02. Introduction

Capital Planning in San Francisco

The Fiscal Year 2024-33 City and County of San Francisco Capital Plan (the Plan) is the City's commitment to building a more resilient, equitable, and vibrant future for the residents, workers, and visitors of San Francisco. Updated every odd-numbered year, the Plan is a fiscally constrained expenditure plan that lays out anticipated infrastructure investments over the next decade. This document is the product of input from Citywide stakeholders, who have put forth their best ideas and most realistic estimates of San Francisco's future capital needs.

Through the application of consistent funding principles and fiscal policies, the Plan prioritizes departmental capital needs within defined fiscal constraints. The result is a road map for investments in San Francisco's streets, facilities, utilities, parks, waterfront, transportation network, and affordable housing.

Developed on the centennial of the 1906 earthquake, San Francisco's first Capital Plan described the City's renewed dedication to investing in public facilities and infrastructure for FY2007- 2016. Since that first Plan, the City's commitment to its capital portfolio has grown substantially. In addition to addressing the seismic, modernization, and maintenance needs of City buildings and infrastructure, the Plan has added new challenges related to climate change and affordable housing.

This FY2024-33 Capital Plan comes at a time of significant change and uncertainty in terms of hybrid work environments and the use of office space, the return of public transit use and tourism, as well as higher interest rates and inflation that are impacting costs and revenue. While COVID-19 appears to be waning, the lasting impacts on capital funding are considerable. This includes three years of significantly lower Pay-As-You-Go program funding along with a reduction in the capacity of the City's General Obligation (G.O) bond program.

The current Plan recommends over $41 billion in critical infrastructure improvements over the next 10 years.

The $41 billion total level of investment recommended here is 9% higher than the previous Capital Plan, which was highly impacted by shortfalls caused by the COVID-19 pandemic, forcing reductions in the General Fund Pay-As-You-Go Program, as well as enterprise department budgets. This increase represents an effort to restore pre-pandemic levels of capital investment in San Francisco, and the recommendations in this Capital Plan reflect confidence in the City's capacity to navigate near-term budget constraints and administer capital projects and programs in a responsible manner. San Francisco understands that ongoing investment in public assets is an essential function of government and will continue to act as a good steward of the City's public spaces, facilities, and infrastructure.

This Plan begins to restore the severe COVID-19 induced funding reductions to previous levels by starting at a higher baseline and making large annual increases so that backlogs begin to decline in the second five years of the Plan.

San Francisco's voters have approved $5.6 billion in G.O. Bonds since 2008, more than the previous 50 years of G.O. Bonds combined.

TABLE 2.1: G.O. Bonds Passed Since 2008

Year	G.O. Bond Program	Amount (Dollars in Millions)
2008	Neighborhood Parks and Open Space	180
2008	Public Health Seismic Facilities (SFGH rebuild)	887
2010	Earthquake Safety & Emergency Response	412
2011	Road Resurfacing and Street Safety	248
2012	Neighborhood Parks and Open Space	195
2014	Earthquake Safety & Emergency Response	400
2014	Transportation	500
2015	Affordable Housing	310
2016	Public Health and Safety	350
2018	Seawall Resilience	425
2019	Affordable Housing	600
2020	Earthquake Safety & Emergency Response	629
2020	Health and Recovery	488
Total		**5,623**

Policies, Principles, and Goals

The FY2024-33 Capital Plan responds to the economic shifts that remain from the COVID-19 pandemic and the resultant economic crisis. Retaining a focus to be good stewards of public funds and assets, the Plan preserves San Francisco's longstanding funding principles for capital. In addition to the Plan's funding principles, restrictions around issuing debt and setting funding targets for priority programs help San Francisco to demonstrate its intention to invest responsibly and in the areas of greatest need. The Plan's policies govern the level and distribution of funds that feed into the Plan while the funding principles show how the funds will be prioritized.

Pay-Go Program Policies

The Capital Plan recommends a Pay-Go Program funding level based on the goal of restoring and eventually exceeding pre-pandemic levels of investment in capital. This Plan recommends a General Fund investment of $89 million in FY2024 growing by $30 million per year until FY2028, and $25 million per year thereafter. To address the low level of investment in the first two years, the Capital Plan recommends supporting the Pay-Go program with the issuance of Certificates of Participation in FY2024 and FY2025. This program is the City's primary source for basic public facilities and right-of-way repairs, an essential function of government that the City is required to deliver.

From FY2015 to FY2020, San Francisco met or exceeded the Capital Plan-recommended funding level for the Pay-Go Program. However, the Program suffered significant cuts as part of the FY2020 rebalancing required to absorb unexpected costs associated with the COVID-19 pandemic. Those cuts were followed by significant reductions in the FY2021 through FY2023 budgets. This Plan aims to put San Francisco on track to build back up to healthy levels of capital Pay-Go spending to ensure a basic state of good repair for public assets.

The Pay-Go Program policies recommended by the Plan are:

- The General Fund funding level will be $89 million in FY2024 growing by $30 million per year until FY2028, and $25 million per year thereafter.
- The Street Resurfacing Program will be funded at the level needed to achieve and maintain a "Good" Pavement Condition Index (PCI) score of 75.
- ADA barrier access removal projects and the ongoing curb ramps right-of-way program will continue to be a program priority.
- Restores funding for critical enhancements by providing $5 million in FY2024 and FY2025, followed by $10 million per year thereafter.

Several voter-determined outcomes over the past four years have affected the Pay-Go Program. Approved set-asides for the Recreation and Parks Department and street trees maintenance without associated revenue sources have resulted in restrictions on

TABLE 2.2

Pay-Go Program Funding (Dollars in Millions)	FY24-28	FY29-33	Plan Total
Routine Maintenance	90	115	205
ADA: Facilities	9	9	18
ADA: Public Right-of-Way	28	37	65
Street Resurfacing	161	294	454
Enhancements	40	50	90
Recreation and Parks Base Commitment	71	71	142
Capital Contribution to Street Tree Set-aside	34	43	78
ROW Infrastructure Renewal	31	84	115
Facility Renewal	281	716	998
Total Projected Funding	**745**	**1,420**	**2,165**

General Fund spending. These measures have reduced the flexibility of the Pay-Go Program.

For more information on the Pay-Go Program, please see **Chapter Five: Capital Sources.**

Debt Program Policies

The policy constraint for the General Obligation (G.O.) Bond Program is:

G.O. Bonds under the control of the City will not increase long-term property tax rates above FY2006 levels. In other words, G.O. Bonds under control of the City and County of San Francisco will only be used as existing bonds are retired and/or the city's assessed value grows.

Consistent with the 2022 update of the Five-Year Financial Plan, the G.O. Bond Program assumes growth in Net Assessed Value of -0.24% in FY2024, 1.08% in FY2025, 0.99% in FY2026, 1.34% in FY2027, 1.79% in FY2028, and 3% annually thereafter.

The policy constraint for the Certificates of Participation (General Fund Debt) Program is:

- The amount spent on debt service in the General Fund Debt Program will not exceed 3.25% of General Fund discretionary revenues.

Consistent with the Five-Year Financial Plan, the Plan assumes that General Fund discretionary revenues grow 3.30% in FY2024, 3.65% in FY2025, 3.85% in FY2026, 2.33% in FY2027, 1.77% in FY2028, and 2.70% annually thereafter.

General Policies

The Capital Plan uses the Annual Infrastructure Construction Cost Inflation Estimate (AICCIE) developed by the Office of Resilience and Capital Planning and approved by the Capital Planning Committee for the first year of the Capital Plan. For this Plan, that figure is 6.0%. Thereafter, the Plan assumes an annual escalation rate of 5.0% unless otherwise noted.

The City uses a revolving Capital Planning Fund primarily to support pre-development of projects for inclusion in bonds with the expectation that these funds will be reimbursed at bond issuance.

Departments with major building projects within the Plan's time horizon are expected to develop estimates for the impact on the City’s operating budget as part of project development. Those impacts appear in the Plan to the extent they are known at publication and are further discussed as a standard component of requests made to the Capital Planning Committee. Operating impacts are also considered during the City’s annual budget development process. The financial impact of operations is not recorded in the Plan but is addressed for major projects in the City’s Five-Year Financial Plan.

Image Caption

Image Caption

Funding Principles

The funding principles for the Capital Plan are used to make trade-offs between competing needs. They help San Francisco to keep our long-term perspective when it comes time to make choices about major projects and offer a consistent and logical framework for some of the City's most difficult conversations.

San Francisco strives for racial and social equity across our programs and investments. For capital, this means allocating resources towards expanding equitable access to quality housing, open space, transportation, health, and other public services for Black, Brown, indigenous, and people of color while improving outcomes for all groups experiencing marginalization, including based on gender, sexual orientation, ability, age, and more. In addition, capital planning supports departments in their respective racial equity plans that inform each department's capital priorities. The 10-Year Capital Plan strives to fund projects that address racial and social disparities and promote equity in the services delivered by the City's facilities and infrastructure.

FUNDING PRINCIPLE 1: ADDRESSES LEGAL OR REGULATORY MANDATE

Improvement is necessary to comply with a federal, state, or local legal or regulatory mandate.

The City faces a wide range of directives and requirements for our facilities, some with significant consequences for failure to perform. Action in these cases is required by law, legal judgment, or court order, or it can proactively reduce the City's exposure to legal liability. The legal, financial, operating, and accreditation consequences for failure to perform are all weighed when considering these types of projects.

FUNDING PRINCIPLE 2: PROTECTS LIFE SAFETY AND ENHANCES RESILIENCE, INCLUDING RACIAL EQUITY

Improvement provides for the imminent life, health, safety, and/or security of occupants and/or the public or prevents the loss of use of an asset.

Life safety projects minimize physical danger to those who use and work in City facilities, including protection during seismic events and from hazardous materials. Considerations for these projects include the seismic rating of a facility, the potential for increased resilience in the face of disaster, and the mitigation of material and environmental hazards for those who visit, use, and work in City facilities. Resilience includes eliminating racial and social disparities so that all San Franciscans may recover and thrive no matter the shocks and stresses they face.

FUNDING PRINCIPLE 3: ENSURES ASSET PRESERVATION AND SUSTAINABILITY

Asset preservation projects ensure timely maintenance and renewal of existing infrastructure.

It is imperative to maintain the City's infrastructure in a state of good repair so that the City's operations are not compromised and resources are not squandered by failing to care for what we own. It is also important to support projects that lessen the City's impact on the environment. Some assets are more critical than others; for example, some facilities provide services that cannot be easily reproduced at another location or serve as emergency operations centers. Considerations for these projects include the effect on the asset's long-term life, importance for government operations, and environmental impact.

FUNDING PRINCIPLE 4: SERVES PROGRAMMATIC OR PLANNED NEEDS

This set of projects supports formal programs or objectives of an adopted plan or action by the City's elected officials.

Integrated with departmental and Citywide goals and objectives, this funding principle aims to align capital projects with operational priorities. Considerations for this type of project include confirmation that they will contribute to a formally adopted plan or action from the Board of Supervisors or the Mayor.

FUNDING PRINCIPLE 5: PROMOTES ECONOMIC DEVELOPMENT

Economic development projects enhance the City's economic vitality by stimulating the local economy, increasing revenue, improving government effectiveness, or reducing operating costs.

These projects may have a direct or indirect effect on the City's revenues or may help to realize cost savings. Considerations for this type of project include the potential for savings, the level of revenue generation (either direct through leases, fees, service charges, or other sources; or indirect, such as increased tax base, business attraction or retention, etc.), and any improvements to government service delivery, such as faster response times, improved customer service, or increased departmental coordination.

Resilience and Sustainability

As the stewards of San Francisco's public infrastructure, capital planning stakeholders in San Francisco look for ways to increase the City's resilience and sustainability via our capital program. Resilience describes the capacity of San Francisco's individuals, communities, institutions, businesses, and systems to survive, adapt, and grow, no matter what kind of chronic stresses and acute shocks they may experience. For San Francisco this means (1) the ability to quickly respond and recovery from a disaster or large shock; (2) the ability to address systemic crises such as lack of economic mobility, inequity, poverty, and housing shortages; and (3) the ability to prepare for and address slow-moving disasters like climate change and sea level rise.

As a coastal city in a dense metropolitan region, San Francisco faces a wide range of challenges when it comes to promoting sustainability in our infrastructure programs and projects. Sustainability in San Francisco means promoting green building, clean energy, mass transit, urban forestry, and careful planning, as well as preserving our existing assets to reduce the need for additional building. Large resilience investment needs are becoming clearer, including the investments needed to get to net-zero greenhouse gas emissions, adapting the waterfront for sea-level rise, and preparing buildings and infrastructure for other climate impacts like extreme precipitation, heat waves, and wildfire smoke. For more information about capital-related efforts supporting these goals, please see **Chapter Four: Building Our Future.**

Capital Outlook

A strong economy and the support of the Mayor, Board of Supervisors, and citizens of San Francisco gave rise to historic levels of capital investment in the years leading up to 2020. Since then, the COVID-19 crisis has led to shortfalls in the Pay-As-You-Go Program. In addition, the success of G.O Bonds up to 2020 and slower projected growth of property values, has led to a constrained G.O. Bond Program, with only $2.02 billion in capacity available for the next 10 years. This is $700 million less than the 2020 Capital Plan before considering large increases in infrastructure needs and extremely high construction costs. As such, the ability of G.O. bonds to fund large-scale projects under current constraints will likely be a topic of discussion.

As the City moves towards economic recovery, there are new challenges ahead. Federal programs enacted during COVID are coming to an end and it is less likely that large federal and state infrastructure investments will be available. As such, funds that might have been directed to one-time investments may be needed to shore up ongoing programs to avoid service cuts. At the same time, the age of the City's infrastructure and projected population growth in formerly industrial areas and the Westside per the newly adopted Housing Element of the General Plan represent new infrastructure demands that will become more pressing over time.

The Plan recommends a level of funding of over $41 billion over 10 years. Despite this, the Plan defers nearly $7 billion in identified needs for General Fund departments, assuming recommended Pay-As-You-Go program funding levels as shown in Chart 2.1.

Years of historic underinvestment in the City's capital program has resulted in a current facilities backlog of $616 million for General Fund facilities. The backlog is defined as the difference between the total current renewal need and the portion of this need that is funded in the first year of the Plan. The total current renewal need includes both items identified by departments as deferred maintenance, as well as first-year renewal needs. This backlog does not include buildings and sites for Recreation and Parks. While the department has identified a 10-year renewal need of $1.8 billion, funding towards those needs will come from the Recreation and Parks set-aside within the Pay-Go program, as well as the planned 2030 Neighborhood Parks and Open Space G.O. Bond, pending voter approval.

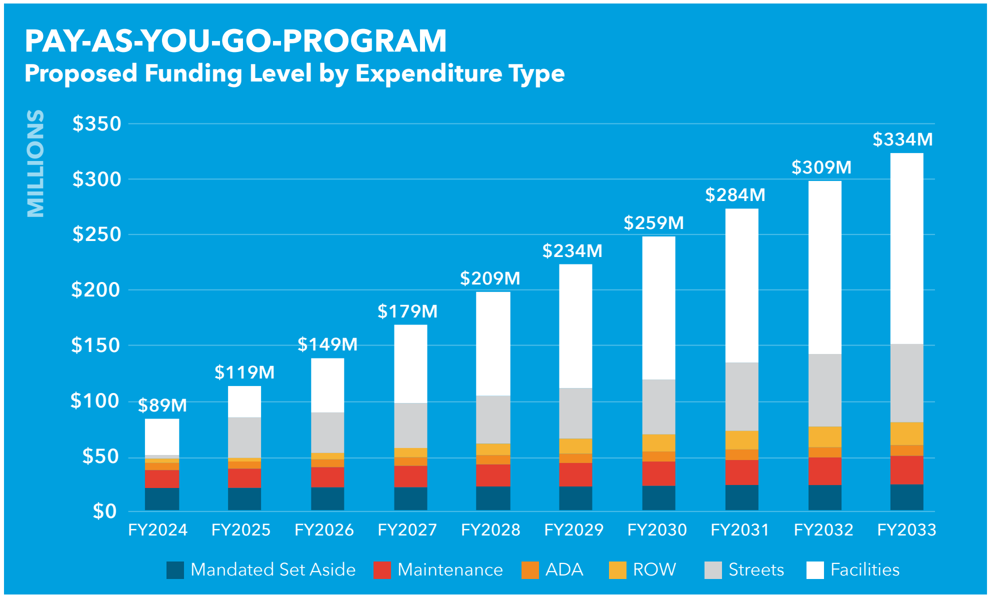

CHART 2.1

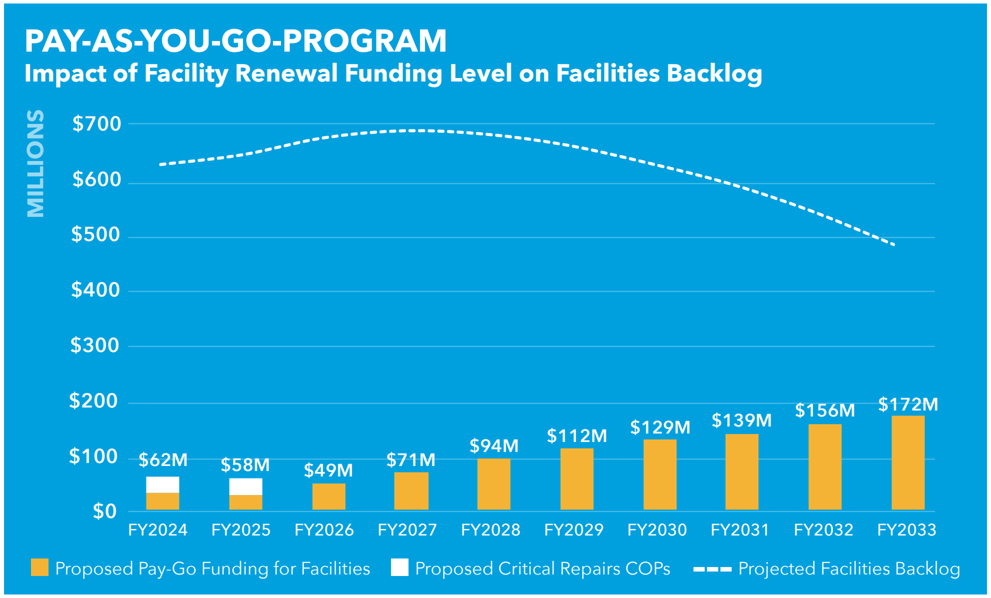

CHART 2.2

Under this Plan, if the City meets the Plan's funding recommendations, the existing backlog is projected to start trending downward by FY2028. As compared to the current level, the backlog is projected to decrease 22% to over $480 million, as shown in Chart 2.2. To address the remaining gap, the City continues to investigate various approaches, including revising funding benchmarks, leveraging the value of City-owned assets for debt financing, preparing projects for voter consideration at the ballot, forming public-private partnerships, and exploring new revenue sources.

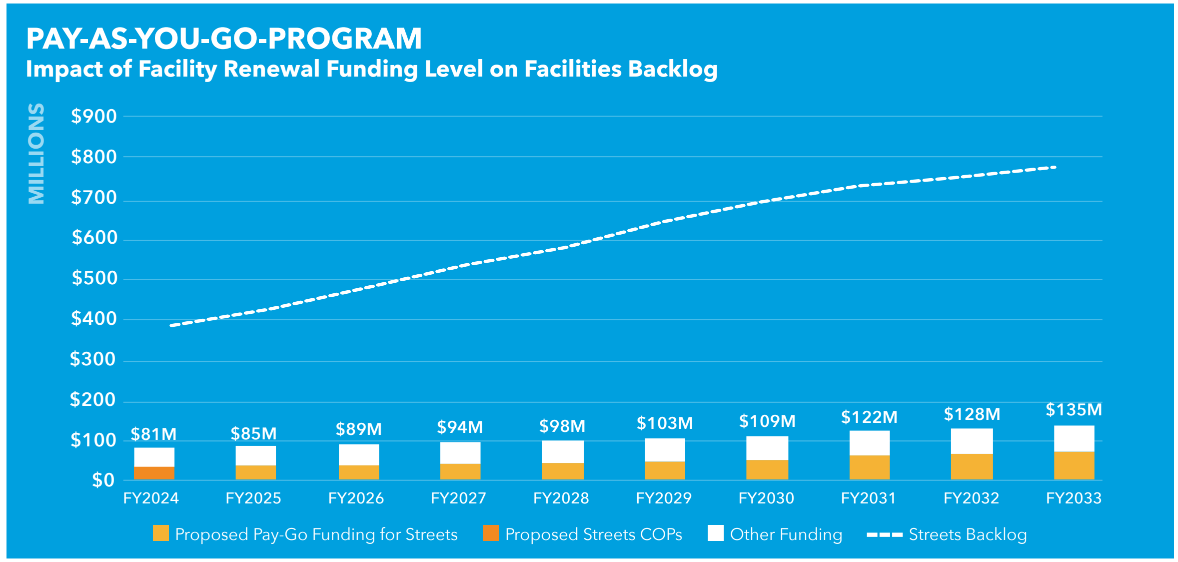

CHART 2.3

While the City has made significant progress in improving the quality of its streets in recent years, currently at a Pavement Condition Index (PCI) of 74, a backlog of $382 million remains if the City is to reach a PCI of 83, at which point the year-on-year cost of maintaining the streets declines significantly. Under this Plan, given the funding challenges to the Pay-Go Program due to COVID-19, the streets program has been supplemented with additional funding from Certificates of Participation in FY2024. With these efforts, the PCI is projected to be maintained at 75 over the 10-year period, though the existing backlog is projected to increase to $772 million by FY2033, as shown in Chart 2.3.

Despite the challenges associated with the capital program, there is also reason to be optimistic. The total amount of capital investments exceeds $40 billion for the first time and is a marked improvement over the previous capital plan. Building on lessons learned during the pandemic, San Francisco is committed to building a stronger, more equitable, and resilient future. This includes commitments to increase housing, respond to current hazards like heat, air quality, flooding, and sea level rise through planning documents like the Hazards and Climate Resilience Plan, the Climate Action Plan, and new general plan elements such Public Safety and Resilience, Housing, Transportation, and Environmental Justice. While the investments needed are substantial, the commitment to an open and transparent capital planning process has proven that large challenges can be overcome by working together.

This Capital Plan puts forth a robust plan that balances maintaining current assets in a state of good repair with investments in major projects to build out of the current crisis. Though there are risks associated with construction costs, a substantial capital backlog, and the scale of need, the City's capital program is well positioned to respond and deliver a strong program of investment for San Francisco's recovery.

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