



Memorandum

TO: TRANSPORTATION & ENVIRONMENT
COMMITTEE

FROM: Ed Shikada

SUBJECT: SEE BELOW

DATE: 04/21/08

Approved

Date

4/27/08

**SUBJECT: STATUS REPORT ON DEFERRED MAINTENANCE AND
INFRASTRUCTURE BACKLOG**

RECOMMENDATION

Accept this status report on the deferred maintenance and infrastructure backlog for City facilities.

OUTCOME

By providing a status report on the deferred maintenance and infrastructure backlog staff is able to effectively communicate the latest progress on the infrastructure backlog in the context of the 2009-2013 Proposed CIP.

EXECUTIVE SUMMARY

This report provides a status update on the City's deferred maintenance and infrastructure backlog. There have been some significant changes with regards to the unfunded backlog needs since the October 2007 Deferred Maintenance and Infrastructure Backlog Report (October Infrastructure Report). With the available funding included in the adopted CIP 2008-2012 staff has made progress on addressing the City's existing infrastructure in several areas. The 2009-2013 Proposed CIP recommendations have been included to highlight any changes to the backlog.

Staff continues to look at other revenue opportunities such as Federal and State grants, public private partnerships and new local revenue sources. Any new local revenues will be evaluated as part of the structural budget deficit elimination strategy and recommendations for time sensitive strategies will be brought to Council in May 2008, with the overall plan to be brought forward in November 2008.

BACKGROUND

The City's assets consist of numerous buildings, parks, trails, pools, streets (including trees and sidewalks), water, sewer and storm systems as well as an international airport, a large water pollution control plant, major equipment such as fleet vehicles and complex computing systems. Some of these assets are approaching the end of their useful life cycle and the need to replace, rehabilitate and upgrade them is becoming critical. Even in the case of facilities that have been recently upgraded or constructed, regular maintenance is essential to ensure the facilities and their major components meet life cycle expectancies.

Since February 2007, the City Council has identified reducing the City's deferred maintenance and infrastructure backlog as one of the City's top five priorities. In March 2007, an interdepartmental senior staff team embarked on a work effort to identify and analyze the City's deferred maintenance and infrastructure backlog. In order to focus the work effort, the team only looked at preventive maintenance, rehabilitation and capital replacement needs, and did not include costs to maintain, operate or rehabilitate future infrastructure assets that are not yet programmed for installation. The result of this interdepartmental work effort was an analytical report that was presented to the Transportation and Environment Committee in October 2007. On October 25, 2007, staff also presented the findings of this report to the full Council during a half-day study session.

Of the programs and funding needs that were identified in the report, the one time needs were estimated at about \$915 million and ongoing unmet annual needs were estimated at about \$45 million. During the October study session Council requested further information on the breakdown of the needs based on funding sources, which has been provided below:

<u>Funding Source</u>	<u>One time unmet need</u>	<u>Ongoing annual need</u>
General Fund	\$507 million	\$40.2 million
Enterprise Funds	\$305 million	\$2.5 million
Special Revenue Funds	<u>\$103 million</u>	<u>\$2.3 million</u>
Total	\$915 million	\$45.0 million

As discussed in the Study Session, given the General Fund deficit reported in the 2008-2012 and the now released 2009-2013 Five-Year Forecast and Revenue Projections, limited General Fund budgeting strategies such as creation of program reserves and sinking funds would make sense for specific programs, however, staff would need to continue to pursue other ongoing strategies such as:

- Prioritization of critical safety needs and strategies to minimize life cycle costs
- Continuous improvement to operational practices and preventative maintenance
- Rate adjustments for user-financed infrastructure (e.g., sanitary storm systems)
- Partnerships with private entities and other agencies, including grants

Despite these strategies to maximize the efficient use of existing funds, new funding sources would be needed to address the magnitude of identified need. Therefore, in addition to the

general strategies mentioned above, a number of other revenue generating strategies are being evaluated for possible implementation in 2008. This evaluation is being done as part of the structural deficit work effort, further discussion of which is included in the Analysis section.

ANALYSIS

In an effort to begin to fund the infrastructure backlog, one-time General Fund resources (\$5 million) were approved in the 2007-2008 Adopted Capital Budget. A continuation of this strategy, with additional one-time General Fund funding of \$5 million, is proposed to be allocated to a deferred maintenance reserve as part of the 2008-2009 Proposed Operating Budget. Staff is reviewing potential deferred maintenance backlog projects for funding out of this reserve and will release recommendations as part of a separate Manager's Budget Addendum for City Council approval.

Given the limitations of available funding, staff has also been looking at the feasibility and timing of new funding sources including formation of special assessment/community facilities districts, seeking voter approval to increases existing taxes such as the Conveyance Tax, service rate and impact fee increases, issuance of bonds, and partnership and grant opportunities.

At the Council Study Session held on October 25, 2007, staff was asked to coordinate any new revenue generation strategies with the structural deficit effort. The City's General Fund structural deficit is projected at \$137 million over the next five years, with the ongoing General Fund deferred maintenance need of \$40.2 million identified in the October Infrastructure Report included in this number. However, it is important to note that the deferred maintenance and infrastructure backlog number of \$915 million in all funds and \$507 million in the General Fund to bring the City's aging infrastructure to an acceptable condition is excluded from this number.

The Council adopted Mayor's March 2008 budget message reiterated the reduction of the deferred maintenance and infrastructure backlog as one of the City's top five priorities. This was based on input received from the community at a Neighborhood Association priority setting session held in January 2008 as well as through a community survey. The Council priority setting session confirmed this priority and identified three sub-priorities within the infrastructure backlog:

1. Transportation infrastructure
2. Technology infrastructure/software
3. Building Facilities

The budget message also directed staff to allocate 1/3 of the budget deficit amount as planning targets to be achieved over the next three years in three distinct areas:

1. Revenue Strategies (including economic development)
2. Service reductions
3. Cost savings (Service delivery model changes/Expenditure controls and shifts)

A senior staff core team is evaluating strategies for this 3 year structural deficit elimination plan. A Stakeholder Group chaired by Councilmember Constant and consisting of staff and community members, has been formed to review the core team's analysis. Staff is presenting the

analyses for the various strategies to the Stakeholder Group in April and early May, after which the group will develop a list of pros and cons for each strategy to be reviewed by Council in mid May. It is important to note that the focus of these strategies is to address the structural deficit and will thus include the ongoing General Fund infrastructure need, however, as discussed above, the \$507 million need in the General Fund (\$915 million in all funds) may be partially addressed at the best, and will most likely need a separate focused strategy.

This report provides a status update on all thirteen programs included in the Infrastructure Report in the context of the 2009-2013 Proposed Capital Improvement Program.

Airport

There continue to be no significant unmet one time or ongoing funding needs at the Airport. The 40-year old Terminal C North building was recently demolished and Terminal C South was reconfigured to accommodate all airlines relocated from the north end, eliminating associated operating expenses and deferred maintenance backlog. Much of the terminal and roadway assets will be re-built, upgraded or otherwise significantly improved over the next 2-years, thus resulting in no infrastructure backlog. Staff is in the process of procuring an asset management system and anticipates completing this process by June of this year. Implementation shall begin immediately after the procurement process is completed and the hardware and software components are in place.

Building Facilities

As stated in the October Infrastructure Report, \$12.8 million would be needed to fully address the facilities maintenance backlog with \$19 million shown as the total unfunded need over the next five years. Of this \$19 million, \$6.2 million was an unfunded need in maintenance. Since October, staff has completed an analysis of the building facilities asset inventory from a systems life-cycle costing perspective. Once the initial \$12.8 million "catch up" work and asset renewal is completed, staff estimates an annual need of \$5.1 million (\$2.6 General Fund, \$2.5 other funds) to prevent any further deferral of maintenance and capital renewal.

Additions to the building facilities inventory in FY 08-09, without commensurate augmentations to the city-wide facilities operating budgets, continue to impact the City's ability to meet the non-critical but important maintenance and capital renewal needs of its building facilities infrastructure. It is estimated that the level of capital renewal funding proposed in the 2009-2013 CIP - to address the ongoing deferred maintenance and infrastructure backlog will remain constant at \$897,000 but will not keep pace with the annual need. Ongoing discussions of the structural deficit elimination plan Stakeholder Group include evaluation of various revenue generation strategies. One of the strategies is to explore possible changes to the Construction and Conveyance Tax revenue allocations. A substantial amount of funding for this program comes from these revenues, and based on the options pursued, there could be either a positive or adverse impact on the program in the future.

Since October 2007, replacing the Uninterruptable Power System (UPS) at the Emergency Communications Center has emerged as a critical priority based on some recent failures of the system. The cost for this replacement is estimated at \$2.3 million and is being evaluated for

potential funding through a combination of eligible Emergency Communication Support System fee collections and/or the \$5 million General Fund reserve, previously discussed.

City Facilities Operated by Others

The unfunded need for this program was originally identified at \$4.3 million in the October Infrastructure Report. With the implementation of facility improvements this year at the Mexican Heritage Plaza this figure was reduced to \$3.8 million. Effective April 1, 2008, the City has assumed full maintenance and event management responsibility of the Mexican Heritage Plaza. This responsibility will continue for a projected 15-month period during which time an Independent Convening Institution will support the steering committee/business plan process tasked to achieve the full community arts and cultural center vision of the Plaza. Through this process, some portion or all of the operations responsibility will be transitioned back to a new operator of the facility. Funding needs for FY 08-09 will remain largely unchanged at \$3.8M. Staff, however, is currently working with the Redevelopment Agency on an additional funding plan that would provide for further improvements of the Theater at the Mexican Heritage Plaza.

Convention Center and other Cultural Facilities

The backlog for this program was estimated at \$24.6 million funding for which is not included in the proposed CIP. Based on updated detail work there are indications that the backlog number could be increased to about \$50-\$70 million. The Agency and the City are working with the hotel operators to explore the formation of the Hotel Taxing District and the imposition of a tax on hotels included in the district. The proposed tax would be imposed on occupied hotel rooms at the rate of 4% of the hotel room rent. Although the proposed tax differs from the City's existing Transient Occupancy Tax (TOT), in that it is imposed on the hotel operator and not the guest as is the case with the TOT, the imposition of the proposed tax would have the effect of raising the TOT from 10% of the room rent to 14%. The tax would be subject to the approval of the hotel operators and would require a two-thirds margin for approval. The funds from the projected bonding capacity of this tax would be used to partially pay the cost of expansion and some costs of renovation of the Convention Center.

Fleet

The backlog for both vehicle replacement and associated infrastructure was estimated to be \$1.12 million and continues to increase. The annual ongoing need for general fleet replacement is at \$400,000, down from \$500,000 in the Infrastructure Report. Funding for diesel-powered vehicle retrofits was included as part of the 2009-2013 General Fund Forecast and is being evaluated for funding as part of the 2008-2009 Proposed Operating Budget.

Staff is also currently in the process of evaluating funding of \$1.6 million (included in the 2009-2013 General Fund Forecast) for general fleet replacement towards the replacement of older, unreliable fleet assets thereby improving fleet availability. Many of the replacement vehicles will be alternative fuel vehicles, which will contribute to the advancement of the City's Green Vision, particularly Goal #8.

Public safety vehicle replacements continue to be addressed through specific appropriations and multiple funding sources. Current funding levels allow for 100% replacement of all vehicles meeting the respective replacement criteria. For FY 07-08, Police vehicle replacement is funded at the level of \$4,553,000 and for FY 08-09 it is proposed to be funded at \$2,766,000.

Enterprise fund departments, such as Airport and ESD, provide replacement funding for the fleet assets utilized by their respective departments. Fleet Management is currently in the process of assessing the replacement budgets and needs for these departments individually. Vehicle replacement purchases for FY 07-08 are already in progress, while replacement strategies for FY 08-09 are being evaluated.

Parks, Open Space and Pools

A one time need of \$33.3 million was identified in the Infrastructure Report. It is important to note that the infrastructure backlog number included in the October Infrastructure Report only addressed the backlog for neighborhood parks, staff is now in the process of finalizing a number for deferred maintenance and infrastructure backlog on regional facilities such as Alum Rock, Lake Cunningham and Kelley Parks. An approximately \$6-\$7 million annual need has been thus far been identified to address all adequate ongoing maintenance, however, this is a very preliminary number and needs to be further evaluated.

In the 2009-2013 Proposed CIP, staff has included a number of projects which will help address the infrastructure maintenance backlog. The majority of this funding is slated to come from park trust fund collections that were allocated to neighborhood parks for minor infrastructure improvements. In FY 08-09, roughly \$500,000 is proposed to be split between 25 different parks and recreation facilities. In addition, staff is focusing the use of the strategic capital maintenance allocations in district and citywide C&C funds on irrigation repair work as this is the highest priority infrastructure need. The strategic capital replacement funds are at \$200,000 in each Council district, with another \$200,000 Citywide, thus bringing the total available for FY 08-09 to \$2.2 million.

Ongoing discussions of the structural deficit elimination plan Stakeholder Group include evaluation of various revenue generation strategies. One of the strategies is to explore possible changes to the Construction and Conveyance Tax revenue allocations. A substantial amount of funding for this program comes from these revenues, and based on the options pursued, there could be either a positive or adverse impact on the program in the future.

Sanitary Sewer System

A one time backlog of \$250 million was identified in the October Infrastructure Report. With the Proposed 2009-2013 CIP, this backlog will be reduced to \$223 million. It is important to note that \$63 million of this backlog is for future economic development projects such as North San Jose, Midtown, BART and Downtown Core. Although the infrastructure backlog typically does not include costs for future assets, this number has been included because the development fees recouped from these projects would cover only a fraction of the costs of the capacity enhancing projects that would be needed. If this number were to be removed the backlog would be at \$160 million.

The 2009-2013 Proposed CIP addresses the deferred maintenance and infrastructure backlog in two significant areas: Capacity projects (\$59 million) and Rehabilitation projects (\$42 million). In addition to this, \$915,000 has been budgeted for a "pilot" Sanitary Sewer System Condition Study. The study will identify funding needs and priorities for setting future rates and funding initiatives and also help develop a preventive maintenance and rehabilitation program.

A Sewer Connection Fee study is also currently in progress since the current fees have not been evaluated since the late 1980's. This study will address funding methodologies and evaluate the adequacy of the current fees with respect to funding capacity improvement projects to support economic development.

Service Yards

All forecasted maintenance and improvement and capital renewal needs for the near future will be addressed with the funded programs within the Service Yards Capital Program. Ongoing discussions of the structural deficit elimination plan Stakeholder Group include evaluation of various revenue generation strategies. One of the strategies is to explore possible changes to the Construction and Conveyance Tax revenue allocations. All of the funding for this program comes from these revenues, and based on the options pursued, there could be either a positive or adverse impact on the program in the future.

Storm Sewer System

There has been no noticeable change in the status of the backlog since the October Infrastructure Report. Partial funding of \$1 million for a master plan and \$13.5 million for construction projects has been included in the 2009-2013 Proposed CIP.

Staff has completed work on the storm pump stations at Alma and Bird and has awarded construction contracts for a pump station at Hope/Elizabeth and for storm drain improvements at Albany-Kiely. Work is continuing on coordination, design and/or construction activities for other previously programmed projects.

Technology Infrastructure

The total backlog in this program was identified at \$66.5 million over 5 years along with an ongoing need of \$8.5 million in the October Infrastructure Report. The backlog was in two areas: Technology Infrastructure and Facility Services and Radio Communications.

Technology Infrastructure and Facility Services

An unfunded one-time need of \$47.5 million and an annual ongoing need of \$8.5 million was identified in the October Infrastructure Report. This will not change significantly with the 2009-2013 Proposed CIP. However, staff will be considering funding some of these needs through the \$5 million General Fund Reserve discussed previously.

Staff is currently focusing on three key areas of improvement for the City's technical infrastructure: voice and data consistency, "Green" IT operations, and information security.

Projects that enhance communications among several City facilities include:

- VoIP implementation at the Animal Shelter with a system supporting 80 phones, 50 computers and one Call Center.
- Migration of approximately 500 phones to the VoIP infrastructure at the Central Service Yard (CSY).
- The new Police Substation is scheduled to open in Fall 2009. Funding for the fiber necessary to provide high-speed connectivity between the two Police buildings is estimated at \$550,000 and is included in the 2009-2013 Proposed CIP.

Radio Communications

In the October Infrastructure Report an unfunded need of \$19 million to replace the current 150 MHZ system with a 700MHZ digital trunking system was identified. A feasibility study to migrate to a trunked communication system is currently underway. The City will begin pursuing grant funding for this project with the Communications C&C funding identified as a match toward any federal grant funding. Replacement of Radio Communications equipment at the end of its useful life continues to be fully funded. Funding for FY 07-08, in the amount of \$985,000 (from C&C funds), has been appropriated to provide for the replacement of older, unreliable communications equipment. For FY 08-09, the amount of funding allocated for equipment replacement is projected to decrease to \$929,000. While still allowing for 100% replacement of equipment at the end of its useful life, replacement equipment will be procured consistent with local interoperability efforts.

Ongoing discussions of the structural deficit elimination plan Stakeholder Group include evaluation of various revenue generation strategies. One of the strategies is to explore possible changes to the Construction and Conveyance Tax revenue allocations. A substantial amount of funding for this program comes from these revenues, and based on the options pursued, there could be either a positive or adverse impact on the program in the future.

Transportation Infrastructure

The 2007 Transportation Maintenance Master Plan and the October Infrastructure Report had identified a one time unfunded need of \$455 million and an annual ongoing need of \$29 million (\$17+ million for City maintained infrastructure and a shortfall of \$11+ million for infrastructure that is currently the responsibility of the property owners to maintain such as curbs and gutters and street trees). The status of the transportation infrastructure conditions and the level of deferred maintenance funding needs have not changed substantially since October.

It is, however, anticipated that additional one-time funding from the General Fund may be available due to the revised Fund Balance Policy which allocates the first increment of any General Fund "Ending Fund Balance" identified in the City Manager's Annual Report to be split 50% for deferred street maintenance and repair projects and 50% to offset any projected deficit for the following fiscal year. In addition, one time funding from the previously discussed General Fund reserve is anticipated to be allocated to this program. Although the backlog has not changed significantly, there have been several notable developments such as:

- An additional \$6.9 million from the FY 2006-2007 General Fund ending fund balance was allocated to pavement maintenance. This funding will be used to surface seal

approximately 80 miles of streets and prevent premature deterioration and reduce future maintenance costs for these streets.

- Approximately \$10 million in one-time supplemental funds was allocated from the General Fund in each of the last two years to address infrastructure maintenance backlog issues. Nearly \$7 million of this has been used or programmed to resurface over 11 miles of streets in poor condition with the remaining funding used to address other various infrastructure backlog needs.

As stated previously, ongoing discussions of the structural deficit elimination plan Stakeholder Group include evaluation of various revenue generation strategies. Based on the options pursued, there could be a positive impact on this program in the future. One of the strategies includes looking at a Special Financing District (SFD), such as a Citywide Landscape and Lighting District, or other property-related funding mechanism that could potentially fund a combination of infrastructure services that would reduce the deferred maintenance backlog and ongoing funding shortfalls while improving certain infrastructure conditions.

Update on legislative initiatives

On January 8, 2008, the City Council adopted legislative priorities specifically advocating for increased local transportation funding from a countywide tax measure, vehicle license fees, gas user fees, and/or Federal sources. Currently, State legislation has been introduced proposing the following measures that would support transportation improvements in San Jose:

1. A new \$10 vehicle registration fee for congestion relief and roadway maintenance (AB 444);
2. A 10-cent per gallon gas fee for transportation related climate protection efforts (AB 2744);
3. New vehicle registration fees up to \$50 annually for road maintenance and pollution mitigation (AB 2388); and
4. A reduction in the voter approval threshold to 55% for special transportation infrastructure tax measures, including local bond measures (ACA 10).

In January 2008, a national transportation commission released their report to Congress with recommendations for a new Federal transportation bill (due in 2009) that proposes:

1. Increasing the federal fuel tax by 25 to 40 cents a gallon;
2. Increasing freight fees; and
3. Expanding use of congestion pricing and toll road.

Water Pollution Control Plant

The October Infrastructure Report identified the total short-term critical needs as being \$249 million with \$83 million being the unfunded need. Of this \$83 million, the City's portion was \$55 million. There was also an ongoing annual need of about \$2-\$3 million for preventive maintenance identified, with the City's portion being \$1.3-\$2 million. The 2009-2013 Proposed CIP includes \$198 million over the next five years to address these critical and high priority needs, thereby reducing the backlog to \$51 million, with the City's portion at approximately \$34 million. This increase in funding levels is based on the Sewer Service and Use Charge rate increases that were approved by Council in 2007 (15% for the next two years) and an assumption

of 8% for the remaining three years. The City has and will continue to do extended outreach and citizen education campaigns as strategies to raise awareness for the need for rate increases.

Although some of the critical needs are anticipated to be met with the approval of the proposed CIP, it is important to note that a consultant study done in 2006 showed a much greater need at the plant, the specific extent of which will be identified through the Plant Master Plan process. The Master Plan is scheduled to be completed in 2010. As part of the master plan process, staff will explore other long-term funding options previously identified. These include issuing revenue bond to fund major improvements, increasing "Connection Fees" collected from new developments and adopt "Major Facilities" Fees, as well as increasing the wholesale price of recycled water to produce additional revenue.

In the interim, staff's focus continues to be on repair and replacement of aging infrastructure. This includes implementation of high-priority projects in the first few years, such as the Digester Rehabilitation project and the Plant Electrical Reliability Improvement project. The Plant is also developing aggressive preventive maintenance and asset management programs which are scheduled to be implemented by 2013.

Water Utility System

The Water Utility system continues to have no deferred maintenance. Some preventative maintenance or replacement projects currently underway include Norwood Pump Station Replacement, the Villa Vista Reservoir Rehabilitation, the Water Valve Rehabilitation project, as well as a solar powered corrosion protection system for Edenvale Reservoir. It should be noted that the acceleration of the construction of the North First Street Parallel Main Phase III project is proposed due to increased frequency of water main breaks. To fund this accelerated schedule, staff is proposing to draw down the Capital Reserve in FY 08-09 in the 2009-2013 Proposed CIP to avoid unnecessary increase in customer rates. The full reserve will be restored in FY 09-10, consistent with the original programming of the project.

Potential Upcoming Steps:

<u>Timeframe</u>	<u>Setting</u>	<u>Objective</u>
April 2008	Stakeholder Group (structural deficit elimination plan)	Review revenue generation strategies
May 2008	Council	Prioritize the time sensitive strategies Review proposed budget in the context of the structural deficit strategies
June 2008	Council	Approve potential ballot measure(s) to implement revenue strategy
August 2008	Council	Approve potential ballot language
November 2008	Council	Approve 3 year structural deficit reduction plan
November 2008	General Election	If applicable, voter approval of ballot measure(s)

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COORDINATION

Preparation of this report and memorandum was coordinated with the assistance of the following Departments: General Services, Transportation, Airport, Parks, Recreation and Neighborhood Services, Library, Public Works, Environmental Services, Police, Fire and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

The staff report and proposed work plan is consistent with the Council approved Budget Strategy to reduce deferred maintenance and infrastructure backlog and to develop a strategy to improve the infrastructure.

COST AND BUDGET IMPLICATIONS

No cost implications at this time, all funding recommendations will be brought forward to Council as part of the FY 08-09 budget process. Any new revenue generation, service reductions and cost savings strategies will be brought forward to Council as part of the Stakeholder Group's structural deficit elimination plan.

CEQA

Not a project.



EDWARD K. SHIKADA
Deputy City Manager

For questions, contact Ashwini Kantak, Assistant to the City Manager, at 535-8147.