



Long-Range Capital Improvement Plan

2025-27 Financial Plan

The development of the Capital Improvement Plan (CIP) for the 2025-27 Financial Plan is in its early stages. The CIP serves as a critical roadmap for addressing the City's immediate and long-term infrastructure needs. This financial plan builds on lessons learned from past cycles and introduces significant process improvements to enhance clarity, transparency, and accountability in project prioritization and funding allocation.

For 2025-27 Financial Plan, the approach focuses on aligning resources with realistic project delivery timelines, ensuring fiscal responsibility, and maintaining the City's existing assets. This foundation is vital as the City navigates evolving challenges and opportunities in managing infrastructure investments.

Rationale for CIP Development

The development of the CIP for this financial plan centers on ensuring that project funding is aligned with available staffing resources. A primary goal is to establish a CIP that can realistically be delivered within the constraints of existing resources while avoiding overextension. This deliberate alignment fosters more effective project management and improves the City's ability to meet deadlines and budgetary targets.

One of the key challenges addressed in this financial plan is the transition from a two-year constrained and three-year unconstrained model to a fully constrained 10-year CIP. With the 2023-25 Financial Plan, only the first two years of the CIP were constrained, while outyears were left unconstrained. For example, during the current financial planning process for 2025-27, year one of the CIP began with a projected \$12 million deficit—even before considering new departmental requests. This approach was used with 2023-25 Financial Plan, as Capital Project needs were dynamic due to address economic recovery needs from the pandemic and the need to fund and complete infrastructure repair projects due to the 2023/2024 winter storms. Regardless, this issue underscored the need for a more structured and long-term approach to capital project budgeting.

By including all 10 years of projects within the constrained CIP, departments gain better visibility into the long-term planning horizon. This approach ensures that larger planned projects, such as those tied to specific plans, are reflected in the outyears. It also allows for improved budgeting and resource allocation, setting realistic expectations for project delivery timelines. This shift represents a significant improvement in how the City plans for and manages its infrastructure investments.

Balancing Short-Term and Long-Term Needs

The CIP must strike a balance between addressing short-term priorities and planning for long-term infrastructure needs. The 2025-27 Financial Plan will place an emphasis on:

1. **Maintaining Existing Assets and Supporting Critical Needs:**

A substantial portion of the CIP budget is allocated to maintain existing infrastructure. The table below details ongoing maintenance accounts and the ideal funding requested in the 2025-27 Financial Plan to support those needs. These capital projects include existing commitments such as traffic management, roadway paving, building maintenance, parks repairs, utility maintenance, the CIP reserve, IT replacements, fleet replacements, and more.

Annual Maintenance and Reoccurring CIP Needs			
Asset	Ideal Annual Funding	Description	Example Projects
Traffic Management	\$ 500,000	Maintenance and upgrades of traffic signals, signs, striping.	Replace traffic signals that have been damaged, ADA upgrades to crosswalks, replacement of street signs
Roadway Paving	\$ 7,000,000	Annual roadway paving project which is partially funded through SB1 Grants.	Every-other year a repaving or slurry sealing project throughout the City.
Parking Lot Maintenance	\$ 760,000	Maintenance of city-owned parking lots.	Resurfacing, signage, striping, lighting repairs.
Pedestrian and Bike Path Maintenance	\$ 500,000	Maintenance of bike paths and pedestrian walkways.	Paving, striping, signage, and minor repairs.
Curb, Gutter, Sidewalks	\$ 500,000	Minor repairs to curbs, gutters, and sidewalks.	Various locations of sidewalk require replacement typically due to uneven surface.
Building Maintenance	\$ 2,500,000	Repairs and upgrades for city-owned buildings.	Painting, HVAC repairs, fire safety upgrades, roof and flooring repairs.
Parks Maintenance and Repairs	\$ 1,100,000	Maintenance of park facilities.	Soft fall replacement, fencing, irrigation repairs, park furniture replacement, minor upgrades - not including major park replacements.
Urban Forest Maintenance	\$ 450,000	Tree planting, trimming, and vegetation management.	Tree replacement, pruning, vegetation management, goat vegetation control.
Storm Drain System Replacement	\$ 1,500,000	Replacement and upgrades of stormwater infrastructure.	Pipe and catch basin replacement, infrastructure upgrades.
Sewer Maintenance	\$ 4,073,000	Maintenance and repairs of the sewer system.	Sewer line replacements, lift station upgrades, treatment facility improvements.
Water Maintenance	\$ 3,633,500	Maintenance of water distribution systems.	Pipe replacements, treatment plant improvements, infrastructure upgrades.
IT Replacements	\$ 1,485,000	IT system upgrades and compliance.	Hardware/software replacements, system compliance upgrades.
Fleet Replacement	\$ 1,500,000	Vehicle replacements per the city fleet policy.	Electric/Hybrid vehicle replacements, car-share programs, fleet efficiency upgrades.
CIP Reserve	\$ 4,000,000	Reserve fund for unforeseen CIP projects.	Emergency repairs, unanticipated rises in project costs (supports entire CIP)
Total	\$29,501,500		

This is the first time the CIP Reserve, IT Replacements, and Fleet Replacements have been included in the funding table above. Including these items offers a more complete view of the ongoing needs that must be addressed within the CIP, in addition to the projects that increase the number of assets managed by the City or involve replacing existing assets. The table aims to provide a clearer understanding of the significant resources required to sustain existing commitments. It also highlights the funding limitations for new and replacement projects. With a significant share of resources devoted to ongoing needs, the City often has to schedule new or replacement projects in outer years. This approach ensures that both staff and funding resources are allocated effectively while addressing the most pressing needs first.

The CIP Reserve, currently budgeted at \$4 million, is essential for supporting projects within the Capital Improvement Plan. It serves as a contingency fund to address unforeseen circumstances, such as emergency projects, and to cover funding gaps when project bids come in over budget. By maintaining this reserve, the City ensures it can respond quickly to unanticipated needs and keep critical projects on track without delays.

The total ideal annual funding for asset maintenance and recurring CIP needs is \$29,501,500. This amount is considered optimal to address the City's infrastructure needs, including roadway paving, sewer and water systems, pedestrian infrastructure, and fleet replacements. Enterprise funds contribute to projects related to water, sewer, parking, and transit. The City also leverages grants to supplement General Fund allocations. For example, annual paving projects benefit from Senate Bill 1 (SB1) funding, formally known as the Road Repair and Accountability Act of 2017. SB1 provides dedicated state funding for local roadway maintenance and rehabilitation, enabling the City to address critical street repairs and improvements. Development impact fees can also provide funding for projects that support community growth and infrastructure improvements. These fees are applied to qualifying projects, helping to mitigate the effects of new development while reducing reliance on the General Fund.

The passage of Measure G-20 allowed the City to roughly triple its capital budget, with the Local Revenue Measure now providing more than 80% of the budget for General Fund projects. This funding has significantly enhanced the City's ability to advance critical infrastructure projects and maintain essential services, reducing reliance on other limited revenue streams.

The Importance of Maintaining Roadways

A key measure of roadway conditions is the Pavement Condition Index (PCI), which assesses pavement quality on a scale of 0 (poor) to 100 (excellent). Without consistent maintenance, PCI scores decline, resulting in exponentially higher repair costs over time. For example, deferred maintenance on roadways can escalate costs from minor resurfacing to full reconstruction, significantly impacting long-term budgets.

By proactively maintaining roadways and utilizing SB1 funds, the City aims to sustain PCI levels while maximizing the value of available resources.

2. **Thoughtful Approach to Adding New Assets:**

Capital Improvement Plan projects have a direct impact on future maintenance, operations, and capital replacement needs. Projects that add new assets—such as parks, facilities, or infrastructure—increase the resources required for their upkeep and eventual replacement. As the community continues to grow, the City’s asset inventory expands, driven by adopted plans and development agreements. For example, the Orcutt Area Specific Plan includes the construction and maintenance of the Righetti Ranch Community Park. In addition, the annexation of the Avila Ranch Development into the City under the Avila Ranch Development Agreement has introduced additional essential services such as water, sewer, roadway paving, and park maintenance. The agreement also calls for a 5th Fire Station to meet the future emergency response needs of the area. Ensuring the resources required to support the City’s expansion is essential for the long-term sustainability and maintenance of its assets.

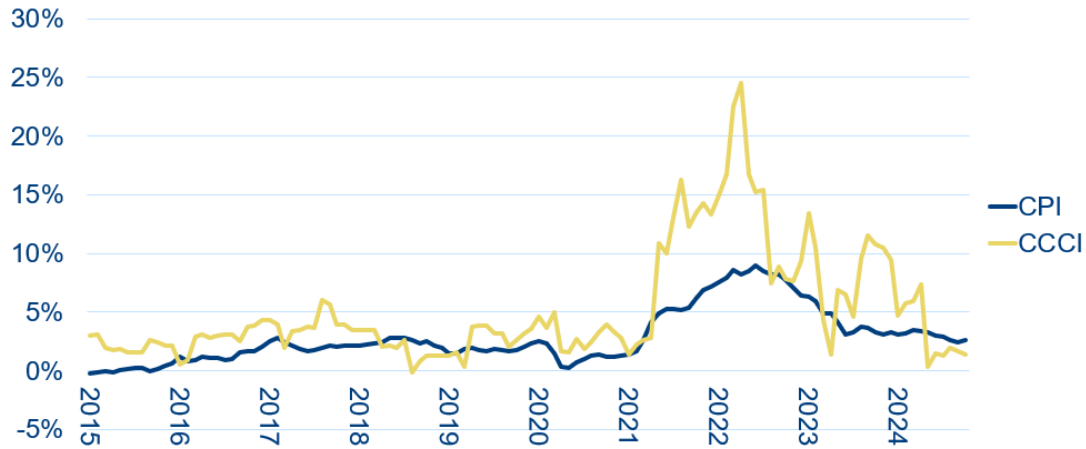
The 2025-27 Financial Plan Capital Improvement Plan is expected to include several large-scale projects requiring significant financial investment. Staff will pursue all available cost sharing and grant funding opportunities and for certain projects, debt financing may be necessary. Debt financing constrains future budgets for long periods, typically 30 years, and introduces financial risk. Issuances also require significant staff time and, since all debt is paid back with interest, increase the total cost of projects dramatically. Upcoming large projects, such as the Prado Interchange and the Public Safety Center, will be evaluated to determine whether debt financing is required to support their construction. Before pursuing debt financing, staff will carefully evaluate all alternatives, the priority of the project relative to others in the payback period, and the City’s debt capacity.

3. **Addressing Rising Costs:**

The typical practice for funding capital projects involves allocating design dollars in one year and construction dollars in the following year. While this approach provides a sequential funding structure, it does not always allow sufficient time to refine construction cost estimates based on more developed designs. To address this, the City is implementing a phased funding approach for larger and more complex projects. Under this model, funding for design occurs in one financial plan, with construction funding deferred to the next financial plan. This additional time allows for the development of more accurate construction cost estimates, often based on 50% or 90% engineering design completion.

Inflation further underscores the importance of this approach. While the Consumer Price Index (CPI) measures general household spending habits, the California Construction Cost Index (CCCI) reflects the rising costs of construction, which have outpaced the CPI at nearly double the rate over the past decade (see figure below). By allowing for more precise construction cost estimates, this phased funding strategy reduces the risk of budget overruns and improves project delivery outcomes.

Inflation Rate Over Time



CIP Review Committee Progress

To prepare the CIP for the FY 2025-27 Financial Plan, the CIP Review Committee has met five times to date, engaging in a comprehensive evaluation process. These meetings included presentations from various departments and staff to discuss proposed projects, their alignment with City priorities, and their feasibility within the constrained budget framework.

This high level discussion is intended to provide the City Council with a sense of the projects currently on the list. It is important to note that the CIP will undergo substantial revisions as new Council goals and priorities are established. Additionally, while staff have worked diligently to align the CIP with the available budget, final numbers and adjustments are still forthcoming. This flexibility ensures that the CIP can adapt as needed to meet emerging challenges and opportunities.

Process Improvements and Expectations

To address past challenges, the CIP team has taken several steps to enhance the planning process for the FY 2025-27 Financial Plan:

- **Improved Communication with Departments:** Clear communication with departments is critical to setting realistic expectations. Projects previously scheduled in outyears of the last financial plan (e.g., year three) are not automatically funded in year one of the current financial plan, as the 2023-25 Financial Plan included an unconstrained CIP in years 3-5 that left year 3 significantly overbudget. Departments have been informed of this shift, and the CIP review committee is working diligently to realign resources accordingly.
- **Enhanced Scoping and Feasibility Analysis:** Policies and procedures have been implemented to require additional time for scoping individual projects before budgets and schedules are finalized. This includes utilizing on-call cost estimating firms to develop fully inclusive budget estimates and conducting feasibility studies for larger projects.
- **Phased Funding for Accuracy:** For larger projects, the City has adopted a phased funding approach, intentionally leaving a year between design and construction funding. This allows more accurate construction cost estimates to be developed based on

advanced design stages, helping to address project funding needs during the financial planning process.

- **Transparent Review and Prioritization:** The CIP Review Committee has been proactive in communicating the financial constraints of this plan and setting clear prioritization criteria. This includes focusing on maintaining existing assets, funding mandates, and addressing urgent needs while considering long-term planning objectives.

The 2025-27 CIP represents a significant step forward in how the City plans for, funds, and delivers its infrastructure projects. By prioritizing the maintenance of existing assets, aligning resources with realistic project delivery timelines, and addressing rising construction costs, the City is better positioned to meet the needs of the community today and in the future. The shift to a fully constrained 10-year CIP ensures fiscal responsibility and sets a sustainable foundation for future financial plans.