



April 26, 2013

Honorable Mayor and City Council:

This letter serves to transmit the Capital Improvement Program (CIP) FY 2014 Update for your consideration. The City Council will review this document during a work session in May. Beforehand, the Planning Commission will have reviewed the document for conformance with the General Plan.

As with the City's operating budget, the FY 2014 CIP is in the second year of the two-year budget cycle. The FY 2014 Update includes revised costs for projects already included for FY 2013 and FY 2014. However, unlike the first year of the two-year CIP budget cycle, new projects were not solicited for the Update, and consideration of new requests was limited to those very few projects added because of major changes in circumstances. Also, since no projects are added for FY 2023, this updated CIP document covers only the next 9 years and not 10 years (i.e. FY 2014 through FY 2022). Staff made limited changes in projects scheduled for future years only where necessary because of revisions to projected funding programs.

The City Council must formally adopt the second year of the CIP budget as required by the City Charter and in order to comply with certain grant requirements. The following discussion related to the FY 2014 Update highlights a review of several important projects completed during FY 2013 as well as any new, critical projects. It should be noted that consistent with the intent of this being a second year of a two-year budget cycle, non-essential information was not included and individual project expenditure pages were only included for new projects.

As a matter of reference, the FY 2014 CIP also includes two funds (the Housing Authority Capital Fund and the Regional Water Intertie Fund) that are to be discontinued by the end of FY 2013 due to the State-ordered dissolution of redevelopment agencies within California and completion of the only project in the fund, respectively.

Summary of CIP

The CIP for FY 2014 totals approximately \$98 million, with a total of about \$320 million budgeted through FY 2022. A vast majority of the expenditures for FY 2014 are focused on three categories of projects: sewer system projects (\$33.5 million), road and street projects (\$22.5 million), and water system projects (\$18.6 million). Another \$4.1 million is allocated towards projects associated with livable neighborhoods, which helps support Council's priorities pertaining to improving the attractiveness and safety of neighborhoods and the

City overall. The CIP also continues to be focused on the maintenance, security, and upkeep at many of the City's government buildings, especially City Hall.

Key Projects Completed During FY 2013

Roads and Streets

The Route 238 Corridor Improvement Project is rapidly nearing completion, which is scheduled for June of this year. A vast majority of the paving and landscaping has been completed, and the implementation of the one-way loop system occurred in mid-March. The primary tasks that are underway at this time involve final paving, sidewalk, curb and gutter, and median improvements in and around the Downtown core.

One other major project, which commenced construction during the spring of FY 2013, involves improvements along Dixon Street in support of the South Hayward BART transit-oriented development. Improvements specific to this project include streetscape and access improvements to both sides of Dixon Street between Tennyson Road and Valle Vista Avenue; project completion is slated for the end of July.

Utilities and Environmental Services

One of the overarching goals for Utilities and Environmental Services during FY 2013 was to update master plans for both sewer and water. The Water Systems Master Plan, which will conduct an operation analyses and evaluation of existing facilities, pressure, water quality, and emergency preparedness, was completed in FY 2013. The Master Plan will assist in the identification of water related capital improvement projects for the next ten years, with project implementation beginning as soon as FY 2014. Likewise, a Master Plan update for the Sewer Collection System was completed in FY 2013. Funding will be provided in future years to implement recommendations resulting from these planning efforts. Furthermore, the design process for a new co-generation energy system was completed in FY 2013, with construction of the system to occur during FY 2014.

Technology Services

The largest project in this fund is the replacement of the City's outdated legacy financial system with an Enterprise Resource Planning (ERP) system. By the end of FY 2013, several of the key modules will have been implemented, with the remaining modules to be installed by the end of FY 2014.

New Projects for FY 2014

Infrastructure Improvements

The construction phase for a new Fire Station #7 was added to the CIP at a total cost of \$7.8 million. This new fire station will replace a four-piece, modular building with an adjacent apparatus bay that opened in 1998.

Utilities and Environmental Services

A new project to inspect and recoat the Highland 750 Reservoir (off Parkside Drive) will be undertaken in FY 2014 to improve water supply reliability and repair corrosion. Another project will allow for the installation of a weather-based irrigation controller at City Hall, allowing for a water savings of 20%.

An operational evaluation of WPCF blowers is also scheduled to take place during FY 2014. An evaluation by an outside consultant will help to increase the efficiency of the system and maximize its performance.

Identified Capital Needs

The last section of the CIP is the Identified and Unfunded Capital Needs section. As noted earlier in this letter, since the focus of the FY 2014 edition of the CIP is to update costs of existing projects, a similar emphasis was placed on updating cost information in the Identified Capital Needs document and only including a select number of projects which were deemed as critical by the requesting departments; such projects are noted in grayscale throughout the document. However, a couple of projects within Technology Services were removed from the list as they were fully funded or completed in FY 2013. Such projects, totaling over \$2,500,000, include the Public Safety Mobile Replacement Project and the Network File Share/Backup System; the latter project was completed as part of the ERP system implementation.

Two new projects, both of which pertain to Library and Community Services, were incorporated into the Facility Maintenance portion of the document and are also noted with gray shading. The new Library and Community Learning Center in the amount of \$52 million was also added to the list. A final major change to the document pertains to adding the total cost to rehabilitate all of the City's streets to a pavement condition index of 80 in one year and then to maintain the roads at that level each year. The total value of the unfunded projects in the Identified Capital Needs document approaches \$513 million through FY 2022, with costs broken down into the following categories:

• Street & Transportation-Related Projects:	\$333,973,000
• Major New Facilities Projects:	\$151,900,000
• Facility Maintenance and Improvement Projects:	\$ 19,928,000
• Technology Services:	\$ 5,315,000
Total	\$511,116,000

Attached to this letter is a summary of the key assumptions (Attachment A) that were used in preparing the FY 2014 CIP. The staff and I look forward to discussing projects and issues embodied in this capital plan.

Respectfully submitted,

Fran David
City Manager

Attachment A – Assumptions

ATTACHMENT A

FY14 Capital Improvement Program
Working Assumptions

1. Interest Rates: Rate of return on existing fund balances - 1% for FY14; 2% for FY15-FY19; and 3.0% for FY20-FY22. Projected interest rate on City borrowing - based on current market information - 4.0% per year.
2. Construction Inflation Rate: 1% per year.
3. Monies received from Gas Tax, which includes Proposition 111 (Gas Tax), have been increased by 4.5% for FY14. For FY15, Gas Tax receipts are expected to increase slightly, as reflected in the 1% increase from FY14. For FY16 through FY22, Gas Tax has been escalated by 1% per year as well. Transfers to the General Fund from the Gas Tax Fund to support eligible expenditures for FY14 will be \$1,148,000.
4. Based on sales tax projections provided by the City's Finance Department, anticipated revenue from the Measure B program is assumed to be \$2,002,000 in FY14 and \$2,062,000 in FY15 (an increase of 1% for FY14 and 3% for FY15); future increases are estimated at 3% from FY16 through FY18 and 4% from FY19 through FY22.
5. Monies received from the Measure B Non-Motorized Fund for pedestrian and bicycle improvements are assumed to be \$411,000 in FY14 and \$423,000 in FY15 (an increase of 1% for FY14 and 3% for FY15); future increases are estimated at 3% from FY16 through FY18 and 4% from FY19 through FY22.
6. The City will receive \$638,000 in FY13 and then \$644,000 in FY14 for street improvements due to a recent voter-approved increase of \$10 to the vehicle licensing fee; this amount has been escalated by 1% per year from FY15-FY22.
7. Due to a moderate rebound in development, revenue from the Construction Improvement Tax is expected to increase by 50% (from \$100,000 to \$150,000) in FY14. Gradual increases are expected during FY15 and FY16, at which time revenues are assumed to have returned to the previous level of \$250,000.
8. The per year transfer from the Route 238 Trust Fund related to the Route 238 Corridor Improvement Project will continue at \$250,000 until FY16, at which time it will end, with the residual amount remaining in the fund balance to be transferred to the Street System Improvements Fund.
9. Funds received under the Governor's Traffic Congestion Relief Program (TCRP) established under Proposition 42 were eliminated in FY11 and replaced by a Gas Tax "swap," which serves to backfill the amounts that would have been provided through Proposition 42. This amount is transferred from the Gas Tax Fund to the

- Street System Improvements Fund on a monthly basis. It is estimated that this amount will be about \$2.17 million in FY14; future years (FY15-FY22) are estimated to increase by 1% per year. Monies received under this source will be applied towards street maintenance projects.
10. In prior years, the transfer from the General Fund to the Transportation System Improvement Fund was significantly reduced in order to reduce General Fund expenditures. However, the \$350,000 per year transfer from the General Fund to the Transportation System Improvement Fund was re-established in FY13 and will continue at that level through FY22; this transfer provides funding for transportation projects.
 11. Although not shown as a specific project since PG&E will fund the work, use of an estimated \$7.8 million in Rule 20A monies allotted to the City allowed for the completion of the undergrounding of utilities on Mission Boulevard from Sycamore Avenue to Overhill Street, which were completed as part of the Route 238 Corridor Improvement Project. An estimated \$4 million will be required for the Phase II project, which will complete undergrounding of Mission Boulevard for its entire length within the City. Based on Rule 20A allocations to date and projected future reductions by PG&E, it is projected that these projects will use the City's allocation through FY17.
 12. Planned transfers from the sewer and water operating funds to the capital funds allows for critical capital projects identified in the Sewer and Water System Master Plan Updates, plus the Water and Sewer Seismic Study, to be accomplished.
 13. Continued transfers from the Airport Operations Fund provide funding for Airport Capital Improvement Projects identified in the Airport Master Plan and Updated Airport Layout Plan.
 14. Facility charges against operating budgets will provide \$160,000 in FY14 and \$180,000 in FY15, eventually increasing to \$225,000 in FY17-FY22 to provide an ongoing funding source for the Facilities Internal Service Fund.
 15. A Transfer of \$216,000 from the General Fund will fund various projects in the Technology Services Internal Service Fund, such as public safety mobile replacements and network server replacements.
 16. A transfer of \$1,369,000 from the General Fund into the Fire Capital Project Fund will occur in FY14; \$590,000 of this amount is reserved to fund work pertaining to the new Fire Station #7. In FY15 and FY16, the transfer will be \$137,000 and \$140,000, respectively. From FY17-FY22, the amount of the annual transfer will increase between \$2,000 and \$4,000. A transfer of \$349,000 from the General Fund into the Police Capital Project Fund will occur in FY14; in FY15 and FY16, the transfer will be \$173,000 and \$93,000, respectively. The transfer will then fluctuate from FY17-FY22; the amount to be transferred will depend on residual fund balance and the overall level of need in future years. These transfers will provide critical funding necessary for major equipment replacement, such as fire

- hoses, self-contained breathing apparatus, and guns. A transfer from the General Fund of \$10,000 per year from FY14-FY22 is provided in the Maintenance Services Capital Fund in order to purchase replacement equipment on an annual basis.
17. In order to replace vehicles within the Enterprise funds each fiscal year, the following annual transfers will occur into the Fleet Management Enterprise Capital Fund: \$286,000 from the Water Fund; \$71,000 from the Airport Operating Fund; \$240,000 from the Sewer Fund; and \$85,000 from the Stormwater Fund.
 18. In order to replace vehicles within departments funded through the General Fund, transfers into the Fleet Management General Fund Capital Fund will be \$600,000 in FY14, increasing to \$1,000,000 in FY15 and \$1,500,000 in FY16, respectively. For FY17 and FY18, the transfer will increase by \$500,000 per year, culminating in a transfer of \$3,000,000 into the fund by FY19 and continuing through FY22.
 19. The Program reflects expected cash flow in future program years and Council appropriations carried forward from the current year.