

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: JASON NUTT, DIRECTOR OF TRANSPORTATION & PUBLIC WORKS

SUBJECT: CREATE A FRAMEWORK FOR A COMPREHENSIVE CAPITAL IMPROVEMENT PROGRAM PRIORITIZATION PLAN THAT CONSIDERS ALL CITY ASSETS

AGENDA ACTION: NONE

RECOMMENDATION

It is recommended by the Transportation and Public Works and Santa Rosa Water Departments that Council receive the project update and provide direction and feedback to staff.

EXECUTIVE SUMMARY

Staff will provide information regarding the development of a framework for the creation of a comprehensive Capital Improvement Program (CIP) prioritization plan that incorporates assets and projects from all City departments.

BACKGROUND

During the 2015-16 Budget hearings, Council requested that staff prepare and implement a comprehensive Capital Improvement Program that incorporates a data driven project prioritization that clearly demonstrates why a project was selected for funding.

Santa Rosa Water (SRW) has been prioritizing capital projects for many years, which has been the basis of their five year CIP and long-term financial strategy. Utilizing standardized criteria, SRW has developed an effective proactive program and created a clear justification for their ongoing rate structure. On an annual basis, the SRW Asset Management team reviews this prioritization strategy and updates it when warranted.

Staff was unable to identify any clear existing prioritization strategy for the non-enterprise fund side of the capital program, which includes Transportation & Public Works, Recreation & Parks and Fire, with the exception of the Streetsaver program used by Transportation & Public Works to manage road maintenance investments.

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PRIOR CITY COUNCIL REVIEW

None

ANALYSIS

Much like SRW, many other jurisdictions prioritize their capital programs, including San Francisco, Modesto, San Diego and Portland. Some of these programs are fairly simple, while others are complex and multi-faceted. To provide the most comprehensive review and approach for our CIP, staff retained The Matrix Consulting Group, Inc. (Matrix) to work with each of the Departments to create a recommended prioritization program as part of an evaluation of the project development, design and delivery process.

It is well understood that existing revenues are not adequate to fund all of the necessary infrastructure improvements and deferred maintenance. In February 2016, Council identified the creation of a plan to address infrastructure and deferred maintenance needs throughout the community as a Council Goal and Tier 1 priority. It is well recognized that part of that process will result in the identification of additional funding mechanisms to adequately fund adopted capital plans and ongoing maintenance of existing and future facilities.

As a part of the comprehensive review and evaluation of the capital projects development, design and delivery process, Matrix has been tasked with working with key departments to develop a capital projects prioritization program in response to Council's direction during the 2015-16 budget hearings. On March 20, Matrix delivered a draft framework for developing the capital project prioritization program (attached).

Given that current 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 are selected and prioritized; 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.

As described in Matrix draft framework:

The Government Finance Officers Association best practice recommends that "state and local governments prepare and adopt a comprehensive multi-year capital plan to ensure effective management of capital assets. A prudent multi-year capital plan identifies and prioritizes 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." 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

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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, payback 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.

As we have seen with prioritization programs adopted by other agencies, projects with restricted funding can only compete with other projects within the same funding category. Examples of restricted funding categories include, Enterprise Funds (water, wastewater, parking, transit), Gas Tax and Measure M, Grant Funds (TDA, OES, ATP) and Park Funds. Understanding what projects are rated against each other is a critical piece in structuring an effective prioritization program. In some cases this is fairly routine, such as prioritizing which segments of water piping to replace, while in other cases this can be very complicated, such as determining whether a traffic signal has a higher priority over a sidewalk improvement, pavement maintenance or new interchange as is the case with Gas Tax funds. Regardless of whether the decision process is easy or challenging, it is clear from the guidance provided by the Government Finance Officers Association that we must have a consistent process and rating structure to ensure projects are selected to maximize the benefit to the community and provide clarity in the decision making.

In that regard, we have studied a number of different prioritization programs and while there are a variety of prioritization factors used by different agencies, the following themes seemed to be the most common and will be the basis of our program structure:

- Risk to health, safety and environment;
- Regulatory or mandated requirements;
- Asset condition, annual recurring costs and 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.

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The preliminary recommendations of the Matrix Consulting Group to enhance the structure as described in their draft report are summarized as follows:

1. 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. Establish an executive review committee, consisting of appropriate department heads, to prioritize and evaluate the capital improvement needs.
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. Asset Management should evaluate the prioritization, develop an information sheet and make adjustments as necessary in consultation with the asset owner prior to discussing with the executive review committee.
5. All active projects should be prioritized every year until they reach the implementation phase at which point they receive the maximum prioritization score.
6. Utilize the project scores and rankings to develop a five-year capital program, including both funded and unfunded projects.

FISCAL IMPACT

None

ENVIRONMENTAL IMPACT

None

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

None

NOTIFICATION

Not applicable

ATTACHMENTS

- Attachment 1 – Draft - Capital Project Prioritization, Matrix Consulting Group

CONTACT

Jason Nutt, Director of Transportation & Public Works, jnutt@srcity.org, 707-7543-3810