under development.

A recent upwards revision to the H-Barracks cost estimates affects projected funding needs for both replacement beds at H-Barracks and new beds for expanded shelter capacity:

- ***Replacement beds.*** Although the cost estimate for H-Barracks was initially $8.2 million ($3.0 million anticipated for FY 2024[15] and $5.2 million needed in FY 2025), E&CP has since revised the cost estimate upwards to $9.3 million, resulting in a $1.1 million difference (equivalent to 86 beds) that is not accounted for in the CIP Outlook. Since the CIP Outlook is based on available data at the time of development and project cost estimates are revised at various project stages, such differences are not uncommon.
- ***Expanded shelter capacity.*** Because the cost estimate for new beds assumes the per bed capital costs from the original H-Barracks cost estimates of $11,494 per bed, the funding needs for expanded shelter also need to be revised upwards to $13,357 per bed, or a $1,862

[14] See the *City of San Diego Comprehensive Shelter Strategy* released on June 8, 2023 for additional details on the H-Barracks project.
[15] We note that of the $3.0 million identified for FY 2024, City Council approved the transfer of $1.1 million for the H-Barracks project on December 12, 2023, but the remaining $2.0 million in FY 2024 funding remains unidentified, though likely will come from grant funding according to HSSD (totals may not add due to rounding).

per bed increase, to reflect the updated H-Barracks cost estimate. For the 930 new shelter beds, the additional costs not captured in the CIP Outlook totals $1.9 million.

Overall, between replacement beds and new shelter beds, the H-Barracks revised cost estimate could call for an additional $3.0 million in CIP funding needs, which would need to be included in the FY 2025 CIP Budget.

For expanded shelter capacity, actual project costs will vary based on the cost of construction, the specific type of shelter developed, the number of shelter beds ultimately needed, and other factors. For instance, because no specific projects have yet been identified for expanded shelter capacity, actual capital costs will depend on factors, such as whether a facility is built or acquired and rehabilitated or temporary tent structures are used, as well as site-specific improvements needed. Further, the per bed cost estimate for new beds is based on congregate shelter at H-Barracks, whereas expanded shelter capacity could include some non-congregate shelter, which could have higher capital costs. Additionally, there is uncertainty over the exact number of new shelter beds the City needs, depending on the effectiveness of other homelessness interventions. The addition of 930 new shelter beds is based on the recently updated *Community Action Plan on Homelessness* (Update), which was presented to the City Council on November 14, 2023. The Update identified expanded shelter needs ranging from 465 to 930 new beds, acknowledging that the number of new beds needed depends on how effectively the City's other homelessness interventions, such as prevention, diversion, and permanent housing, reduce overall levels of homelessness. The Outlook assumes the highest number in the range at 930 new beds will be required to meet outstanding shelter needs. In comparison, the mid-point in the range is 698 beds, suggesting that the full 930 new shelter beds might not be needed, if the City's other homelessness efforts are successful.

As indicated in the report, staff intends to pursue state and federal resources to support these capital costs. For example, $2 million from the federal HOME Investment Partnerships Program-American Rescue Plan Program (HOME-ARP) was awarded in late December 2022 for non-congregate shelter beds for families, youth, and seniors.[16] We lastly note that any additional shelters that come online above current capacity will require significant ongoing resources to be operated and maintained. For instance, the FY 2025-2029 Five-Year Financial Outlook, released by the Department of Finance in November 2023, includes operational costs for the 700-bed H-Barracks site estimated at $17.4 million annually starting in FY 2025. In contrast, operating costs for the 930 new beds were not included in the Five-Year Financial Outlook, but would likely cost more than $17.4 million due to the higher operating capacity of 230 additional beds relative to the plans for H-Barracks.

Library Department

Libraries Department, *$ in Millions*							
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**Outlook Period Total**	**FY 2030 and Beyond**
Capital Needs	$17.2	$37.0	$5.8	$0.5	$4.3	**$64.8**	$0.0
Revenue	4.3	0.2	0.2	0.2	0.0	**4.8**	
Funding Gap	**$12.9**	**$36.9**	**$5.7**	**$0.3**	**$4.3**	**$60.0**	

[16] Because HOME-ARP funding is restricted to the purchase and development non-congregate shelter along with other specified activities, H-Barracks would likely be ineligible for HOME-ARP, since congregate shelter is currently planned for the site, which is not an eligible activity.

The CIP Outlook identifies $41.7 million in capital needs for Library Department projects which include the Oak Park Library, San Carlos Branch Library, Linda Vista Library Patio Improvement, and the Scripps Miramar Ranch Library Parking Lot Expansion. This is generally consistent with those prioritized by Council members in their infrastructure budget priority memoranda. However, all projects are not fully funded and therefore unlikely to be built during the Outlook period unless funding is identified.

The Oak Park Library is the Department's highest priority given current space limitations of the facility it will be replacing. Earlier this year, the City Council authorized the acceptance of a $9.1 million grant from the California State Library which carries a local funds matching requirement of approximately $4.5 million. The Department has identified approximately $1.0 million towards the match requirement leaving the remaining gap to fully fund this project at $3.5 million.

The San Carlos Library replacement project is in the early design stage with a total of $37.7 million in identified needs in the CIP Outlook, of which approximately $3.0 million in funding from Community DIF is assumed, leaving a $34.7 million funding gap.

In addition to the CIP projects managed by the Library Department, existing facility improvements identified by the CIP Outlook and managed by the DGS – Facilities Services Division total $21.8 million. These improvements are largely based on Library Branch Managers reporting facility issues, such as leaking roofs and faulty HVAC systems, among other needs.

Parks and Recreation Department

Parks and Recreation, *$ in Millions*							
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**Outlook Period Total**	**FY 2030 and Beyond**
Capital Needs	$53.5	$315.6	$190.5	$337.9	$178.5	**$1,076.0**	$57.5
Revenue	53.5	56.7	75.0	59.7	57.6	**302.5**	
Funding Gap	**$0.0**	**$258.9**	**$115.6**	**$278.1**	**$120.9**	**$773.4**	

The CIP Outlook identifies needs for General Fund assets managed by the Parks and Recreation Department totaling $982.3 million over the CIP Outlook period, of which $716.7 million does not have identified funding. Included are new park projects and improvements to existing park facilities and amenities.

More than two-thirds of the overall total represents funding needs for new projects that were identified through the Infrastructure Prioritization survey which asked members of the public about their park improvement priorities. Council priorities were also shared with the department through Budget Priority Memoranda. This is a notable factor driving the overall park infrastructure funding needs in the CIP Outlook. While the survey results provide valuable information concerning community needs and wants, it is unlikely that the funding need and assumed timing identified for these projects in the CIP Outlook is realistic given the preliminary nature of these projects. Ultimately, these needs will be evaluated and prioritized by Parks and Recreation staff based on the Parks Master Plan and the recently updated Council Policy 800-14: Prioritizing CIP Projects.

In total, $323.5 million is projected to be available to fund parks improvements over the CIP Outlook period resulting in a net funding gap of $771.4 million. Approximately $103.5 million of this funding estimate is projected from Development Impact Fees (DIF), including Community

DIF and the new Citywide Parks DIF. The balance is largely restricted funding from the Mission Bay Improvement Fund ($84.3 million) and the Regional Parks Improvement Fund ($40.9 million) pursuant to Charter Section 55.2.

Parks and Recreation Department building capital improvements are managed by the Department of General Services – Facilities Services. In total, $31.9 million in needed park building improvements are included in the CIP Outlook which were identified and prioritized by the Parks and Recreation Department.

Police Department

Police Department - Police Stations, *$ in Millions*							
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**Outlook Period Total**	**FY 2030 and Beyond**
Capital Needs	$14.2	$20.7	$1.8	$0.0	$131.7	**$168.5**	$0.0
Revenue	0.9	0.0	0.0	0.0	0.0	**0.9**	
Funding Gap	**$13.3**	**$20.7**	**$1.8**	**$0.0**	**$131.7**	**$167.6**	

Four projects managed by the Police Department are included in the CIP Outlook totaling $152.5 million, of which only $880,000 in funding is identified. These projects include the renovation and remodel of Police Plaza (formerly the Chargers Training Facility located in Kearny Mesa), a new Academy building to be located at the Police Plaza site, a new Firearm Training Facility, and a replacement for the Norther Division Police Station.

The largest and highest priority project is the Police Plaza Remodel totaling $38.7 million, including $3.1 million assumed in FY 2025 for design and planning expenditures and $35.6 for construction in FY 2029. This remodel would allow for the permanent relocation of several Police units, including the Department's Traffic Division which was a priority for a majority of Councilmembers in their FY 2025 budget priority memoranda. No funding for this project is identified in the CIP Outlook.

With respect to existing police facilities, the CIP Outlook identifies $15.9 million in various capital improvements managed by the DGS - Facilities Services Division. The projects were identified by the Police Department and generally consist of improvements to Police Headquarters and various parking lot lighting and other improvements at police division substations.

Stormwater Department

Stormwater Department, *$ in Millions*							
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**Outlook Period Total**	**FY 2030 and Beyond**
Capital Needs	$322.8	$705.7	$466.9	$327.0	$381.4	**$2,203.8**	$875.9
Revenue	116.9	181.6	172.3	100.9	0.0	**571.7**	
Funding Gap	**$205.9**	**$524.0**	**$294.6**	**$226.1**	**$381.3**	**$1,632.0**	

The Stormwater Department has a mature and robust asset management program and stormwater needs are driven by the Watershed Asset Management Plan (WAMP), which was recently updated in 2021. This long-range plan takes into account all of the City's stormwater needs (operating and capital), including the flood risk management system as well as infrastructure needed to comply with water quality improvement targets set by the Regional Water Quality Control Board's (RWQCB). Stormwater also uses it current database to support asset investment planning and currently is working to expand into the City's Enterprise Asset Management (EAM) system, which will help provide a more consistent approach for identifying needs across asset types in the system.[17]

Capital needs, at a level of $2.2 billion, have grown by $64.9 million since the prior CIP Outlook. This is a lower level of growth in the needs, mostly due to projects finally receiving some funding through the Water Infrastructure and Finance Innovation Act (WIFIA) loan program (more on this is provided below). This high level of need, which is the highest of any single asset type in the CIP Outlook, is driven by most of the City's stormwater infrastructure being beyond its useful life and the chronic underfunding of maintenance and capital projects for the storm drain system. This has resulted in high rates of failure within the existing infrastructure resulting in about $52 million in emergency repairs for FY 2021 through FY 2023 and as evidenced by recent storm impacts. Additionally, the City is facing increasing needs to comply with the Regional Water Quality Control Board (RWQCB) requirements for water quality, as nearly all of the City's rivers and streams are considered impaired under the federal Clean Water Act.

The WAMP includes all of the City's stormwater needs (operations, maintenance, and capital), and reflects a plan to provide for both the maintenance and improvement of the flood risk management system as well as the development of additional infrastructure to comply with water quality improvement targets, which are set by the RWQCB. Taken together, the WAMP provides the City's commitment to meeting all of its storm water needs over the long term, with the current WAMP projecting almost $5.5 billion in needs through FY 2040 (in constant 2020 dollars without escalation). Of the $5.5 billion in projected needs through FY 2040, $2.9 billion is for CIP projects, with operational needs totaling $2.6 billion over that same time frame. The needs outlined in the table above for FY 2030 and beyond are from the WAMP.

Stormwater infrastructure needs in the CIP Outlook are primarily categorized as either flood resiliency infrastructure, green infrastructure, or both. Flood resiliency infrastructure[18] needs total $936.0 million, or 42.5% of the total need over the five-year period, while green infrastructure needs[19] are $786.3 million, or 35.7%. Needs that address both goals total $481.5 million, or 21.8%.

Financing Stormwater CIP Costs through WIFIA Loans

The majority of the revenue identified for Stormwater is described as Financing in the CIP Outlook and represents a mixture of both WIFIA loans and City-issued bonds. In order to finance stormwater needs, the Department of Finance and Stormwater Department secured WIFIA loan agreements from the federal Environmental Protection Agency (EPA) to finance stormwater CIP activities. These agreements cover a financing plan for $733 million worth of stormwater projects, with $359 million (49%) coming from the WIFIA program and $374 million (51%) coming from other sources, including additional grants, state loans, or City Lease Revenue Bonds (LRBs). The previous CIP Outlook included $516.4 million in financing, while the current CIP Outlook

[17] The new work manager (BlueWorx) for the City's EAM System is currently being rolled out to stormwater operational crews. Also, the capital planning component of EAM (known as AMP) is being reconfigured to include all stormwater assets and provide updated data connections to GIS and SAP.

[18] Flood resiliency infrastructure is the more traditional stormwater infrastructure that the City has been developing for a number of years and includes assets such as corrugated metal pipes (CMP), pump stations, and storm drains.

[19] Green infrastructure projects focus more on improving the water quality within the storm drain system so that when the stormwater flows to its receiving waters, it is not polluting those waters in a way that is overly detrimental to the surrounding environment.

includes $553.6 million just for Stormwater. This amount is a mixture of the WIFIA financing, LRBs, and State Revolving Loan (SRF) distributions. The LRBs and SRF financing are required local matching funds for the WIFIA program, although the Department of Finance informed our Office that there is a higher amount of debt assumed in the CIP Outlook for stormwater projects because not all funded projects are eligible for the WIFIA program. These amounts are all in line with anticipated funding related to the overall WIFIA financing plan, as well as the debt issuances anticipated in the FY 2025-2029 Five-Year Financial Outlook for the General Fund.

However, our Office notes that WIFIA financing is debt that will need to be repaid by the City following the conclusion of the drawdown of funds, which staff estimates would total $27.7 million (including for WIFIA repayment as well as LRB repayment) in annual debt service payments by FY 2028 according to the Five-year Financial Outlook. If an additional funding mechanism for stormwater is not secured, these repayments will come from the City General Fund. Additionally, it will be important to monitor the makeup of the City's portion of WIFIA-required matching funds. The Department has already had to spend other resources on unanticipated emergency projects, which are not WIFIA eligible, that resulted in pulling away current resources from other projects and requiring additional debt amounts to be added to the WIFIA program. This limits both the amount of General Fund financing available for unfunded stormwater projects and other assets, as well as potentially increasing the overall debt service costs to fulfill the WIFIA program.

Transportation Department

Transportation Department, *$ in Millions*							
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**Outlook Period Total**	**FY 2030 and Beyond**
Capital Needs	$333.2	$477.5	$390.9	$536.6	$631.3	**$2,369.6**	$778.9
Revenue	138.3	77.9	90.1	99.7	126.1	**532.2**	
Funding Gap	**$194.9**	**$399.6**	**$300.8**	**$436.9**	**$505.2**	**$1,837.4**	

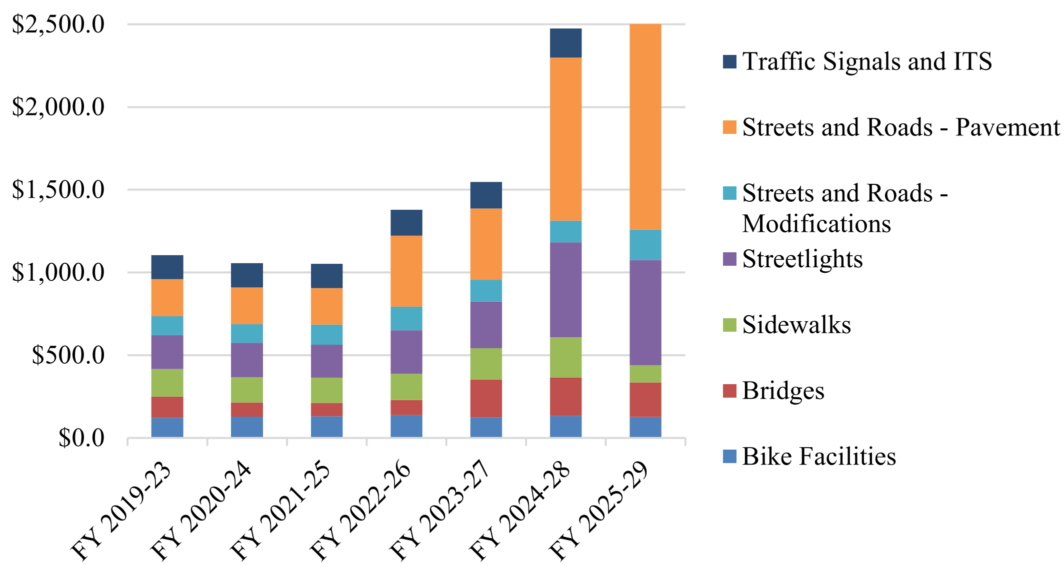
The Transportation Department manages seven asset types that are included in the CIP Outlook – bike facilities, bridges, sidewalks, streetlights, streets and roads - modifications, streets and roads - pavement, and traffic signals and intelligent transportations systems (ITS).[20] Each asset type has a different set of assumptions and calculations to determine the need to meet the desired service level within the five-year outlook period. The department has been increasingly utilizing condition assessments and the EAM system to identify needs, but noted a comprehensive asset inventory is needed for transportation assets (streetlights, curb ramps, signals, signage, etc.).

The following figure shows the trends for Transportation asset needs over seven years. Capital needs for transportation assets included in the CIP Outlook total approximately $2.4 billion, the second highest level of needs, next to PUD. This represents a decrease of about $110 million over the prior year CIP Outlook.[21] The is primarily attributed to adjusted needs, goals, and timelines for achieving some service goals. Increases of $246.4 million over the prior year outlook for streets and roads - pavement are based on needs identified in the recently issued Pavement Management Plan. With respect to existing transportation facilities, the CIP Outlook identifies $4.0 million,

[20] The Transportation Department also manages street tree assets, which are not included in the CIP Outlook.
[21] Due to a reporting error in the CIP Outlook, needs for streetlights should have been included as $640 million rather than $451.4 million, which would have resulted in an increase of about $79 million (or 3%) for total capital needs for Transportation assets.

which is unfunded, for improvements (repair the roof, HVAC, doors, flooring, etc.) for the Chollas transportation building.

Transportation Department Year-over-Year Capital Needs by Asset Type
$ in Millions



Regarding requests provided in the Infrastructure Prioritization survey, Transportation staff told us, if a public survey project was included in the Outlook, it was because it was an already vetted and prioritized project. Many survey requests were either not "projects" or were new and had never been evaluated by the department.

Key asset types are discussed in the sections below.

<u>Sidewalks</u>
The Transportation Department's goals that drive capital needs include replacing all defective sidewalks within 14 years and installing 350,000 linear feet of new sidewalks by the end of Fiscal Year 2034. Over the five-year Outlook period, needs for new walkways ($11.4 million) and repairs to existing sidewalks ($92.1 million) total $103.6 million. This is $141.0 million or 58% less than the prior year outlook. This decrease is due to lengthening the timeline for achieving the goal for replacing defective sidewalks from 10 years in the prior year to 14 years currently, which reduces annual costs. The Outlook also includes $11.4 million to upgrade facilities in the public right-of-way to meet obligations under the ADA, including curb ramps and sidewalks. Total revenue for sidewalks is $15.6 million, resulting in a funding gap of $88.1 million. Underfunding of sidewalk projects contributes to unaddressed sidewalk defects that have resulted in sidewalk-related injuries and created significant public liability for the City.[22]

<u>Streetlights</u>
Capital needs for streetlights are driven by the following service levels standards:

[22] See the 2020 City Auditor Public Liability Management Audit for more information.

- Installing 5,602 targeted new streetlights by the end of Fiscal Year 2034, which is about 500 streetlights per year. Approximately 120 additional streetlights are installed annually through the Utilities Undergrounding Program.
- Replacing the remaining 43 remaining obsolete streetlight series circuits to meet modern electrical standards over 10 years by FY 2034.
- Replacing 2,700 streetlight poles and fixtures per year over 10 years by FY 2034 or about 5% of the City's total streetlight poles annually.

The CIP Outlook includes an error related to needs for streetlights, which should have reflected a total need of approximately $637 million, an increase of $62.8 million from the prior year. This increase reflects Transportation's updated assumptions for streetlights replacement from changing the service level for replacement from 25 years to 10 years. In addition, new streetlight needs were not included in the numbers reported in the CIP Outlook. Revenues of $24.4 million are included primarily from the Climate Equity Fund (CEF), Citywide DIF and TransNet. Based on the needs reported in the Outlook, the resulting funding gap is $427 million.

Streets and Roads - Pavement

Streets and Roads - pavement improvements include asphalt overlay and concrete and asphalt reconstruction efforts.[23] The Transportation Department recently released the Pavement Management Plan (PMP) which is based on an updated pavement condition assessment. The Transportation Department's long-term goal is to maintain the City's Street network in good condition, with an average network Pavement Condition Index (PCI) of 70 or above. The assessment found that the City's current average PCI is 64.

There are some differences between the costs in the Pavement Management Plan and the CIP Outlook due to timing when the final assessment and PCI scoring was complete and final scenario was developed. Also, the PMP includes slurry seal maintenance and CIP, but the Outlook is focused on capital work. In addition, the CIP Outlook assumes a 5-year period to reach a PCI of 70 as opposed to 10-year timeframe in the PMP.

To move the City streets network from an average 64 PCI to the goal of 70, the CIP Outlook includes $1.3 billion of which $264.2 is funded from various transportation-specific sources as well as $45.3 million in financing over the outlook period. This results in a funding gap of $989.3 million over the outlook period. There is an additional $421.3 million in pavement capital needs for FY 2030 and beyond, and Transportation officials told us this includes only needs for the next five years.

In addition to the deferred backlog, the department continues to face rising costs for the average cost per mile for streets. Supply chain issues and inflation is increasing the cost of labor and materials, with street overlay costs tripling since FY 2021 as shown in the table below. Note, the estimate for concrete ($8,300,000 per mile) is based on the Transportation's benchmarking of what others in the region are paying for concrete reconstruction since the department does not have a recent concrete project.

[23] Note that slurry seal is another pavement treatment which is considered to be maintenance and was discussed in the FY 2025-29 Five-Year Financial Outlook.

Cost per Mile since FY 2020

Pavement and Reconstruction Costs since FY 2020					
	FY 2020	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
Slurry Seal	$ 100,000	$ 100,000	$ 130,000	$ 180,000	$ 220,000
Street Overlay	400,000	600,000	800,000	1,500,000	1,700,000
Concrete	1,000,000	1,200,000	1,500,000	1,500,000	8,300,000
Reconstruction	1,500,000	6,000,000	6,000,000	6,000,000	6,100,000