

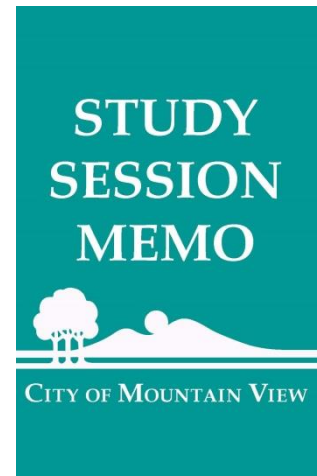
DATE: March 24, 2015

TO: Honorable Mayor and City Council

FROM: Jerry Burgess, Senior Administrative Analyst
Jacqueline Andrews Solomon, Assistant Public Works Director
Michael A. Fuller, Public Works Director

VIA: Daniel H. Rich, City Manager

TITLE: **Preliminary Review of the Fiscal Year 2015-16 Through Fiscal Year 2019-20 Capital Improvement Program**



PURPOSE

The purpose of this Study Session is to obtain City Council input to guide staff in the preparation of the Proposed Fiscal Year 2015-16 through Fiscal Year 2019-20 Capital Improvement Program (CIP).

This report presents (1) the projected availability of capital improvement project funding over the five-year planning period; (2) projects that have been proposed for funding; and (3) staff's initial thoughts on preparing a proposed CIP.

Based on Council direction, the proposed CIP will be presented to the Council at a Study Session in May.

BACKGROUND

The five-year CIP is adopted biennially, with a full plan developed every other year, and a focus only on the upcoming fiscal year on the off years. Though a full five-year plan was developed last year, staff recommends adoption of the full plan again this year as there are a large number of possible new projects and three new Councilmembers to weigh in on the process. This memo and accompanying attachments therefore focus on Fiscal Years 2015-16 through 2019-20.

Funding Sources

The City's CIP is funded through a variety of sources. Some, such as the Water and Wastewater Funds, are enterprise funds with revenues primarily from water and sewer bills paid by businesses and residents. These funds must be used exclusively on water-

and wastewater-related activities, respectively. Other funds, such as the CIP Reserve and Construction/Conveyance Tax (C/C Tax) are less restricted and can be used on any capital project. CIP Reserve and C/C Tax are therefore usually the most competitive and receive the bulk of Council deliberation during the CIP development process. Projects are often grouped by funding source for discussion purposes, as these projects essentially compete against one another for funding. Other major funding sources include the Park Land Dedication, Gas Tax, Shoreline Regional Park Community, Solid Waste, Vehicle Registration Fee (VRF), Transit-Oriented Development (TOD), and Development Services Funds.

Non-Discretionary vs. Discretionary Projects

Projects are categorized as Non-Discretionary or Discretionary to provide some measure of protection for funding of critical infrastructure maintenance. Non-Discretionary Projects are primarily annual and periodic infrastructure maintenance projects to preserve the City's significant investment in its infrastructure and facilities and projects required for regulatory compliance. While Council has the right to alter funding, these projects are generally funded on a consistent cycle (annual or biannual) with small inflationary adjustments, and there is limited discussion about them. Discretionary Projects are all of those that do not fit the Non-Discretionary category.

DISCUSSION

Financial Constraints

Some funding sources, such as the CIP Reserve, C/C Tax, Wastewater, and Park Land Dedication funds will not have enough capacity during the next five years to fund all of the requested new capital projects impacting each of the funds.

Staff is currently evaluating the Wastewater Fund deficit and will be reviewing the impact to future rates. Staff will return in April with more information and recommendations for Council consideration on these funds.

CIP Reserve and C/C Tax Funds

A list of planned Non-Discretionary and Discretionary Projects scheduled for funding during the next five years is provided in Attachment 1. These are the projects in the outer four years of last year's five-year CIP (2015-16 through 2018-19), plus the Non-Discretionary Projects that would normally be planned for Fiscal Year 2019-20. The remaining capacity in the CIP Reserve and C/C Tax Funds after funding these previously programmed projects is approximately \$6.4 million.

Staff does not propose to remove or unfund any projects in the five-year plan adopted last year. However, staff is proposing to increase funding for a number of Non-Discretionary Projects and to fund amendments to several existing projects.

Constraints of other funding sources are discussed below with relevant project categories.

Project Categories

To assist the City Council in determining funding priorities, staff has developed five categories, discussed in more detail below. Some of the five categories contain projects that support the major goals discussed at the Fiscal Year 2015-16 Goal-Setting Study Session on February 24, 2015 pertaining to environmental sustainability, transportation, and housing.

Category 1

Non-Discretionary Projects required to repair/replace/maintain infrastructure or equipment; or funding amendments to existing projects for these purposes. These projects require full or partial C/C Tax funding.

Category 2

Discretionary Projects (either new or funding amendments to existing projects) that (1) support Council major goals; (2) support essential operational functions; or (3) are desirable and would enhance City operations and facilities. However, they do not meet the prioritization criteria for Category 1 projects as outlined above. All of these projects will require full or partial funding from the C/C Tax or CIP Reserve Funds, or from contributions from other local funding sources. These projects are discussed in more detail in Attachment 2

Category 3

North Bayshore Precise Plan Projects. These projects include recommended next-step projects identified in the Shoreline Regional Park Community studies completed in 2013 related to transportation/circulation, landfill management requirements, and sea level rise. This list also includes projects required to support potential development in the North Bayshore Area. These projects are discussed in more detail in Attachment 3.

Category 4

Park Land Dedication-Funded Projects. Although there are significant amounts of Park Land Dedication In-Lieu fees being generated by the currently entitled residential housing projects, there is insufficient revenue projected in the next five years to fully

fund all of the proposed projects. Several projects may need to be deferred until additional funding can be secured.

Category 5

This category is for all remaining projects that do not need CIP Reserve or C/C Tax funding. Funding sources for these projects include TOD, Water, Wastewater, and North Bayshore (Shoreline Regional Park Community) funding. These projects are discussed in more detail in Attachment 4.

Category 1 Projects

Over the past several years, the City Council has approved annual/periodic funding increases for non-discretionary infrastructure maintenance projects, including street lights, traffic signals, electronic traffic signs, water meters, and water main replacements to increase funding to meet base level needs. Staff proposes additional increases for a number of different maintenance activities. Recognizing that there is significant competition for limited funding, the proposed increases are less than what would be optimal for the respective maintenance activity. Staff recommends considering increased funding for these maintenance activities in the future as resources allow.

The proposed funding for the outer years (Years 2 through 5) of the annual projects discussed below assumes a 2 percent inflationary increase. The 2 percent annual inflationary increase for CIP projects was approved by the City Council as part of the Fiscal Years 2008-09 through 2012-13 CIP process. As a result, some of the five-year totals for the projects below will exceed a given first year total multiplied by five.

Street Maintenance: Pavement Condition Index (PCI) is a standard used by public agencies to quantify existing pavement condition. The City's PCI has decreased in recent years from the mid-70s to 70.

Pavement/street maintenance occurs in three general ways: (1) annual capital projects are funded for pavement overlays and slurry seals; (2) the operating budget funds street maintenance activities by City staff; and (3) stand-alone capital projects are periodically funded, such as the reconstruction of 10 streets over a 10-year period in the Rex Manor neighborhood or the grant-funded resurfacing of Rengstorff Avenue, Old Middlefield Way, and Charleston Road (Project 14-37). Street maintenance funding in the operating budget and in annual projects has been relatively stable, with only inflationary increases over the last seven years.

Annual funding for capital projects for street maintenance for the past five years is as follows (in thousands of dollars):

	2010-11	2011-12	2012-13	2013-14	2014-15
Capital Budget (Annual Projects)	678	931	949	967	987
Operating Budget	508	518	529	539	550
SUBTOTAL	1,186	1,449	1,478	1,506	1,537
Capital Budget (stand-alone projects, including outside grant funding)	1,983	971	444	1,925	619
TOTAL – ALL PROJECTS	3,169	2,420	1,922	3,431	2,156

The total budget fluctuates, sometimes significantly, because of stand-alone projects that vary in number and budget each year. The City's last biennial street condition report (2014) recommended a total annual expenditure of \$2.25 million to maintain a PCI of 70. Based on last year's CIP, the anticipated street maintenance spending for the next four years is as follows (in thousands of dollars):

	2015-16	2016-17	2017-18	2018-19	2019-20
Capital Budget (Annual Projects)	1,008	1,028	1,048	1,069	1,091
Operating Budget	561	572	584	595	607
SUBTOTAL	1,569	1,600	1,632	1,664	1,698
Capital Budget (stand-alone projects, including outside grant funding)	631	644	0	0	0
TOTAL – ALL PROJECTS	2,200	2,244	1,632	1,664	1,698

To achieve the recommended funding level of \$2.25 million per year (not including stand-alone projects), an increase of \$681,000 per year (\$3.55 million over the five-year planning period, of which \$3.3 million would be funded from the C/C Tax Fund) would be required. Additional funding from stand-alone projects may then allow the PCI to increase over time. Due to funding constraints, however, staff is proposing an increase of funding of \$500,000 per year (\$2.6 million over the five-year planning period, of which \$2.42 million would be funded from the C/C Tax Fund).

Facilities Maintenance Plan: The annual Facilities Maintenance CIP provides funding for routine repair and maintenance of the City's 52 buildings. Some maintenance activities—such as electrical work or painting—are planned, while others are in response to unplanned events such as plumbing leaks and equipment failures. Expenditures from the annual project have increased in the past few years, as indicated in the table below (in thousands of dollars).

Fiscal Year	2009-10	2010-11	2011-12	2012-13	2013-14
Budget	441	474	457	466	482
Expenditure	213	417	603	676	628
Surplus/Deficit	228	57	(146)	(210)	(146)

After underspending due to work deferred because of short staffing in the first two fiscal years noted above, the annual Facilities CIP spending has exceeded the annual budget for the past three years. During these three years, remaining balances from previous years were tapped to complete work. In 2014-15, an additional appropriation of \$148,000 was provided by the City Council. Staff is proposing an additional \$150,000 annually to better match the recent needs (\$780,000 over the five-year planning period, of which \$625,000 would be funded from the C/C Tax Fund).

Forestry Maintenance Program and Street Tree Replanting: Two years ago, the City Council established a major goal to “retain and improve green space and canopy.” The Community Tree Master Plan is being developed (Council will see it during spring 2015), and recommends the planting of approximately 11,000 trees over a 15-year period. Additional funding of \$83,000 annually (\$435,000 over the next five years) would provide for replacement of 6,000 of the 11,000 target, with the remaining 5,000 trees to be replaced through development projects. Due to funding constraints, however, staff recommends an increase of \$50,000 annually (\$260,000 over the five-year planning period from the C/C Tax Fund).

Concrete Sidewalk/Curb Repairs: During the recent economic downturn, the annual sidewalk replacement CIP was reduced from \$530,000 to \$271,000. Generally, the City is keeping up with sidewalk replacements, but is falling behind on curb and gutter replacements. Restoring funding to previous levels would require approximately \$1.41 million over the five-year plan. Due to funding constraints, staff does not propose the restoration of funding at this time.

Streetlight Pole Replacements: Streetlight poles corrode over time, and the base of the pole will eventually fail. Many of the City’s streetlights were installed during the rapid development of the late 1950s through early 1970s, and these streetlights are beginning to reach the end of their useful lives. Approximately six years ago, staff recommended and Council authorized an annual CIP for streetlight replacements. Current planned funding for this CIP is \$93,000 for Fiscal Year 2015-16 and \$108,000 for Fiscal Year 2016-17 and beyond. However, this is insufficient to replace them as rapidly as desired. To reach a sustainable level of replacement, the annual streetlight replacement budget would need to be increased to \$315,000 in current dollars. Due to funding constraints, staff does not propose an increase of funding at this time.

The total CIP Reserve and C/C Tax funding recommended for the proposed Category 1 projects during the five-year planning horizon for the CIP is approximately \$3.3 million of the \$6.4 million that will be available in the CIP Reserve and C/C Tax Funds. The total proposed funding for Category 1 projects from all funding sources is \$3,640,000.

Total C/C Tax and CIP Reserve Funding for the Five-Year CIP*
(in thousands of dollars)

Available C/C Tax and CIP Reserve Funding	6,400
Street Maintenance (total proposed five-year funding)	2,420
Facilities (total proposed five-year funding)	625
Trees (total proposed five-year funding)	260
Total of Category 1 C/C Tax and CIP Reserve Funded Projects	3,305
New Estimated C/C Tax and CIP Reserve Balance (After funding Category 1 proposed projects)	3,095

* Assumes a 2 percent inflationary increase in each of the outer years of the five-year plan.

Category 2 Projects

The Discretionary Projects in the tables in Attachment 2 require full or partial funding from the C/C Tax or CIP Reserve Funds, or from contributions from other local funding sources. Projects in this category are divided into three groups: Projects that (A) support Council major goals (divided into three subgroups); (B) support essential operational functions; or (C) are desirable and would enhance City facilities and infrastructure.

Staff estimates there will be available funding of approximately \$6.0 million for the Category 2 projects over the next five years from the following funding sources:

- C/C Tax and CIP Reserve funding of \$3.1 million will be available for Category 2 projects if Council funds the staff-recommended Category 1 projects with \$3.3 million.
- One year ago, Google announced a \$350,000 contribution to the City for three fiscal years to support pedestrian/bicycle safety projects. Staff recommendations for the second and third year contribution (\$300,000 in each year) to be programmed into Fiscal Years 2015-16 and 2016-17 are suggested below. The remaining \$50,000 for each of the last two years is recommended to be used in the City's operating budget to offset a portion of the costs associated with the limited-term Mobility

Coordinator position. Total Google funding available for Category 2 projects over the next two years is \$600,000.

- On December 2, 2014, the City Council approved approximately \$2.3 million from Merlone Geier in community benefit and directed those funds, once received, be used for mobility-related improvements. Staff recommendations for the programming of those funds are also detailed below.

This \$6.0 million available will not be sufficient to fund all of the Category 2 projects, which total \$9.3 million. Staff requests input from the City Council on which Category 2 projects can be deferred beyond the five-year plan, and if there are other projects in Category 2 that the Council wishes to add. With City Council input from this Study Session, staff will review the projects and propose a five-year plan, taking into account funding, staff resources, and scheduling.

Category 3 Projects

Category 3 Projects are related to recent North Bayshore planning efforts and are primarily funded from the Shoreline Regional Park Community Fund (SRPC). Projects include those identified in the North Bayshore Precise Plan.

A significant number of these projects are transportation-related improvements to serve the North Bayshore Area and many were proposed by developers as community benefit projects in bonus floor area ratio (FAR) applications that will be considered by Council in April. Staff recommends deferring discussion on these projects until staff has analyzed and Council has reviewed the bonus FAR applications. Staff can then apply community benefit funding to some projects and prepare funding recommendations for the rest.

Category 3 projects are shown in Attachment 3.

Category 4 Projects

Category 4 projects are eligible to be funded with Park Land Dedication (PLD) fees. PLD fees are collected from residential developers and subdividers to offset the impacts of those developments on City parks and open space resources. Fees can be used to fund park, trail, and recreation projects, including the acquisition of park land and open space; development of recreation sites, parks, and open space; and the rehabilitation of existing park and recreation facilities. A 2006 Council Policy prioritizes the funding of PLD funds based on the following objectives: (1) acquisition, (2) development, and (3) rehabilitation. Within each of the three priorities, first consideration is given to

projects that are located within one mile of the development generating the fees. Next consideration is given to projects that provide a “community-wide” asset. Projects that provide a community-wide asset can be funded from any area. Due to the strong housing development market, the City has received approximately \$14 million in PLD fees from March 2014 through February 2015. The City anticipates approximately \$20 million in Park Land Dedication In-Lieu fees during the next three to five years based on entitled projects and those with submitted planning applications. Per Council direction, a portion of this funding has been committed for the construction of the Community Center renovation. Staff has identified an additional \$50 million in proposed projects that could be funded with PLD funds, including five expected new parks. Staff recommends funding for development of these parks and for renovation of irrigation systems and restrooms at existing parks, as described below.

New Parks

The City has been working with developers on the dedication of four new proposed park sites at Evandale Avenue, Mora Drive/Ortega Avenue, 400 San Antonio Road, and South Whisman Road. In addition, the City has recently acquired a new park site at 2254 Wyandotte Street. Staff proposes prioritizing PLD fees towards the development of these park sites. Using eligible funds from new fees and from previously committed Open Space Acquisition accounts, this would allow the PLD funds to fully fund two of the five park developments. Remaining funding is needed at Wyandotte Street, Evandale Avenue, and South Whisman Road. Based on the projects currently in the development pipeline, staff anticipates being able to fully fund those projects within the next three to five years. Since the City did not need to “acquire” the property for the four new development-related parks, staff is recommending the recommitment of \$6 million in eligible PLD fees from the Open Space Acquisition accounts to the development of those parks.

Irrigation/Restroom Renovations

Staff recommends the funding of the Park Irrigation Project to replace the irrigation pumps at four school/park sites. The City is responsible for the maintenance of the school fields as part of City’s Joint Use Agreement with the school district for public use of those fields after school and on weekends.

Staff is also recommending the funding of the Restroom Renovation Projects A and B for the renovation of the restrooms at four school sites (Project A) and at two parks not located on school property (Project B). These restrooms are located on the fields or in parks and are used by Youth Sports Organizations and the public. These restrooms are not used by the school district.

Recommended Commitments	Amount*	Remaining Funding Needed*
Bubb Park Irrigation	63	-0-
Stevenson Park Irrigation	63	-0-
Whisman Park Irrigation	63	-0-
Cooper Park Irrigation	63	-0-
Subtotal Park Irrigation Project	252	-0-
Whisman Park Restroom Renovation	165	-0-
Crittenden Park Restroom Renovation	165	-0-
Stevenson Park Restroom Renovation	165	-0-
Monta Loma Restroom Renovation	165	-0-
Subtotal Restroom Renovation (Project A – \$660K)	660	-0-
Cooper Park Restroom Renovation	149	-0-
Sylvan Park Restroom Renovation	149	-0-
Subtotal Restroom Renovation (Project B – \$297K)	297	-0-
Wyandotte Park, Design	535	-0-
Wyandotte Park, Construction	996	1,584
400 San Antonio Park, Design and Construction	1,773	-0-
Evandale Park, Design and Construction	1,427	85
South Whisman Park, Construction	1,176	2,214
Mora/Ortega Park, Design and Construction	1,628	-0-
Rengstorff Open Space Acquisition	(232)	-0-
Stierlin Open Space Acquisition	4,860	-0-
Rengstorff Community Center, Construction	6,289	-0-
Real Estate Technical Services	75	-0-
Whisman Open Space Acquisition	(1,477)	-0-
Open Space Acquisition	(830)	-0-
San Antonio Open Space Acquisition	(3,401)	-0-
Crittenden Park Ball Field RR – US	(10)	-0-
TOTAL	14,019	3,883

* In Thousands of Dollars

Staff seeks Council input on the allocation of PLD fees and/or other funding sources that may be used to fund the projects listed above.

PLD fees are scheduled for review by the Parks and Recreation Commission (PRC) on April 8, 2015. Information from this Study Session will be provided to the PRC.

Category 5 Projects

Category 5 projects do not require CIP Reserve or C/C Tax funding, and are funded from other dedicated funding sources such as the TOD, Water, Wastewater, and SRPC Funds. Staff estimates there is sufficient funding from these sources to program into all of the projects in Category 5, and recommends programming them into the five-year plan. Council input regarding the proposed list and any additional projects is requested.

Category 5 projects are shown in Attachment 4.

Unscheduled Projects

To provide the City Council with a comprehensive list of all capital project funding demands, Attachment 5 includes a listing of previously proposed projects that have not been recommended for funding during the five-year CIP planning horizon because of limited funding and/or the project's lower-priority status compared to other projects.

RECOMMENDATION

The funding demands for projects proposed and discussed for possible inclusion in the Fiscal Years 2015-16 through 2019-20 CIP exceed the capacity of four important CIP funding sources to fund all of the desired projects. Recognizing that there is not enough funding to fund all of the proposed projects identified, staff seeks input from the City Council on the prioritization of the projects to be included in the proposed five-year CIP. Specifically, Council input regarding the following items would be helpful as staff prepares a recommended CIP for Council consideration at a Study Session in May:

1. Should the proposed Category 1 projects (Non-Discretionary Projects funded with C/C Tax) be funded as proposed, or should funding for each of these projects be increased or decreased?
2. Given the funding constraints in Category 2, which projects would the Council recommend to defer beyond the five-year plan (must be discussed by subgroup, as needed)?
3. With the given funding constraints, are there any additional projects Council wishes to add to Category 2?

4. Does the City Council support deferring discussion of Category 3 projects (related to recent North Bayshore planning efforts) until after considering the bonus FAR applications?
5. Does the Council wish to allocate PLD fees to Mora/Ortega Park, Design and Construction?
6. Does the Council wish to allocate PLD fees in a different manner?
7. Does the Council support using other funding sources (i.e., C/C Tax, CIP Reserve, other) to supplement the PLD funds for certain projects?
8. Staff recommends all of the Category 5 projects be included in the proposed five-year CIP. Does Council support this staff recommendation?

NEXT STEPS

Based on the direction provided by the Council at the Study Session and considering funding availability and staffing resources, staff will present a revised list of capital projects for the Council's review when the proposed Fiscal Years 2015-16 through 2019-20 CIP is presented to the Council at a Study Session in May.

Prior to the May Study Session, staff will:

- Present a revised list of proposed capital projects to the Bicycle/Pedestrian Advisory Committee for its review and input. (April 2015)
- Review the Wastewater Fund and develop a proposal regarding rates.

PUBLIC NOTICING – Agenda posting.

JB-JAS-MAF/7/CAM
791-03-24-15SS-E

- Attachments:
1. Fiscal Years 2015-16 through 2019-20 Planned Projects
 2. Category 2 Projects
 3. Category 3 Projects
 4. Category 5 Projects
 5. Unscheduled Projects