ATTACHMENT 1

matrix consulting group

DATE: March 20, 2016

TO: Jason Nutt
Director of Transportation and Public Works
City of Santa Rosa

FROM: Gary Goelitz
Vice President
Matrix Consulting Group

SUBJECT: Capital Project Prioritization

BACKGROUND: The fiscal year 2015-16 capital budget for the City of Santa Rosa is approximately $43.3 million. Important points to note regarding the allocation of capital project funding among the City's asset renewal and rehabilitation needs are presented below.

- General fund projects in the fiscal year 2015-16 capital budget totals approximately $2.1 million (or 5% of the total). Most of this amount - $1.2 million or 57% of the total - is devoted to facility improvements to provide access for disabled persons in compliance with the Americans with Disabilities Act and in accordance with the City's settlement agreement with the Department of Justice.

- The Recreation and Parks Department fiscal year 2015-16 CIP budget totals approximately $2.3 million (or 5% of the total). The departmental capital projects are funded with $1.1 million appropriated from Park Development Funds, $1.2 million from the General Fund for ADA improvements and park/facility lighting upgrades, and $46,501 from the Library Improvement Fund.

- The Transportation and Public Works Department's Capital Improvement Program budget for fiscal year 2015-16 is nearly $7.0 million. The $7.0 million of Transportation and Public Works funding is allocated to projects that can be summarized in four overlapping categories: Pavement Management, Traffic Safety and Transportation, Bike / Pedestrian / ADA, and Drainage. There is $2.9 million scheduled strictly for pavement rehabilitation. Pavement rehabilitation includes overlay, slurry seal, repairs, and preventive maintenance.

- The Water Fund fiscal year 2015-16 CIP budget is approximately $17 million. 21% of Water CIP funding is allocated to emergency groundwater supply, water peak reduction, Advanced Metering Infrastructure installation, and other non-infrastructure projects and 79% is designated for projects to replace aging infrastructure.

- The Local Wastewater fiscal year 2015-16 CIP budget is $12 million. 97% of funding is allocated for pipe and other aging infrastructure replacement projects, with 3% funding lift station refurbishment, wastewater use reduction and other non-infrastructure projects.

- The subregional fiscal year 2015-16 CIP budget is approximately $2.1 million. New projects include natural gas engine conversion, water efficient landscape upgrades, Geysers SCADA server upgrade, laboratory information management system replacement and NPDES compliance consultation services.

- The Storm Water Enterprise fiscal year 2015-16 CIP budget is $624,601. Creek restoration project funding includes Lower Colgan Creek Restoration (phases 1 and 2), City Hall Plaza Demonstration Garden, Paulin Creek Fish Passage, and various storm water creek restoration projects. Storm drainage project funding includes storm drain repair/replacement and rock removal at various locations.

An important point to note concerning the fiscal year 2015 - 16 CIP budget is that (1) the general fund contributes only 5% of the funding; and (2) the City's enterprise funds contribute 73% of the funding.

The City Manager's budget message within the fiscal year 2015-16 CIP budget noted that budget was developed within the limited financial resources available. The budget message stated that existing revenues were not adequate to fund all of the necessary infrastructure improvements, and additional funding mechanisms will be needed in the future to adequately fund adopted capital plans and ongoing maintenance of existing and future facilities.

Given that non-enterprise funding is limited, it is imperative that the City develop project prioritization policies and procedures to (1) maximize use of scarce financial resources; (2) make transparent to the City Council and community how projects were selected and prioritized for allocation of these scarce resources; and (3) clarify for the City Council and community that there are numerous other high priority projects for which funding is not available given existing revenues, and that other revenue sources must be developed.

DISCUSSION: The Government Finance Officers Association has developed a number of best practices regarding operating and capital budgeting. One of the best practices regards multi-year capital planning.[1] The Government Finance Officers Association best practice recommends that "*state and local governments prepare and adopt comprehensive multi-year capital plans to ensure effective management of capital assets.*

1. Government Finance Officers Association, Multi-year Capital Planning, 2006

A prudent multi-year capital plan identifies and prioritizes [emphasis added] expected needs based on a community s strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs. A capital plan should cover a period of at least three years, preferably five or more." The Government Finance Officers Association further recommends that state and local governments prioritize capital requests. The best practice notes that "*governments are continually faced with extensive capital needs and limited financial resources. Therefore, prioritizing capital project requests is a critical step in the capital plan preparation process. When evaluating project submittals, governments should:*

- *Reflect the relationship of project submittals to financial and governing policies, plans, and studies;*
- *Allow submitting agencies to provide an initial prioritization;*
- *Incorporate input and participation from major stakeholders and the general public;*
- *Adhere to legal requirements and / or mandates;*
- *Anticipate the operating budget impacts resulting from capital projects;*
- *Apply analytical techniques, as appropriate, for evaluating potential projects (e.g., net present value, pay back period, cost-benefit analysis, life cycle costing, cash flow modeling);*
- *Re-evaluate capital projects approved in previous multi-year capital plans; and*
- *Use a rating system to facilitate decision-making.*

Other Nationally recognized capital program management studies strongly recommend citywide prioritization as a best practice including the United States Government Accountability Office and the National Association of State Budget Officers. The Government Accountability Office recommendations include:

- Assessing capital projects as a portfolio across the organization, including ranking and selecting projects based on pre-established criteria reflecting the long-range vision embodied in the strategic plan;
- Using executive review committees to make project selections;
- Developing measurable goals and performance measures; and
- Tracking project cost, schedule, and performance.

The United States Government Accountability Office cited the methodology used by the City of Modesto (population 205,000) for identifying and ranking capital

improvement projects. The methodology used by the City of Modesto are presented in the exhibit at the end of this memorandum. The City of Modesto uses seven evaluation criteria for project evaluation. Every project is evaluated against all seven criteria and assigned points on a scale of -5 to +5. The City believes that this ensures the most objective process possible and leads to consistent decision making.

Other cities, beyond Modesto, have also developed capital prioritization policies and procedures. Examples of these cities and their project prioritization methodologies are cited below. In considering these criteria, it is important to be aware of the differing organizational approaches used in these cities for capital project delivery and development.

(1) Bellevue, Washington (population 134,000).

The City of Bellevue utilizes a decentralized capital project development and delivery system, unlike Santa Rosa. As a consequence, Bellevue developed different project prioritization criteria for different programs (e.g., transportation, parks, general government, utilities). Each capital improvement program area establishes their own criteria to be used in the prioritization of specific projects submitted for funding. CIP program area managers recommend an expenditure plan to the Finance Department and City Manager, which includes all capital costs and any applicable maintenance and operations and/or required short-term financing costs.

An example of the prioritization criteria used for the transportation program is presented below.

Category	Topic	Definition
Roadway / Intersection	Safety	Responds to needs and benefits related safety conditions
	Leveraging of funds	Likelihood of securing outside finds
	Level of Service	Responds to identified needs and benefits related LOS conditions
	Transit	Responds to identified transit service or users
	Mode Split	Provides identified benefits to non-SOV modes
	Regional	Consistent with regional plans
	System Linkage	Completes / extends major pedestrian / bicycle system

Category	Topic	Definition
Walkway / Bikeway	Safety	Addresses accident clusters, high volume locations or poor existing conditions
	Land Use	Improves facilities serving pedestrian / bicycle intensive uses

The staff within the Transportation Department develop and identify projects that are already identified within the 12-year transportation facilities plan. The Transportation Department prioritizes these projects based upon the criteria presented in the previous table. The capital improvement program policy and procedure for Bellevue did not include any quantification methodologies.

(2) King County, Washington (unincorporated population: 252,000).

King County, Washington, like Bellevue, groups capital projects into categories so that only like projects are scored against each other. In addition:

- All active projects are prioritized every year until they reach the implementation phase (execution of the construction contract), at which point they receive the maximum prioritization score;
- Projects are ranked based on a number of criteria (e.g. risk of failure of asset, need for capacity, etc.)
- The category groupings include public health, safety, and property; regulatory or contractual requirements; cost savings; regional capacity needs; service disruption and impacts for asset failure; and remaining equipment life / asset damage;
- In the first step, new capital project requests are made including a planning level scope, schedule, and budget, which are forwarded to the capital project management unit;
- The project managers within the project management unit complete an evaluation of each request selecting the criteria that apply, scoring the criteria, and providing justifications, generating a project information sheet for each project;
- Operating staff from departments review the project information sheets, and develop their own scores using the same criteria for each category;
- A summarized score is then developed for each project;
- The management team uses the project scores and rankings in the development of the six-year capital program, but also considers cash flow, schedules, system risks, and other factors.

The prioritization scoring system was unavailable from the City's web site.

(3) City and County of San Francisco (population: 837,000).

The City and County of San Francisco have developed non-quantifiable measures with which top prioritize capital projects on a citywide basis. Those measures are presented in the second exhibit at the end of this memorandum. The prioritization scoring system was unavailable from the City's web site

(4) City of Portland, Oregon (population 609,000).

The City of Portland, Oregon has developed a quantitative approach to prioritizing capital projects based upon (1) the likelihood that without the capital project, the asset is expected to fail in an estimated number of years; and (2) the project avoids or reduces the risk of human health and safety impacts, service level impacts, environmental impacts, legal and regulatory compliance, and financial impact. The quantitative approach is presented in the third exhibit at the end of this memorandum.

(5) City of San Diego, California (population 1,356,000).

The City has developed a comprehensive approach to the development of its capital improvement program. The development of the capital improvement program is based upon a number of measures as noted below.

- Capital Improvements Program Review and Advisory Committee (CIPRAC). This committee prioritizes and evaluates the new infrastructure needs of each City Department. The Committee:

  - Facilitates project coordination to increase cost effectiveness and minimize community disruptions including long-term planning for public capital needs;
  - Reviews and approves multi-year CIP plans;
  - Provides key leadership, authority, oversight, and coordination for the CIP;
  - Assigns the following responsibilities to the appropriate departments or offices:
  - Identify, leverage, and optimize funding sources;

    - Streamline and improve coordination and functionality of CIP related processes;
    - Review and assess efficiency of required processes;
    - Work with the Office of the Independent Budget Analyst to identify ways to streamline the process

  - Ensures the financial /accounting system continues to support the needs of the CIP process;
  - Coordinates various responsibilities of service departments; and

- Makes certain that projects are reviewed for conformance with the General Plan and Community Plans.

- The City Council has adopted a formal "Council Policy" on prioritizing capital improvement program projects. This "Council Policy" has a number of important features as noted below.

  - Projects within restricted funding categories will compete only with projects within the same funding category. The following is a partial listing of restricted funding categories:

    - Community Development Block Grants;
    - Developer Impact Fees;
    - Enterprise Funds (Airport, Environmental Services, Golf, Undergrounding, Metropolitan Wastewater, and Water)
    - Facilities Benefit Assessments;
    - Grants;
    - Regional Park Fund;
    - State and Federal Funds; and
    - TransNet Funds.

  - Projects that are not within a restricted funding category will compete for capital outlay funds, General Fund or bond proceeds in accordance with this CIP prioritization policy.

  - To ensure that the comparison is conducted between similar types of projects, the needs and CIP projects shall be separated into categories according to the predominant type of asset and funding sources in the project. Project categories shall include the following asset categories: (1) enterprise funded assets; (2) mobility assets (e.g., streets, bicycle paths, bridges, erosion control, signals, pedestrian facilities, etc.); (4) Public Safety assets (e.g., police and fire); and (5) neighborhood assets (e.g., libraries, parks, civic buildings and facilities, etc.).

  - To ensure that the prioritization is conducted between projects with a similar level of completion, all CIP projects are separated into standard phases within each project category including: (1) needs list assessment prior to inclusion in the CIP budget; and (2) after CIP budget or a project approved for inclusion in the multi-year capital improvement program budget.

  - Prioritization factors, on a preliminary basis, are assigned to projects by the asset owners.

  - The prioritization factors used include the following categories:

- •• Risk to health, safety, and environment, regulatory, or mandated requirements;
- •• Asset condition, annual recurring costs, ands asset longevity;
- •• Community Investment and Economic Prosperity;
- •• Level and quality of service;
- •• Sustainability and conservation;
- •• Funding availability;
- •• Project readiness; and
- •• Multiple category benefit and bundling opportunities.

- The City developed scoring weights for the four different asset categories as noted in the table below.

Factors	Enterprise-Funded Assets and mandated Programs	Mobility Assets	Public Safety Assets	Neighborhood Assets
1. Risk to Health, Safety and Environment and Regulatory or Mandated Requirements	25	20	15	10
2. Asset Condition, Annual Recurring Costs and Asset Longevity	20	20	20	15
3. Community Investment and Economic Prosperity	20	20	10	25
4. Level and Quality of Service	10	20	30	20
5. Sustainability and Conservation	10	5	5	10
6. Funding Availability	5	5	10	5
7. Project Readiness	5	5	5	5
8. Multiple Category Benefit and Bundling Opportunities	5	5	5	10
TOTAL	100	100	100	100

- Once the capital project is approved for inclusion within the Mayor's capital improvement program budget, the Public Works Department conducts a further assessment of the scope, cost, and schedule, and updates the prioritization score.

There are numerous examples of cities that have developed qualitative or quantitative approaches to prioritizing capital improvement program budget requests. These are merely five examples. The Matrix Consulting Group will utilize the best features

of these examples, and others, to develop a recommended approach to capital improvement project budget request prioritization for the City of Santa Rosa.

RECOMMENDATION: The City of Santa Rosa should enhance the structure for the development of its capital improvement program. The specific recommendations of the Matrix Consulting Group to enhance the structure are presented below.

1. The Transportation and Public Works Department should prepare a formal capital project prioritization policy for the consideration of the City Manager and City Council. This policy should include prioritization factors and scoring criteria.

2. The Transportation and Public Works Department should establish an executive review committee, consisting of appropriate department heads, to prioritize and evaluate the capital improvement needs of the City on a citywide basis based upon the proposals of the Transportation and Public Works Department.

3. Capital projects within restricted funding categories should only compete with projects within the same funding category. For example, water utility fund capital projects should only compete with other water utility fund capital projects.

4. Prioritization, on a preliminary basis, should be assigned to projects by the asset owners based upon the adopted prioritization factors and scoring criteria. However, the Transportation and Public Works Department should evaluate the prioritization, before its presentation to the executive review committee, and make adjustments as necessary, in consultation with the asset owner. The Transportation and Public Works Department should generate a project information sheet for each project for the executive review committee.

5. All active projects should be prioritized every year until they reach the implementation phase (execution of the construction contract), at which point they receive the maximum prioritization score.

6. As will be recommended in the report by the Matrix Consulting Group, the City of Santa Rosa should utilize the project scores and rankings to develop a five-year capital program, including funded and unfunded projects.

Exhibit 1 (1)

City of Modesto Capital Improvement Program Prioritization Criteria

Seven evaluation criteria have been developed for project evaluation. Every project is evaluated against all seven criteria and assigned points on a scale of -5 to +5. This ensures the most objective process possible and leads to consistent decision making.

1. Public Health, Safety and Other Mandates

a. Does the project improve or specifically address a health, safety or other regulatory mandate in the community?
b. Does the project specifically address a legal requirement or abate a potential health or safety crisis?

2. Supports Stated Community Goals and Policies

a. Does the project help implement policies in the General Plan, Strategic Plan, or other adopted plan?
b. Is the project a part of or consistent with an articulated, acceptable mid, short or long-range program or departmental strategic plan?
c. Does the request implement some or all of the recommendations of a previous study?
d. Has the project been specifically identified by the public in previous community forums, surveys, etc.?
e. Has the project consistently been included in previous capital improvement programs?

3. Capital Fiscal Impact

a. Does the project have a positive impact on the General Fund budget?
b. Does the project bring in additional outside funds or grants in some proportion?
c. Is the project realistic from a financial standpoint? (Consider direct costs, as well as ongoing and additional costs such as those to provide temporary services during implementation of the project.)
d. Are funds already dedicated or available for the project?
e. Will funding the project now result in a significant savings or economies of scale?

4. Promotes Economic Development

a. Does the project facilitate a job producing development?
b. Does the project facilitate development that will provide positive revenue enhancement to the City?
c. Does the project help prevent revenue leakage?

Exhibit 1 (2)

5. Operation and Maintenance Fiscal Impact

a. Does the project have a positive impact on the City's Operating and Maintenance budget?
b. Is the project an efficiency improvement project?
c. Is the project a low-maintenance project?
d. Does the City have the ability (staff, funds, etc.) to support the project in O&M?

6. Impact on Service Levels

a. Does the project bring the service up to a desired level?
b. Does the project improve service levels?

7. Relationship to Other Projects/Coordination

a. Does the project coordinate well with other projects underway?
b. Can the project be effectively coordinated with other projects (for instance, water and/or sewer line repairs done in conjunction with road work?)
c. Will all prerequisite projects be complete before this project is scheduled?
d. Is the project timely or does it provide a critical window of opportunity?
e. Is the project planned to create minimal disruption or inconvenience to the public?
f. Is the project the best use of funding for the fund category (as ranked by sponsoring department)? D.

Criteria Weights

The CIP Task Force determined that certain criteria are worthy of greater emphasis. In the evaluation process, this is accomplished by creating "weighting points" that are assigned to each of the seven criteria. These weighting points are automatically calculated as the CIP Task Force scores each project.

Criteria Category	Total Points Possible By Category
Public Health and Safety Mandates	95
Community Goals	85
Promotes Economic Development	85
Capital Fiscal Impact	75
Operation and Maintenance Fiscal Impact	75
Impact on Service Levels	65
Relationship to Other Projects / Coordination	65

Using the evaluation criteria and weights above, the CIP Task Force will score each project.

Exhibit 2 (1)

Criteria Used by the City and County of San Francisco To Prioritize Capital Projects

Criteria Identifier	Criteria Description	Criteria Measurement
Priority 1 - Regulatory	**Improvement is necessary to comply with a federal, state, or local legal mandate** The City faces a wide range of directives to improve its facilities, some with significant consequences for failure to perform	A. Action is mandated by federal, state, or local law, legal judgment or court order
		B. The action reduces the City's exposure to legal liability
		C. There are significant legal, financial, operating, or accreditation consequences for failure to perform.
Priority 2 - Safety	**Provides for the imminent life, health, safety, and security of occupants and the public or prevents the loss of use of the asset** Capital projects that minimize physical danger to those who use and work in City facilities, including protection during seismic events, and exposure to hazardous materials.	A. The facility has a poor seismic rating with a high risk of collapse or structural damage
		B. Increases resiliency to withstand and recover from a disaster, particularly in critical facilities (i.e., hospitals, police and fire stations, jails, sewer systems, pump stations, etc.
		C. Mitigates hazardous materials and / or protects the vital environmental health of those who must visit, use, and work in City facilities.
Priority 3 – Asset Preservation	**Ensures timely maintenance and renewal of existing infrastructure**. It is imperative to maintain the City's infrastructure. However, the lack of maintenance at some facilities will have a greater effect on the asset's value and / or future repair and replacement costs.	A. Failure to implement project risks potential loss or reduces the useful life of a City asset's value.
		The facility provides government services that cannot be provided at another location.
Priority 4 - Programs	**Supports formal programs or objectives of an adopted plan or action by the Board or the Mayor.** Capital investments should be integrated with adopted departmental and citywide long-term goals and objectives.	A. Supports a formally adopted plan or action by the Board of Supervisors or the Mayor (i.e., the City's general plan or a Neighborhood Area Plan).
		Makes a substantial contribution to broadly accepted citywide goal (i.e., ecological sustainability or historic preservation).

Exhibit 2 (2)

Criteria Identifier	Criteria Description	Criteria Measurement
Priority 5 – Efficiency / Economic Development	**Enhances the City's economic vitality by stimulating the local economy, increasing revenue, improving government effectiveness, or reducing operating costs.** Some projects have a direct or indirect effect on the City's revenues or expenditures. Cost savings or revenue enhancements may help offset the cost to the City of some capital investments.	A. Generates direct (i.e., increased service charges, leases, fees, grants, gifts) or indirect (i.e., economic development, an increased tax base, business attraction or retention).
		B. Reduces maintenance or operating costs (i.e., through capital renewal, building re-design, or reduced staffing needs).
		C. Improves government effectiveness and efficiency in delivery of services (i.e., faster response times, improved customer service, or increased departmental coordination).
		D. Increases neighborhood character, vitality, or quality of life.

Exhibit 3 (1)

City of Portland, Oregon Approach to Prioritizing Capital Projects

FY 2015-16 Project Score Sheet #1

Bureau:	0	**Total Project Cost:**	$0
Project:	0	**GF Request:**	$0
		Total Net Operations and Maintenance Impact:	$0

		Failure Mode #1 (Current State)	Failure Mode #2 (Progression/Worst Case)
	Failure Mode Description:		
LIKELIHOOD ***Without this project, the asset is expected to fail in…***		**Likelihood of Failure Mode #1**	**Likelihood of Failure Mode #2**
Already Failed	100%		
0 to 2 years	70%		
3- 5 years	50%		
More than 5 years	10%		
CONSEQUENCES ***Project avoids or reduces risk of…***	**Points**	**Risk Score Failure Mode #1**	**Risk Score Failure Mode #2**
Human Health and Safety Impacts (including in the workplace)			
Fatalities	10		
Serious injuries	5		
Minor injuries	2		
No potential human health or safety impact	0		

Exhibit 3 (2)

CONSEQUENCES *Project avoids or reduces risk of…*	Points	Risk Score Failure Mode #1	Risk Score Failure Mode #2
Service Impacts			
Disruption of service to > 10,000 customers	10		
Disruption of service to 1,000-9,999 customers	5		
Disruption of service to < 1,000 customers	3		
Community complaints	1		
No potential service impact	0		
Environmental Impacts			
Long-term or widespread ecological damage	10		
Major but recoverable	5		
Minor and recoverable	2		
No potential environmental impact	0		
Legal and Regulatory Compliance			
City sued and/or fined	10		
City formally warned	5		
City warned internally	3		
Project does not address legal/regulatory/compliance obligation	0		
Financial Impact			
Prevents asset loss, revenue loss, and/or R/R/R cost > $2.0 million	10		
Prevents asset loss, revenue loss, and/or R/R/R cost $500,000 - $1,999,999	6		
Prevents asset loss, revenue loss, and/or R/R/R cost $50,000 - $499,999	4		
Prevents asset loss, revenue loss, and/or R/R/R cost < $49,999	2		
No potential financial impact	0		
Total Consequence Score *(Maximum = 50)*		**0**	**0**

Exhibit 3 (3)

Total Risk Score = *Likelihood of failure* X *Total consequence score*		**0.0**	**0.0**
Benefit (increases score by up to 10%):			
Enter **"YES" or "NO"** in cell C46 depending on if your project promotes a positive benefit described in the instructions (to be eligible the benefit(s) must be detailed in the Request Form). The Validation Committee will make the final award decision:			
Total Score (the highest score will be used for the ranking, maximum points = 55)		**0.0**	**0.0**