02. Introduction

Capital Planning in San Francisco

The Fiscal Year FY2022-31 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 road map 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, and transportation systems.

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 our capital portfolio has grown substantially. The first Plan called for $15.7 billion to address earthquake safety, modernization, and maintenance needs for City buildings and infrastructure. The level of recommended funding steadily grew as better capital planning practices were employed, infrastructure systems and facilities reached the end of their useful life, and the City dug out of extremely low levels of investment from the mid-1970s to 2008.

This FY2022-31 Capital Plan represents further evolution of the Plan and addresses urgent challenges confronting San Francisco. This Plan includes a new chapter devoted to affordable housing to fulfill direction from the Board of Supervisors in the approval of the FY2020-29 Capital Plan. Capital investment for acquiring and building affordable housing supports greater affordability in San Francisco. Furthermore, in light of the COVID-19 crisis and economic downturn, the current Plan is leveraging its debt programs to address economic recovery needs while also addressing budget shortfalls and working within fiscal constraints. The debt program is addressing mid-year budget cuts in FY2020 and filling gaps in the Pay-As-You-Go program funding that is 45% lower than the previous 10-year Capital Plan. The ability to leverage other sources of revenue and continue to make investments shows San Francisco's commitment to address its infrastructure needs to the greatest extent possible. It also recognizes the broader benefit of making capital investments to stimulate the local economy and provide jobs during this recession.

The current Plan recommends nearly $38 billion in critical infrastructure improvements over the next 10 years.

The $38 billion total level of investment recommended here is slightly lower than the previous Capital Plan, despite the addition of over $2.6 billion in planned affordable housing investments. This decline is driven primarily 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. For example, the Airport's 10-year planned investment dropped by 70% to $1.4 billion, compared to $4.8 billion in the previous Plan. In addition, voters have approved three large G.O. Bond programs totaling $1.7 billion since 2019. This increased level of investment to address some of the City's most pressing infrastructure needs, affordable housing, mental health and homelessness, earthquake safety, and emergency response, reduces the overall debt capacity available for the FY2022-31 cycle.

Despite these challenges, the recommendations in this 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 other infrastructure.

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 FY2022-31 Capital Plan responds to the sudden and dramatic economic shifts that have arisen 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, with a renewed emphasis on using investments as stimulus for an equitable and strong economic recovery. 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 Plan recommends a Pay-Go Program funding level based on the impact of the COVID-19 pandemic in the short-term, with an anticipated economic recovery in the longer term: $46.3 million in FY2022, growing at 10% until FY2024, increasing to $110 million in FY2025, and growing by 10% thereafter. This level of investment is significantly lower than pre-pandemic funding levels, and the Plan recommends supporting the Pay-Go program with the issuance of Certificates of Participation in the short-term. 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 with reductions in the Pay-Go budget. The General Fund component of the Pay-Go budget was $47 million for

TABLE 2.2

Pay-Go Program Funding (Dollars in Millions)	FY22-26	FY27-31	Plan Total
Routine Maintenance	82	104	186
ADA: Facilities	8	8	16
ADA: Public Right-of-Way	23	33	56
Street Resurfacing	65	192	256
Recreation and Parks Base Commitment	72	72	144
Capital Contribution to Street Tree Set-aside	31	39	70
ROW Infrastructure Renewal	10	40	50
Facility Renewal	94	324	418
Total Projected Funding	**384**	**813**	**1,197**

FY2021 and $46.3 million for FY2022, about $100 million less than the previous budget cycle and recommended levels. As capital appropriations represent one-time uses, it is understandable that the City would pull on that source to deliver essential and time-sensitive services. Looking forward, San Francisco will need to again build back up to healthy levels of capital Pay-Go spending to ensure a basic state of good repair for public assets.

A direct result of these short-term fiscal constraints is that funding will not be available to meet the annual needs of San Francisco's aging infrastructure and the renewal backlog will grow. If the City's economy rebounds at a faster pace than the annual growth envisioned in the City's Five-Year Financial Plan, the Capital Plan recommends the City reassess the Pay-Go Program growth targets and consider closing the gap to previous funding levels more quickly.

Acknowledging that fiscal constraints in the short term may make these targets difficult to reach in the early years of the Plan, the Pay-Go Program policies recommended by the Plan are:

- The Pay-Go funding level will be $46.3 million in FY2022, growing at 10% until FY2024, increasing to $110 million in FY2025, and growing by 10% thereafter.

- The Street Resurfacing Program will be funded at the level needed to maintain a "Good" Pavement Condition Index (PCI) score of 75. At currently recommended funding levels the PCI is projected to drop to 74 during this 10-year cycle.
- ADA barrier access removal projects and the ongoing curb ramps right-of-way program will continue to be a program priority.

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

Consistent with the 2020 update of the Five-Year Financial Plan, the G.O. Bond Program assumes a reduction in Net Assessed Value of 4.83% in FY2022, and growth of 5.89% in FY2023, 5.92% in FY2024, 4.64% in FY2025, 3.99% in FY2026, 3.37% in FY2027 and FY2028, and 3.38% 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 16.75% in FY2022, 8.39% in FY2023, 5.48% in FY2024, 3.99% in FY2025, 3.94% in FY2026, and 2.7% annually thereafter.

General Policies

The Capital Plan uses the Annual Infrastructure Construction Cost Inflation Estimate (AICCIE) approved by the Capital Planning Committee for the first two years of the Capital Plan. For this Plan, that figure is 3.50%. 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 of the impact on the City's operating budget. Those impacts appear in the Plan to the extent they are known at publication and are 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.

Funding Principles

The funding principles for the Capital Plan are the categories 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, 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.

Street Tree SF

Isais Creek Community Meeting

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. For more information about capital-related efforts supporting these goals, please see **Chapter Four: Building Our Future.**

Capital Outlook

The booming Bay Area economy of the recent past 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. As a result, even in the face of the current economic crisis, San Francisco is well positioned to build a healthy and well-balanced infrastructure program for future generations.

As the City responds to COVID-19 and moves towards recovery, there are new challenges ahead. Funds that might have been directed to one-time investments may be needed to shore up ongoing programs to avoid reductions in social services and employment. At the same time, the age of the City's infrastructure and projected population growth in formerly industrial areas represent ongoing demands that will become more pressing the longer they go unaddressed.

The Plan recommends a level of funding of over $38 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 $621 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 $1.2 billion, funding towards those needs will come from the Recreation and Parks set-aside within the Pay-Go program, as

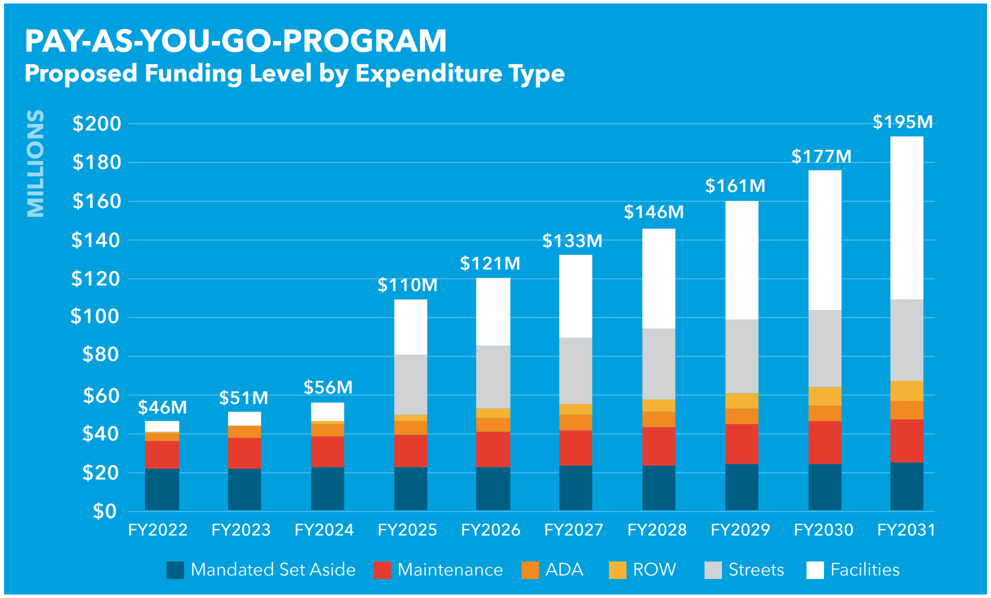

CHART 2.1

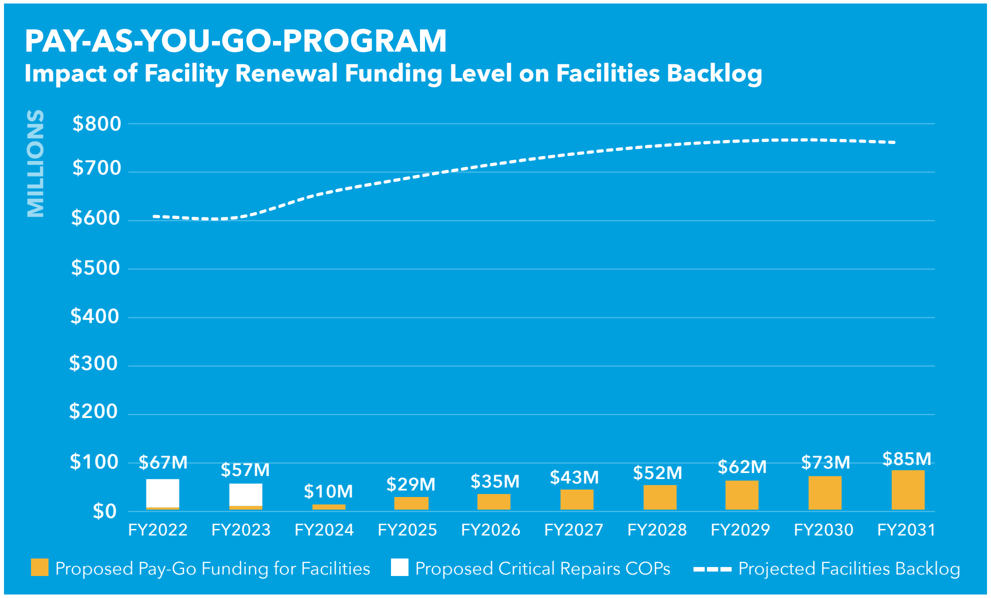

CHART 2.2

well as the planned 2028 Neighborhood Parks and Open Space G.O. Bond, pending voter approval.

Under this Plan, if the City meets the Plan's funding recommendations, the existing facilities backlog is projected to start trending downward by FY2031. As compared to the current level, the backlog is still projected to increase 20% to over $750 million, as shown in **Chart 2.2**. This expected increase is the result of needs accumulated during low spending periods and projected cost escalation of today's backlog. To address the 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.

While the City has made significant progress in improving the quality of its streets in recent years, having already attained a "good" Pavement Condition Index (PCI) of 75, a streets backlog of $280 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 the recently-approved Health and Recovery G.O. Bond and FY2023 and FY2024 Certificates of Participation. Despite these efforts in the short-term, the PCI is projected to decline to 74 and the existing backlog is projected to increase to over $688 million by FY2031, as shown in **Chart 2.3**.

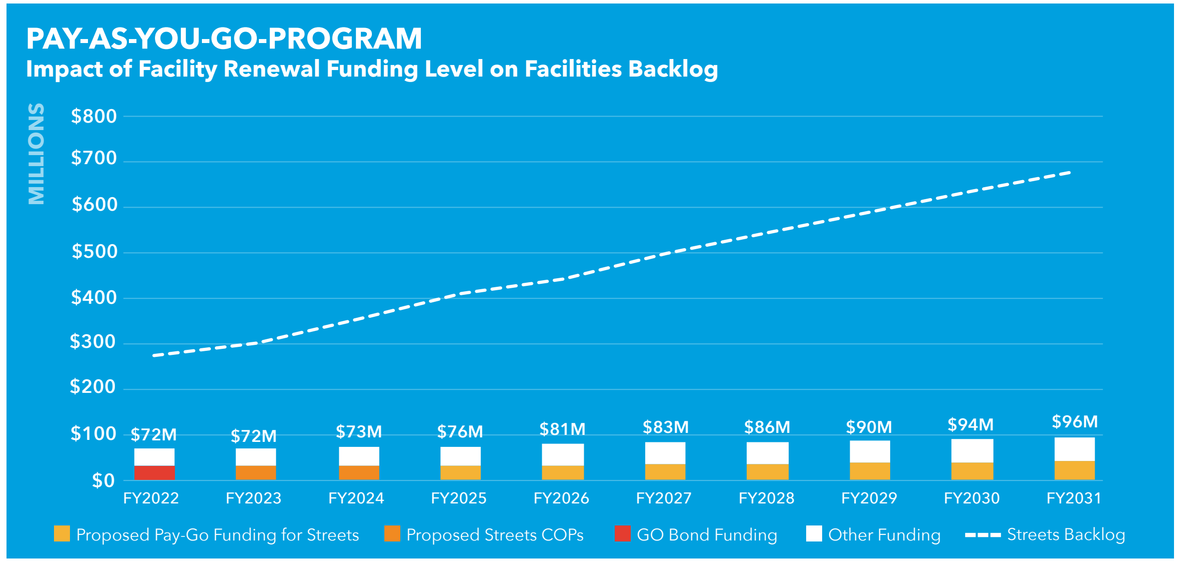

CHART 2.3

In addition to the formidable backlog, there are a number of other issues that the City will face with regard to our capital program, and the associated risks will have to be managed.

Though the pandemic certainly slowed construction activity in the short term, there is still strong local demand for construction services, keeping overall construction costs in San Francisco high. While this activity buoys the local economy, the cost of construction strains available resources.

Displacement and recovery efforts from natural disasters across northern California continue to exacerbate the already tight construction labor market. COVID-19 safety precautions bring with them extra costs and in some cases slower delivery schedules. The City is well-positioned to be a counter-cyclical investor, but with persistently high local costs, there are still limits to what those investments can be expected to deliver.

Finally, striving to achieve resilience in San Francisco presents its own challenges. As a densely populated, aging city situated between two fault lines and surrounded by water on three sides, the threats of disaster and climate change raise serious safety concerns. At the same time, racial inequality and economic hardship threaten the fabric of San Francisco's communities, and housing affordability remains out of reach for many. The City must balance our efforts on these fronts and keep them all moving forward.

However difficult, crisis brings opportunity. Through the Economic Recovery Task Force, the Climate Action Plan, ConnectSF, and many other recent and citywide planning efforts, San Francisco has laid out intentions to build a strong, equitable, and resilient future. In particular, San Francisco's commitment to climate resilience and the need to respond to current hazards like heat, air quality events, and sea level rise will drive the exploration of new strategies to deliver improvements. Likewise, the pandemic will push the City to seek out options for partnership and to prioritize stimulus projects that can bolster the local economy. As part of that recovery, the City will be able to make investments to improve public health, safety, and quality of life.

This 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 the pandemic, 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.

Mission Rock

Chinatown


SAN FRANCISCO FIRE DEPARTMENT
STATION
5