



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: December 2, 2015 REPORT NO: 15-107

ATTENTION: Infrastructure Committee
Agenda of December 9, 2015

SUBJECT: Semi-Annual CIP Budget Monitoring Report, December 2015

REFERENCE: Semi-Annual CIP Budget Monitoring Report, #15-107

REQUESTED ACTION:

Accept the report and approve the requested actions as outlined.

STAFF RECOMMENDATION:

Accept the report and approve the requested actions as outlined.

SUMMARY:

The Semi-Annual CIP Budget Monitoring Report presents the first update on the City's cash management process improvements, which have been implemented to improve the efficiency and effectiveness of the Capital Improvements Program (CIP).

In Report No. 15-024: CIP Cash Management Process Improvements, issued March 6, 2015, Financial Management (FM) presented the following internal process improvement initiatives for discussion:

- CIP Budget Review
- Reallocation of Funding from Technically Completed Projects
- Encumbrance Process Improvements
- Pooled Project Contingencies
- Internal CIP Monitoring Process
- Park Service District Funds
- Commercial Paper Program

This is the first semi-annual report to City Council and provides an update on the status of the implementation of all process improvement measures and the efficiencies gained, as well as a consolidated request for City Council action on behalf of all City departments.

This report and request for council action to reallocate excess funds to priority projects represents a collaborative effort by FM, Public Works, and the asset managing departments to ensure greater efficiencies in the allocation of CIP resources. This effort improves financial

monitoring by identifying projects that have excess funds that can be redistributed to other priority projects in need of funding. In the past, this consolidated action was typically performed only once annually as part of the year-end process. The implementation of a semi-annual review of capital expenditures will increase efficiency in the management of project encumbrances and expenditures in the CIP. Additionally, City Council approval is requested to remove restrictions from funding sources to be reallocated to fund other critical CIP Projects:

- Authority to amend the Regional Transportation Improvement Program (RTIP) to allow for reallocations of TransNet funding
- Authority to add projects to the CIP, authorize the disbursement of funds, and rename existing CIP projects

FISCAL CONSIDERATIONS:

See attachment: Fiscal Year 2016 Semi-Annual CIP Budget Monitoring Report, #15-107

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

Report to Council 15-024 CIP Cash Management Process Improvements was received by the City Council on April 21, 2015.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None

KEY STAKEHOLDERS AND PROJECTED IMPACTS: None

Attachment: Fiscal Year 2016 Semi-Annual CIP Budget Monitoring Report, #15-107

Semi-Annual CIP Budget Monitoring Report December 2015



City of San Diego Financial Management Department

signature on file

Scott Chadwick
Chief Operating Officer

signature on file

Mary Lewis
Chief Financial Officer

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Tracy McCraner
Financial Management Director

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Michael Clark
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INTRODUCTION

As part of the Mayor's initiative to more efficiently spend CIP dollars, FM issued report No. 15-024: Capital Improvements Program (CIP) Cash Management Process Improvements on March 6, 2015. The report described a number of internal process improvements, as well as improvements requiring City Council action that supplement the current capital budgeting and internal monitoring process. This report provides the first semi-annual review of the process improvements and the efficiencies gained through the recommendations in Report No. 15-024 and in monitoring the City's CIP for Fiscal Year 2016. Included in this report are details on \$74.4 million in project savings and reallocations from cash management and streamlining efforts:

- **CIP Budget Review:** This new process, as detailed in staff reports by the CFO last spring, saved an estimated hundreds of staff hours and resources by consolidating multiple actions into one request. \$55.3 million of prior appropriations will be released, subject to Council approval, making them available for priority projects. This includes:
 - Expedited appropriation of \$15.7 million from fund balance to projects, including \$6.1 million in Development Impact Fee (DIF) appropriations up to six months earlier than previous practice
 - Reallocation of \$37.7 million in excess funding to priority projects, including \$22.0 million in former redevelopment proceeds
 - Accelerated deappropriation of \$1.9 million in excess funding to fund balance
- **Reallocation of Funding from Technically Completed Projects:** This process improvement has expedited the release of \$5.2 million not needed for project completion and now available for other priorities.
- **Encumbrance Process Improvements:** This new process has released \$12.0 million in available cash funding for priority projects in FY 2016 that would otherwise have been encumbered and not spent for multiple years.
- **Pooled Project Contingencies:** This proposal is projected to release \$1.9 million in available cash for priority Public Utilities projects in FY 2017.
- **Internal CIP Monitoring Process:** A new internal quarterly monitoring process has been implemented results of which will be reported back to City Council in May 2016.
- **Park Service District Funds:** This process improvement has resulted in the full expenditure of six funds with an additional five funds expected to be spent by December 31, 2015.
- **Commercial Paper Program:** Provides a status update on this program.



Financial Management (FM), Public Works, and all asset-managing departments have collaborated to identify projects that have excess budget that can be redistributed to other priority projects. Authorities to adjust appropriations in CIP project budgets have been consolidated into this report thereby streamlining this process and saving departments hours of staff time typically spent preparing and processing individual requests for City Council action. The requests for City Council action to adjust the CIP project budgets are summarized in Attachment I.

Additionally, City Council approval is requested to remove restrictions from funding sources to be reallocated to fund other critical CIP Projects ready to move forward:

- Authority to amend the Regional Transportation Improvement Program (RTIP) to allow for reallocations of TransNet funding
- Authority to add projects to the CIP, authorize the disbursement or expenditure of funds, and rename existing CIP projects

The authorities requested from City Council to remove restrictions on funding sources for reallocation are summarized in Attachment II.

CASH MANAGEMENT INITIATIVES

Effective cash management supports timely completion of Capital Improvement Program (CIP) projects, capitalization of assets for accurate financial reporting, and reallocation of excess funds to other priority projects. As part of Report 15-024 and a greater effort to improve City cash management practices, Financial Management (FM) committed to reporting to City Council semi-annually on the status of these process improvements.

This is the first CIP Semi-Annual Monitoring report and provides an update to City Council on the status of these process improvement efforts. This report includes updates on the results of the cash management process improvements, as well as requesting City Council's approval of new budget appropriations, the re-allocations of funds and other CIP project changes that require City Council approval.

CIP Budget Review

In prior years, asset-managing departments identified capital projects with excess budget or project closures and then individually prepared and routed a Council Action to request approval of project amendment. As FM worked with departments on streamlining measures, we identified the time spent by all departments with separate CIP actions and worked with departments to coordinate these actions in the semi-annual CIP report process. Now FM compiles all needed CIP council actions and prepares one semi-annual report to assist departments and save time and resources citywide.

While the total time and staff resources saved by this consolidated action has not been documented to date, we estimate that annually hundreds of staff hours will be saved in addition to the time saved by City Council and Committee members hearing one action, as compared to over forty, in this first semi-annual report. By consolidating these separate actions, the departments have significantly reduced the time and labor required to route individual council actions. This provides an opportunity to transfer and appropriate funds in a more timely manner and allows for more staff time dedicated to project analysis and other responsibilities. All CIP Budget Adjustment requests are summarized and included in Attachment I to this report. Any additional authorities requested are included in Attachment II to this report.

Capital Outlay Funds

FM has been reviewing cash balances in restricted funds to identify funding sources for priority CIP projects. Capital Outlay funds are used exclusively for the acquisition, construction, and completion of permanent public improvements or real property; replacement or reconstruction of public facilities; and other improvements of a permanent character. Revenue for the Capital Outlay Fund is derived primarily from the sale of City-owned property but may also come from other sources per Section 77 of the San Diego City Charter.

During the review of the Capital Outlay funds, FM identified Capital Outlay funds restricted by Council policies for specific uses. The Capital Outlay Pueblo Lands/Police Decentralization Fund (400006) is a restricted Capital Outlay fund governed by Council Policy 900-03. This fund received all sale and lease proceeds of Police Pueblo Lands. Proceeds are restricted by City Council Policy to be used solely and exclusively for the purpose of financing the acquisition and construction of police substations and other permanent improvements for

police purposes. The Pueblo Lands/Police Decentralization Fund currently has \$2.1 million in fund balance.

Currently, \$1.1 million of the funding in the Pueblo Lands/Police Decentralization Fund is allocated to project S10118 Police Range Refurbishment. This project is partially funded and an additional \$7.0 million in funding is necessary to fully fund the project. While the Police Range remains a priority project, until full funding is identified, and in keeping with cash management reforms, it is prudent to use these funds for another priority Police capital need. Staff recommends transferring \$1.0 million in the Police Range Refurbishment project to fund balance and then appropriating \$2.0 million in fund balance to be used for the construction of a Police Emergency Vehicle Operations Course (EVOC).

EVOC is a joint project with the City, County, and San Diego Community College District to create a shared training facility for emergency vehicle operations. The County will be responsible for the management of this project. The total cost of the project is \$15 million, and the City is expected to contribute \$5 million this year, or one-third of the total cost. The remaining \$3.0 million dollars is currently being identified and is anticipated to be addressed in the Fiscal Year 2016 Mid-Year Monitoring report.

De La Fuente Settlement

As part of the De La Fuente Settlement, the City Council is requested to add S16043 Airway Road Improvements and S16044 Siempre Viva Road Improvements to the CIP. Each of these projects is requested to receive \$10,000 respectively from the Capital Outlay Fund (400002) to initiate the predesign phase of the respective projects. The Siempre Viva Road Improvements project is anticipated to receive additional funding from the Otay Mesa Facilities Benefit Assessment Fund in Fiscal Year 2018. The Airway Road Improvements Project is anticipated to receive additional funding from the same source in Fiscal Year 2019.

Development Impact Fee Funds

Development Impact Fees (DIF) are collected to mitigate the impact of new development in urbanized communities that are near build-out. To determine which projects should be funded with available DIF fund balance, the Planning Department's Facilities Financing group held a meeting where departments with eligible projects in the DIF communities could recommend projects to receive funding. These recommendations were then brought to the Capital Improvements Program Review and Advisory Committee (CIPRAC) for discussion and approval to be forwarded to the City Council.

In prior years, DIF allocations that were approved by CIPRAC would be added in the following year's Proposed Budget. This annual procedure caused at least a six month delay from when funding was identified to when it could be added to projects. As part of the streamlining effort, FM worked with Facilities Financing to coordinate all requests in advance so \$6.1 million in DIF funding for existing projects could be added as part of the semi-annual year action. New projects that received a recommendation for funding from CIPRAC will be included for City Council consideration as part of the Fiscal Year 2017 Proposed Budget.

Redevelopment Funds

There are projects located within former redevelopment project areas that are eligible to receive former redevelopment bond proceeds via the Agreement Regarding Expenditure of Excess Redevelopment Bond Proceeds dated November 14, 2014 and the First Amendment to Agreement Regarding Expenditure of Excess Redevelopment Bond Proceeds, dated

October 2, 2015. The projects being encumbered through this action and also listed as eligible projects in the abovementioned Agreement include:

| Project Area | Funded Program | Amount |
|---------------------|--|---------------|
| • Crossroads: | S00654 - Chollas Community Park | \$3.1 million |
| • North Park: | S00826 - El Cajon Blvd Streetscape Improvements | \$750,000 |
| • North Park: | S10040 - North Park/Main St Sidewalk Improvements (located at 30 th St./University Ave.) | \$250,000 |
| • Centre City: | S15045 - Park Boulevard At-Grade Crossing | \$2.8 million |

An additional project, Park de la Cruz Neighborhood Park Improvements, as noted below, is proposed to be funded through this action. Approval of the bond allocation is contingent upon the administrative execution of a Second Amendment to Agreement Regarding Expenditure of Excess Redevelopment Bond Proceeds to add this project to Exhibit 2 – Bond Spending Plan.

| Project Area | Funded Program | Amount |
|---------------------|---|---------------|
| • City Heights: | S15003 - Park de la Cruz Neighborhood Park Improvements | \$2.2 million |

All of the projects listed above are long standing public improvement projects with on-going community support. Review and authorization by the City Council is required prior to the encumbrance and expenditure of bond proceeds.

As a result of the RDA bond refunding due diligence and the reallocation of certain bond proceeds, \$22.0 million, including \$11.2 million in funding for the Park Grade Crossing and an additional \$10.7 million in previously unallocated bond proceeds, is now available for these projects. These funds were transferred to the Excess Redevelopment Bond Proceeds Expenditures Fund. Although not required to do so, the City is maintaining these funds for projects in the Centre City project area. Council action is requested to allocate funding for two projects:

- \$11.2 million for the Park Boulevard at Grade Crossing Project.
- \$10.7 million for the Bayside Fire Station.

By adding this new cash funding to the Bayside Fire Station project, a corresponding \$10.7 million in funding that had previously been allocated to this project is now available to return to fund balance or be programmed to other projects. Council action is requested to allocate the following two funding sources:

- \$5.0 million in General Fund contributions that are currently budgeted in the project are requested to be returned to fund balance for transfer to the General Fund in FY 2017 as described in the FY 2017-2021 Five-Year Financial Outlook.
- \$5.7 million in Centre City DIF money that are currently budgeted in the project are recommended to be transferred to the priority East Village Green Phase 1 project.

TransNet

TransNet, a one-half cent local sales tax, is used for traffic congestion relief and transportation improvements. In addition to roadway enhancements, TransNet Funds are utilized for bikeway and pedestrian projects. In an effort to consolidate all Council Requests, the TSW department has identified two projects with \$2.7 million in excess funding that can be reallocated to other priority projects through the consolidated action: S00930 – 38th Street Improvements and S00870 – Old Otay Mesa Road.

In addition to the request to reallocate the budget, changes to TransNet allocations require the City revise its Regional Transportation Improvement Program (RTIP). The RTIP is a multi-billion dollar, multi-year program of transportation projects including the TransNet funded projects. In order to modify the 2014 RTIP so these allocations can be transferred, the City Council is requested to approve the additional TransNet resolutions listed in Attachment II to this report.

Other Requested Council Actions

All other departmental requests to adjust CIP budget that do not fall under one of these fund types are summarized in Attachment I to this report. Individual justifications are given for each action. There are five types of budget adjustments being requested in this section:

- Appropriation of fund balance to existing projects
- Deappropriation of an existing project to fund balance
- Cancellation or abandonment of existing projects and their funds return to fund balance or transferred to another eligible project
- Transfer of appropriations between projects
- Transfer of operating funds to support an existing CIP project

In addition to the requested CIP budget adjustments, Council is requested to approve a number of miscellaneous requests related to the CIP relating to the expenditure of funds, the disbursement of funds, the addition of projects to the CIP, and the renaming of existing CIP projects. These requests are summarized in Attachment II to this report.

Reallocation of Funding from Technically Completed Projects

The Fiscal Year 2016 Annual Appropriation Ordinance (AO), section 2.C.3, included the authority to transfer unexpended balances not needed in technically completed (TECO) projects and transfer those released funds to eligible projects on the underfunded projects list (waterfall list) approved by City Council as part of the FY 2016 Adopted Budget if eligible, or to fund balance. A full update of the funding status of the projects on the waterfall list is included in Table 2, below.

Previously, excess funds for TECO projects would remain in a project during the warranty period, typically a year or more, for any potential project needs. This holds funds idle during the warranty period and delays funds from being reallocated to other priority projects. The AO now allows the Chief Financial Officer (CFO) to reduce the available budget for all but a minimal amount projected for future project needs during the warranty period. This improved process ensures more timely completion of projects, releases excess monies not needed during the warranty period, and re-allocates monies to pending projects that are ready to move forward.

There are currently 57 stand-alone projects in TECO status with more than \$14.6 million of budget available. Using the new authority in section 2.C.3, FM has been able to reallocate \$5.2 million of these funds into waterfall projects or return the funds to fund balance, making the cash available for Council action to reallocate to other projects.

A total of \$5.1 million dollars, consisting of several fund sources as shown below in Table 1, have been transferred back to fund balance as part of the review of TECO projects. These transfers provide readily available cash to be appropriated to projects using authorities in section C of the annual Appropriation Ordinance. Examples of these include the authority to

transfer up to \$200,000 or no more than 10% of a project cost to complete a project and the authority to appropriate Facilities Benefit Assessment (FBA) funds according to the City Council-approved Community Public Facilities Financing Plan. These funds may also be appropriated to other projects through a separate Council action to authorize such activity.

Table 1: Funding Returned to Fund Balance

| Fund Group | Returned to Fund Balance |
|--|---------------------------------|
| Capital Outlay – Land Sales | \$ 1,012 |
| Developer Funding | 45,378 |
| Development Impact Fees | 409,448 |
| Facilities Benefit Assessments* | 162,900 |
| Proposition 42 Replacement – Transportation Relief | 89,867 |
| Refuse Disposal Fund* | 987,524 |
| Regional Park Improvements | 4,204 |
| Sewer Funds | 2,845,869 |
| Water Fund | 564,770 |
| Total: | \$ 5,110,972 |

*\$1.0 million in budget was returned with the authority to close completed CIP projects (section 2.C.2)

An additional \$80,100 was transferred to the Cesar Solis Community Park / S00649 on the waterfall list.

The remaining \$9.5 million remains in TECO projects for several reasons. For example:

- \$2.2 million in Facilities Benefit Assessment funds are undergoing cost verification from an outside consultant. Funding will be sent back to fund balance during the closing process and allocated according to Public Facilities Financing Plan priorities.
- For project S13018 Avenida de la Playa, the Transportation & Storm Water department elected to request the funding \$1.1 million to be reallocated to priority projects not on the waterfall list details for this request are included in Attachment I of this report.
- \$209,000 is being left in multiple projects as a result of pending and current investigations, lawsuits, and claims.
- \$155,000 in identified funds were either grant funds or private contributions to the CIP that could not be reallocated to different projects, meaning there would be no cash management benefits to moving funding out of the projects
- \$129,000 was needed in multiple projects for continuing maintenance, mitigation, and monitoring.

The ability to remove funding from substantially complete projects for utilization in other projects is a marked improvement over the previous practice of leaving the funds with the project until it was closed out, potentially leaving a large balance in a project after an asset had been put into service.

Waterfall List Update

As of November 2015, a total of \$432,884 has been transferred from both closed projects and TECO projects to the waterfall list. Council approved this waterfall list as part of the FY 2016 Adopted Budget. Of the total amount, \$80,078.87 came from TECO projects mentioned above and \$352,805.29 came from projects completed during FY 2016. An additional two projects are expected to be fully funded with restricted funding sources through the consolidated request for City Council action as part of this report. Projects are funded in the order they are listed on the waterfall list and based on legal restrictions in the use of funds. The status of the waterfall projects are reported in the table below.

Table 2: Funding of Projects on the Waterfall List

| # | Project | Amount | Transferred During FY2016 | Remaining to Fund |
|---------------|--|----------------------|---------------------------|------------------------|
| 1 | Midway Street Bluff Repair / S12005 | \$ 92,000 | \$ 92,000.00 | \$ - |
| 2 | Tierrasanta Library Expansion / S15011 | 295,000 | - ¹ | 295,000.00 |
| 3 | Valencia Park Acquisition & Development / S11103 | 344,000 | - ² | 344,000.00 |
| 4 | Cesar Solis Community Park / S00649 | 350,000 | 80,078.87 | 269,921.13 |
| 5 | California Tower Seismic Retrofit / L12003 | 500,000 | - | 500,000.00 |
| 6 | Keiller Neighborhood Park ADA Improvements / S15030 | 654,000 | - | 654,000.00 |
| 7 | Mission Bay Athletic Area Comfort Station Mod / S10021 | 820,000 | - | 820,000.00 |
| 8 | Scripps Miramar Ranch Library / S00811 | 1,090,400 | - | 1,090,400.00 |
| 9 | Interstate 5 Underpass-Bikeway/Ped Conn / S00982 | 1,116,010 | - | 1,116,010.00 |
| 10 | El Cajon Blvd Streetscape Improvements / S00826 | 1,269,800 | - ³ | 1,269,800.00 |
| 11 | Sixth Avenue Playground Improvements / S00616 | 1,880,000 | - | 1,880,000.00 |
| 12 | Kensington/Normal Heights Library / S00795 | 2,246,530 | - | 2,246,530.00 |
| 13 | El Camino Real to Via De La Valle (1/2) / S00856 | 3,200,000 | - | 3,200,000.00 |
| 14 | Rancho Bernardo Library / S00812 | 3,467,682 | - | 3,467,682.00 |
| 15 | Police Range Refurbishment / S10118 | 6,999,593 | - | 6,999,593.00 |
| 16 | Ocean Beach Lifeguard Station / S10121 | 600,000 | - | 600,000.00 |
| 17 | Fire Station No. 54 - Paradise Hills / S00785 | 800,000 | - | 800,000.00 |
| 18 | Americans with Disabilities Improvements / ABE00001 | 5,000,000 | - | 5,000,000.00 |
| 19 | Resurfacing of City Streets / AID00005 | 5,000,000 | 260,805.29 | 4,739,194.71 |
| 20 | New Walkways / AIK00001 | 3,000,000 | - | 3,000,000.00 |
| 21 | Concrete Streets / AID00006 | 2,000,000 | - | 2,000,000.00 |
| Total: | | \$ 40,725,015 | \$ 432,884.16 | \$40,292,130.84 |

Encumbrance Process Improvements

FM and the Office of the City Comptroller have developed an improved encumbrance process which allows for the certification of funds in current and future years for large contracts funded by stable and predictable revenues sources, such as TransNet. This new process will reduce the dollar amount required to be encumbered in the current fiscal year,

¹ Expected to be fully funded through DIF and donations in the Consolidated Request for Council Action

² Expected to be fully funded through DIF in the Consolidated Request for Council Action

³ Expected to be partially funded (\$750,000) through redevelopment bonds in the Consolidated Request for Council Action

which will allow for funds to be re-allocated to other priority projects that are ready to move forward. With these process improvements in place, the encumbrance will better match the current year contract cash flows and should ensure a timelier spend of available cash without unnecessarily encumbering cash in projects if the cash is not needed until later fiscal years.

This process is currently being piloted on project S00851 SR163/Friars Road, where \$12 million of the contract award amount is not needed until future fiscal years. Implementing the new encumbrance process has allowed for the full \$32 million contract to be executed and work to begin in this fiscal year based on projected cash flows, while freeing up \$12 million to be re-allocated to other active projects. The controls over tracking the future year commitments are managed between the Comptroller's Office and FM, allowing priority projects ready to move ahead in the current fiscal year to utilize available cash.

This process will be expanded to other large construction contracts using stable and predictable revenues sources in the future. The Public Utilities Department is identifying a project for this process and is exploring with the finance departments the possibility of using the revised encumbrance process to replace the phase funded contract process.

Pooled Project Contingencies

FM, in conjunction with the Office of the City Comptroller and Public Utilities, has developed a pilot program for pooled contingencies that will begin in Fiscal Year 2017. By pooling the contingency funds across multiple projects in a centralized place, the risk of cost overruns is allocated across a greater number of projects. Savings in projects can be returned to the pooled contingency and then re-allocated to cover cost overruns in other projects. This allows for a reduced contingency amount and the typical 5.0% contingency is reduced to 3.0%; thereby making more funds available that can be allocated to projects ready to move forward.

The pilot program calls for the pooling and tracking of contingencies for the Water and Sewer Mains annual allocations. The pooled contingency will equate to approximately 3.0% of Fiscal Year 2017 new CIP construction-ready projects, which frees up cash compared to the current practice of budgeting 5.0% to 10.0% in each individual sub-project. The table below provides a comparison of projected available cash resulting from this pilot program.

Table 3: Pooled Contingency Savings

| Project | Construction Cost | 5% Contingency | 3% Contingency | Available Cash |
|----------------|--------------------------|-----------------------|-----------------------|-----------------------|
| Sewer Mains | \$ 39,452,139 | \$ 1,972,607 | \$ 1,183,564 | \$ 789,043 |
| Water Mains | \$ 53,485,488 | \$ 2,674,274 | \$ 1,604,565 | \$ 1,069,710 |
| Total | \$ 92,937,627 | \$ 4,646,881 | \$ 2,788,129 | \$ 1,858,753 |

During the pilot project, the contingency funding will be included within the respective annual allocations for water mains and sewer mains. The Appropriation Ordinance allows the transfer of funds from an annual allocation to its constituent sub-projects. FM will document the success of the pilot program and will return to City Council for approval to establish a "pooled contingency" annual allocation. A citywide contingency pool used across multiple projects will decrease the cash that will be set aside unused during the life of capital projects. Additional information will be provided in the next semi-annual CIP report update.

Internal CIP Monitoring Process

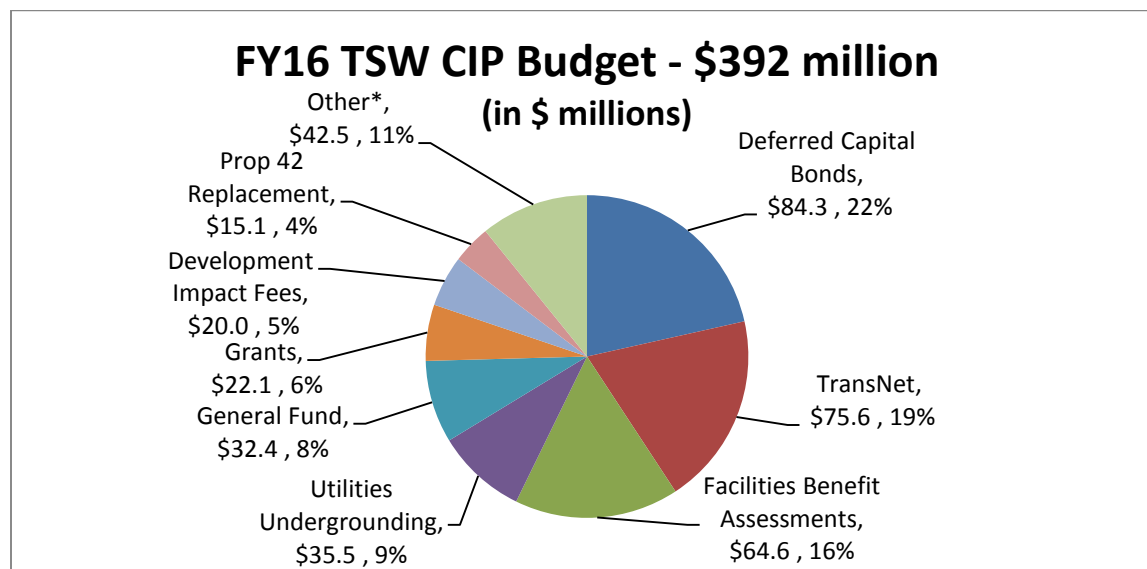
FM, Transportation & Storm Water (TSW), and Public Works departments have created an internal pilot program to monitor the CIP budget for all TSW assets (TSW program). The TSW program is the first cash management pilot by an asset-managing department, the results of which will be utilized to document the City's approach to evaluating and monitoring the financial condition of the City's entire CIP.

TSW was chosen for the pilot program because of its importance to implementing the Mayor's top priority of improving the City's infrastructure and the variety of restricted funding sources supporting the Department's projects. TSW projects are supported by TransNet, Proposition 42 Replacement – Transportation Relief, deferred capital bond issuances, and other funding sources. These funding sources each have unique requirements for timing and eligibility of expenses; therefore it is critical to have effective cash and project management. Effective cash management is essential for the timely expenditure of funds and to anticipate the future need for cash to support the City's multi-billion CIP program.

The TSW program has an essential role in identifying projects with available funds to be re-allocated to higher priority projects, in addition to also providing an overall status update on the City's infrastructure projects. This procedure documents the process for monitoring capital projects and will assist in the development of CIP budget proposals, improve cash flow management, and improve the overall fiscal management of projects.

TSW Funding Source Summary

TSW CIP includes roadway infrastructure in the public right-of-way, drainage improvements in the public right of way and easements, storm water quality projects and utilities undergrounding projects. There are 505 individual projects (including standalone projects and sub-projects of annual allocations) for a current CIP budget of \$392 million in FY 2016. This \$392 million is comprised of \$45 million in new FY 2016 budget with the remaining \$347 million in carryover budget from previous fiscal years or other Council Actions in Fiscal Year 2016. The table below illustrates the total Fiscal Year 2016 TSW CIP budget broken down by funding source.



*Other funds include RTCIP, Sea World Traffic Mitigation, Private & Other Contributions, Gas Tax, Trench Cut, Capital Outlay, and other miscellaneous funds.

Of the \$392 million identified above, \$370 million or 94 percent is either backed by cash-on-hand with the City (and SANDAG) or by estimated revenue that is projected to be received during Fiscal Year 2016. The remaining \$22 million is grant funded, which is not cash backed, but is anticipated to be received based on various granting agency agreements once eligibility requirements have been met.

While TSW's CIP is overwhelmingly backed by cash and reliable revenue sources, each funding source has its own characteristics and requirements for expenditure. The following list includes funding sources (along with current Fiscal Year 2016 budget) that are of highest priority to spend due to bond covenants, spending requirements or unrestricted cash and represent \$229.8 million, or 59 percent, of the overall TSW CIP budget:

- **Deferred Capital Bonds (\$84.3 million):** Lease revenue bonds issued by the City to finance General Fund capital improvement projects for streets and storm water CIP. The proceeds of these bonds should be spent within three to five years of the issuance of the bonds, and are prioritized to spend before other eligible funding sources.
- **TransNet (\$75.6 million):** A one-half cent local sales tax used for traffic congestion relief and transportation improvements. In addition to roadway enhancements, TransNet Funds are utilized for bikeway and pedestrian projects.
- **RTCIP (\$9.8 million):** The Regional Transportation Congestion Improvement Program is a development impact fee enacted as part of the 2009 TransNet Extension Ordinance designed to ensure that new development directly invests in the region's transportation system to offset the negative impacts of growth on congestion and mobility. Funds must be used on improvements to the regional arterial system.
- **Trench Cut/Excavation Fees (\$3.5 million):** Fees collected through the City's street preservation ordinance. Used to repair streets that are subject to utility excavations.
- **Prop. 42 Replacement (\$15.1 million)/Gas Tax (\$6.8 million):** Funding derived from taxes on the sale of vehicle fuel. These funds may be used to perform citywide repairs and restoration to existing roadways, reduce congestion, improve safety, and provide for the construction of transportation assets within the public right-of-way.
- **General Fund (\$32.4 million)/Capital Outlay Fund (\$2.4 million):** General Funds are discretionary and can be spent on CIP or operations of the City. Capital Outlay funds are proceeds from General Fund land sales restricted to any permanent public improvement. These funds can be used for any number of other projects across all General Fund asset types. They will typically be the last funding source to be spent, but, as they are discretionary, they should be spent timely or re-allocated to other projects ready for construction.

The other funding sources that are primarily cash backed have unique fund restrictions on eligible expenditures, community area, physical city block, or are dependent on outside governmental agencies. These fund restrictions may delay the timely expenditure of funds for a variety of reasons. These funds represent \$136.3 million, or 35 percent, of TSW's CIP budget:

- **Facilities Benefit Assessments (\$64.6 million):** Assessments on development that provide 100 percent of funding for public facilities projects that service a designated area of benefit and are identified in the public facilities financing plan.

These funds have very long time horizons and can be dependent on future development activity.

- **Utilities Undergrounding (\$35.5 million):** The undergrounding of utilities, including telephone and cable infrastructure is currently managed and implemented by San Diego Gas & Electric. The City manages the installation of new street lights, street resurfacing, and curb repair as a result of the undergrounding of utilities. Timing for the implementation of the City's projects is dependent on SDG&E first undergrounding the utilities.
- **Development Impact Fees (\$20.0 million):** Assessments on development that are collected to mitigate the impact of new development in urbanized communities that are near build-out. These funds must be spent within a specific geographic area around the site of the development. Projects funded by DIF fees can also be delayed due to partial funding and reliance on future contributions from developers.
- **Sea World Traffic Mitigation Fund (\$8.7 million):** Funds provided to the City by Sea World as part of a development agreement in the early 2000s. These funds are restricted for traffic mitigation measures identified in the Environmental Impact Report considered in connection with the approval of the Sea World Master Plan. Currently, \$5.8 million is budgeted in S00871 West Mission Bay Drive Bridge; construction is scheduled to begin in Fiscal Year 2017. An additional \$2.9 million is budgeted in S00888 Sea World Drive/I5 Interchange Improvement; this project is on hold until an additional \$116 million is identified.
- **Private and Other Contributions (\$7.4 million):** Contributions from private entities or individuals designated for specific projects. These funds are tied to individual agreements that dictate what the funds can be expended on. Many times, the donation is only for a specific aspect of a project. The largest individual example for this funding source is \$5 million in insurance settlement proceeds for S10001 Alta La Jolla Drive Drainage Repair.

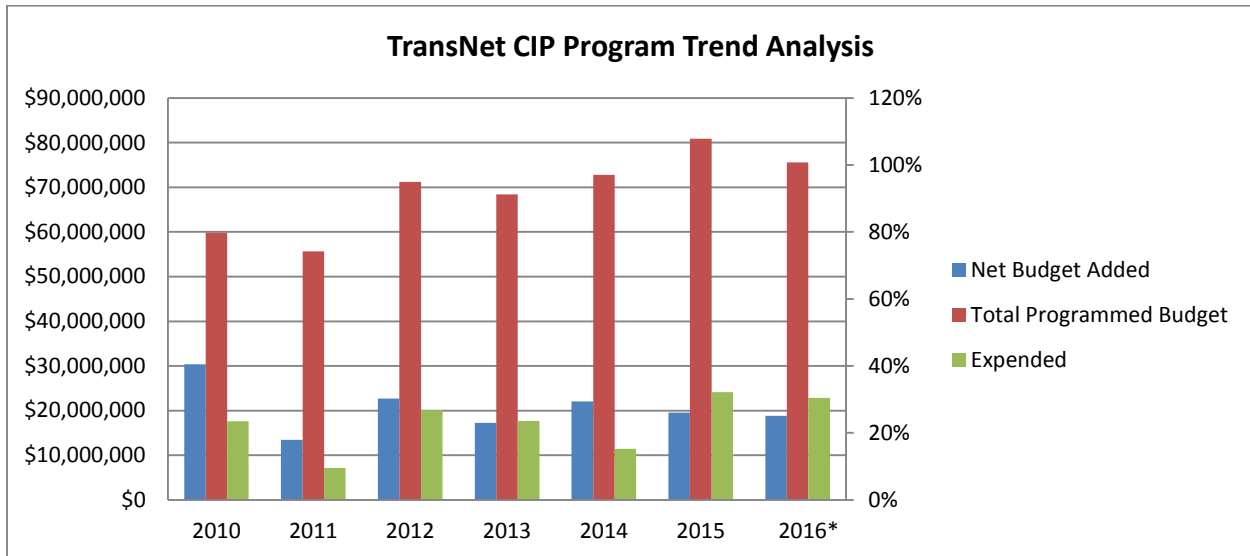
TransNet Update

In March 2014, FM, TSW and Public Works created a multi-department team to identify areas for improvement in CIP and cash flow projections with a primary goal of a more timely expenditure of TransNet funds. These cash management and process improvement initiatives have resulted in several actions and informational reports presented to City Council to provide frequent updates on the re-allocations of TransNet funding which support higher priority projects moving forward more efficiently and generate a more timely use of TransNet cash:

- \$5.0 million in re-allocation of TransNet-funded projects 6/17/2014
 - Expedited the use of TransNet cash to fund additional City Street Re-Surfacing projects
- \$10.4 million in re-allocation of TransNet-funded projects 12/9/2014
 - Expedited the use of TransNet cash to fund additional City Street Re-Surfacing projects
- \$11.5 million in re-allocation of TransNet-funded projects 5/12/2015
 - Fully Funded Old Otay Mesa Road Widening CIP S00870

On Wednesday November 4, 2015, TSW, Public Works and FM attended a TransNet Independent Taxpayer Oversight Committee (ITOC) meeting to provide an update on project delivery streamlining and cash management initiatives at the City, as well as an update on the spend down of TransNet cash held at SANDAG. The recent trend in CIP expenditures, funded by TransNet, have shown a significant increase since the City implemented these cash management and CIP streamlining efforts in March 2014. As shown below, TransNet CIP expenditures have increased 319 percent from a low of less than \$7.1

million in FY 2011 to \$22.8 million as of November 19, 2015. It is estimated that a total of \$34.0 million will be expended by the end of Fiscal Year 2016, an increase of 476 percent compared to Fiscal Year 2011.



*Actual expenditures for FY 2016 as-of November 19, 2015. Total programmed budget for FY 2016 includes \$10 million in estimated revenues that are anticipated to be received by June 30, 2016. An additional \$18 million is encumbered in active construction contracts in FY 2016.

IIOC was pleased with the update and the progress the City has made since March 2014 and has recommended that the City report back on the status of TransNet and the City's cash management and streamlining strategies in one year. The committee has typically requested the City provide semi-annual updates so this one year modification demonstrates their satisfaction with the direction the City is headed.

Project Status

Due to the size and complexity of the TSW CIP program, FM, TSW and Public Works developed an internal quarterly monitoring process that reports funding source restrictions, cash flow projections and comparisons of cash flows to actual expenditure activity. The results of this quarterly FM monitoring will be incorporated into future semi-annual reports to City Council.

Both TSW and Public Works manage different elements of TSW's CIP. On a quarterly basis, both departments will review project financial data and provide detailed status updates for their respective projects. These quarterly reviews consist of:

- Development of quarterly cash flow projections for City Council-approved projects
- Comparison of prior quarter projections to actual expenditures
- Identification of projects that are either completed or unable to proceed
- Recommendations to reallocate funds between projects administratively where possible (primarily for sub-projects of annual allocations) and in accordance with the City Council-approved Appropriation Ordinance
- Request for City Council action as necessary

As part of the internal monitoring process, the departments will provide cash flow estimates on a quarter-by-quarter basis for Fiscal Year 2016, as well as annual cash flow estimates for

Fiscal Years 2017 and 2018. The goal is to provide management and City Council with cash flow results compared against projections, updates on project status (e.g. design, construction, etc.), and potential funding reallocations in the next semi-annual report in May 2016.

Park Service District Funds

The Fiscal Year 2016 Annual Appropriation Ordinance included new authority to appropriate and expend remaining fund balances and interest earnings from Park Service District (PSD) funds up to \$15,000. The PSDs were originally established to provide a source of funding for park and recreational facilities within the district areas where the funds were collected. These funds no longer receive new revenue and have been replaced by FBA and DIF, which now include a park component. The purpose of the new authority in the Appropriation Ordinance was to allow remaining fund balances in these funds to be allocated to eligible projects and then for the funds to be closed out.

FM, Public Works, the Office of the City Comptroller, and Park and Recreation have collaborated to create a new process to expend PSD funds. Monthly, the Office of the City Comptroller provides a list of restricted PSD funds and eligible projects. The first projects targeted have been those projects that have FY 2016 expenditures. Park and Recreation reviews the projects in collaboration with Public Works to ensure that the project is eligible to use the funding and that it is appropriate to add funding given the project budget.

As of November 2015, six funds with balances ranging from \$38 to \$947 have had their fund balance transferred to projects and have been fully expended.

Table 4: Fully Expended Park Service District Funds

| Fund | Project | Amount |
|--|--|-------------------|
| 400038: Linda Vista Major District | B15037: Clairemont Pool Boiler Replacement | \$ 139.11 |
| 400061: Memorial (Southeast SD) Major District | S13003: Chicano Park ADA Upgrades | 178.27 |
| 400028: Mira Mesa East Major District | S00667: Mira Mesa Community Park – Exp & Aquatic | 38.19 |
| 400041: North Clairemont Major District | B13092: N. Clairemont Recreation Center ADA Barr | 711.19 |
| 400071: San Ysidro Major District | S13004: Larsen Field ADA Improvements Phase II | 91.25 |
| 400062: Southcrest Major District | S11019: Mountain View Neigh Pk Area Upgrades | 946.83 |
| | Total: | \$2,104.84 |

An additional five funds have been earmarked for project expenditures and for transfer of fund balance and total expenditure. These funds have balances ranging from \$29 to \$4,758.

Table 5: Park Service District Funds Targeted for Full Expenditure

| Fund | Project | Amount |
|---------------------------------------|--|-------------------|
| 400027: Mira Mesa West-Major District | S00667: Mira Mesa CP- Exp & Aquatic Complex | \$ 606.43 |
| 400049: Santa Clara Major District | B12006: Santa Clara Recreation Center-ADA | 4,759.78 |
| 400050: Ocean Beach Major District | B14073: Orchard Av, Capri by Sea & Old Salt Pool | 28.94 |
| 400051: Point Loma Major District | S10091: Sunset Cliffs Natural Pk Hillside Imp | 53.93 |
| 400052: Loma Portal Major District | S10091: Sunset Cliffs Natural Pk Hillside Imp | 386.38 |
| | Total: | \$5,835.46 |

FM will update the City Council on these project statuses at the year-end semi-annual CIP report.

Commercial Paper Program

Debt Management is evaluating the CIP interim funding needs and cash flows of the General Fund and Water Utility funds for the establishment of commercial paper programs for these two funds. The City most recently raised funds to support General Fund CIP projects through the issuance of \$120 million Lease Revenue Bonds in April 2015, and Debt Management is closely monitoring the spend down trends of outstanding General Fund bonds before proceeding with the implementation of a commercial paper program for the General Fund.

A commercial paper instrument is expected to be a suitable tool for the Water Utility to implement the initial phase of the Pure Water Advanced Water Purification Facilities planned for early Fiscal Year 2017. When commercial paper borrowing is needed, Debt Management will bring forward an authorizing resolution to City Council to establish a commercial paper program limits, develop the legal framework, and secure credit providers.

CONCLUSION

This first Semi-Annual CIP Budget Monitoring Report demonstrates the progress that the City has made in improving cash management in the CIP program as detailed in staff reports by the CFO last spring. As a result of the cash management efforts, streamlining initiatives, and requests for City Council Action detailed in this report, \$74.4 million in project savings and reallocations will be realized. FM will issue the second semi-annual report in the spring and report the status of the new monitoring protocols. The next report will also include potential recommendations to deappropriate annual allocations that are not allocated to sub-projects as was recommended in the CIP Cash Management Process Improvements report.

ATTACHMENTS

- I. CIP Budget Adjustment Requests
- II. Additional Authorities Requested