

2018-2019 BUDGET QUESTION
Response to Request for Information

DEPARTMENT: Financial Services – Budget and Building Services

REQUEST NO.: 18

REQUESTED BY: Alter

DATE REQUESTED: 5/9/18

DATE POSTED: 8/30/18

REQUEST: Please provide a copy of the City's financial policy(ies) regarding deferred maintenance. Please indicate when the City fell out of compliance with this policy and what deferred maintenance needs exist for the City. Please explain what efforts are underway in order to regain compliance and what resources are needed to regain compliance.

RESPONSE:

There is not a City financial policy directly related to deferred maintenance. However, Financial Policy #11 regarding the establishment of a Capital Rehabilitation Fund was approved by Council in FY 2015-16. Pages 865 and 866 from Volume II of the FY 2017-18 Approved Budget have been attached for reference and the full text of the policy is below.

The City shall establish and maintain a Capital Rehabilitation Fund to support major rehabilitation and betterment of non-enterprise department facilities. A target budgeted annual transfer equal to 25% of the annual depreciation expense for building and improvements related to governmental activities as reported in the prior year Comprehensive Annual Financial Report in Footnote 5 Capital Assets and Infrastructure.

Uses of this fund may include non-bond funded projects including facility rehabilitation and betterment related to:

- Safety and security;
- Significant large maintenance projects that extend the asset's useful life;
- Energy efficiency improvements;
- Renovations to improve space utilization;
- Temporary closure of facilities due to unforeseen conditions;
- Technology innovations; or
- Other projects that result in the betterment of the asset.

This fund will not be available for expenditures of a general or routine maintenance nature.

In the three years that this policy has been in effect, the City has not funded the CRF at the targeted level. The table below shows the funding approved by Council versus the amount targeted per financial policy.

Fiscal Year	Budgeted Transfer	Financial Policy Target
FY 2015-16	\$1,400,000	\$5,534,500
FY 2016-17	\$2,640,000	\$6,014,000
FY 2017-18	\$1,449,000	\$6,319,000

Staff's intent is to increase the transfer incrementally over the next few years until the target is achieved. During budget development, this responsibility is weighed against other funding priorities. Ultimately, Council makes the final determination on the level of funding allocated to cover maintenance needs.

Concerning remaining deferred maintenance needs, staff provided a response to a similar question via Budget Question No. 40 during the FY 2017 budget process. In this response, a sample of 124 buildings resulted in an estimate of \$75 million in deferred maintenance for those facilities. A 4% annual increase multiplier was used - which represented a building deterioration rate plus inflation - less the average of \$1.4 million annually spent to address deferred maintenance, resulted in an estimate of approximately \$81 million in 2016. Extrapolating further to 2019 with the same assumptions results in an estimate of approximately \$86.7 million in deferred maintenance needs.

The \$1.4 million that had been spent annually is not enough to overcome the annual deterioration and inflation rate of repairs, which is approximately \$3.25 million. This figure represents only enough funds to maintain portfolio deterioration at the current level, and does not reduce the outstanding deferred maintenance total. Also, when considering the following caveats, the total shown above is likely closer to \$150 million:

- The 2012 basis study scope was 124 of the City of Austin's approximately 260 buildings.
- Austin Energy, Austin Water, Aviation, and the Austin Convention Center are not reflected in the calculations, as they are not serviced by this Department.
- Cost estimates reflect private-sector assumptions. COA-procured goods and services are typically much higher.

Please refer to the attached spreadsheet on the following page showing planned deferred maintenance budget requested for fiscal years 2018-19, 2019-20, and 2020-21 for examples of specific maintenance projects. At the level of investment specified in the Capital Rehabilitation Fund Financial Policy, or approximately \$6.5 million annually, less the inflation and deterioration costs of approximately \$3.25 million, the \$86 million in current accumulated deferred maintenance could be eliminated in approximately 25 years. In addition, City departments have and continue to elect to use bond propositions to address these needs.

- Priority 1 - Life Safety
- Priority 2 - Urgent
- Priority 3 - Recommended
- Priority 4 - Lower Priority

Building Services Department
CIP Requests FY14

BSD Projected CIP Requirements FY19, FY20, FY21

Location	Description of Project	Justification for Project/Clarification	FY19	FY20	FY21
Animal Shelter	Replace kennel flaps with bar swing doors	Dogs chew plastic kennel flaps which allow access between indoor/outdoor kennel enclosure. Flaps assist A/C in keeping up during hot days. Flaps need to be replaced yearly due to dogs chewing, costing \$7-14K annually. Replace with doors, 1-2 kennel/year for energy efficiency	\$ 125,000	\$ 125,000	\$ 125,000
Animal Shelter	Sound mitigation in Veterinarian Offices	Veterinarians work in an office located next to dog post-surgery cages. Loud barking and cage door slamming is a constant distraction. Need review by sound engineer, sound panels on walls, sound insulation in ceiling and cage toppers with sound blankets	\$ 40,000		

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Building Services Department
CIP Requests FY14

BSD Projected CIP Requirements FY19, FY20, FY21

Location	Description of Project	Justification for Project/Clarification	FY19	FY20	FY21
Austin Police Department	APD Forensics Chiller	APD forensics chiller system replacement.		\$ 450,000	
Austin Police Department	APD Forensics Boiler	APD boiler system replacement		\$ 160,000	
Austin Public Health	Remove Carpet, Polish Concrete Floors	Water seepage from foundation is causing carpet tiles to stain and pull up. Unable to remediate the seepage. Tested stained concrete and was successful.	\$ 150,000	\$ 150,000	\$ 100,000
Austin Public Health	Replace Windows	Windows are single pane. Replace with energy efficient windows	\$ 150,000	\$ 150,000	\$ 100,000
Austin Public Health	Replace Sidewalks	Sidewalks are crumbling, broken and uneven posing a trip hazard for the public, dog walkers, volunteers and pedestrians on campus	\$ 100,000		

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Building Services Department
CIP Requests FY14

BSD Projected CIP Requirements FY19, FY20, FY21

Location	Description of Project	Justification for Project/Clarification	FY19	FY20	FY21
Austin Public Health	Replace Mini-Split System in Building B	System is past useful life, sweats profusely causing water build up, causes smell in building.	\$ 15,000		
Austin Public Health	Replace Roofing System	Normal wear & tear. Numerous leaks.		\$ 500,000	
Clarksville Health Clinic	Clarksville Health Clinic Roof Replacement	Replacement of worn and failing roof.			\$ 100,000