

Capital/Operating Budget Alignment Project

Conducted October 2016 – March 2017

Capital Financial Planning & Analysis Section

San Francisco Municipal Transportation Agency (SFMTA)

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The San Francisco Municipal Transportation Agency's (SFMTA) Capital Budget and Capital Improvement Program (CIP) are currently developed largely independently of the SFMTA's Operating Budget. The Capital/Operating Budget Alignment Project was launched in October 2016 to better align these two budget processes and identify areas and recommendations for improvement.

The Capital Financial Planning & Analysis Section (CFPA) of the Finance & Information Technology Division has conducted a current-state analysis of how the Capital and Operating Budgets are developed in relation to each other. Informed by those findings, this report provides a set of recommendations for aligning the two budgets to improve resource planning; identify opportunities for cost-savings; and improve coordination of internal functions such as planning, project delivery, maintenance, operations, and accounting.

As part of this project, CFPA staff conducted twenty-two interviews, both in-person and by telephone. A first round of internal interviews solicited information and feedback from seventeen SFMTA staff across a wide range of roles and divisions. A second round of external interviews collected best practices from nine other public agencies from around the nation.

This document provides an overview of specific issue areas and offers a set of recommendations developed to address them.

Notes:

The CIP is a fiscally-constrained program of capital projects that the Agency plans to implement over a five-year timeframe; the Capital Budget makes up the first two-years of the five-year CIP. This document will therefore refer to the CIP and Capital Budget development processes interchangeably.

Quotes may be slight paraphrases.

Solutions Matrix

		Solutions							
Areas for Improvement	Organ-ization	1. Create a CFPA liaison to the Operating Budget team to align with position requests							
		2. Move Submittals I and II earlier, and position on resource needs							
Position Requests	Position Requests	3. PMO bulletins I and II earlier, and position on resource needs							
		4. Pass submittals to counterpart team for review							
Budget Development	Budget Development	5. Clear definition of "Capital Project" in Capital Policies							
		6. Add all capital projects funded by operating funds to the CIP							
Asset Management	Asset Management	7. Ask in Submittal II about projects' impact on the Operating Budget							
		8. Per TAM Plan, build out EAMS and eventually supplying models							
1. Operating/Capital teams lack avenue for communication									
2. Position requests are due before Submittal II									
3. Inconsistent position request instructions									
4. Unclear dividing line between capital/operating projects									
5. CIP leads are not the same as Operating leads									
6. Discretionary operating funds in the CIP are unclear									
7. Operating Budget impact of a capital project not predicted									
8. CIP prioritization not informed by operating costs									

Areas for Improvement

Communication and Organization

1. The Operating and Capital Budget teams do not routinely check in nor have an established avenue for regular communication.

- The Capital Budget is developed by CFPA, a section within the Capital Finance Unit. The Operating Budget is developed by the Accounting & Operating Budget Unit. Lacking a common manager and situated apart from each other within FIT's organizational structure, these teams do not currently have established avenues for communication or routine points to check in. The issues below are exacerbated by this separation.

Position Requests

2. Position requests are due for the Operating Budget before Submittal II (the submission of developed CIP project scopes, schedules, and budgets to CFPA) and resource analyses are complete for CIP projects.

- Each capital project requires employing a certain number of full-time-equivalent positions to deliver. These positions are paid for by capital funds, but they must be enumerated and budgeted in the Operating Budget, under the Project Support Fund (PSF). Last budget cycle, requests for PSF project-funded positions were due to the Operating Budget team in September, but scopes, schedules, and budgets for capital projects were due to the CFPA in Submittal II in December. Because of this discrepancy, position requests had to be submitted before the projects on which they were to work were developed, hampering resource analysis for the CIP. Moreover, a number of revisions had to be made to the CIP in May due to a lack of clarity over what positions and resources would be available. This issue also increases the number of off-budget, temporary positions needed to deliver projects. Staff identified this as the most significant area for improvement.
- Interviewee: "You can't have resources without a schedule, and you can't have a schedule without resources."
- Interviewee: "We don't have tools to track [position requests] properly."

3. There is a lack of consistent instructions about position requests across divisions.

- The various CIP Program Managers and Operating Budget Leads for each division reported receiving different, inconsistent, or contradictory instructions about how to request PSF positions for capital projects. Because of such inconsistencies, staff reported widely varying experiences and results with the position-request process.
- Interviewee: Any change to the position-request process should "not just align, but educate."

Areas for Improvement

Budget Development

4. The dividing line between capital and operating projects is unclear.

- Currently, certain projects cannot be easily classified as either capital or operating. Examples include software, equipment, and programs that support the procurement of a non-SFMTA asset in lieu of SFMTA acquiring its own (i.e. incentive programs). While an accounting definition exists for whether an asset is “capitalizable,” this definition cannot adequately define what projects should or should not go in the CIP. Staff are thus unclear to which budget to submit certain borderline projects. Additional complications include the fact that some capital projects are funded in part or fully by operating funds and the fact that projects in the CIP’s Other Program are grant-funded but not necessarily capital.
- Project Manager of a borderline project: “Our types of things have never really been considered.”

5. The Operating and CIP Program leads for each division are not necessarily the same person.

- The CIP Program Manager and the Operating Budget Lead for each division are not necessarily the same person. This is not a problem in and of itself. However, staff felt that a lack of communication and consistency—between the two budget teams and among the leads themselves—led to unnecessary confusion and inefficiency in the budget development process. For instance, a project could be submitted to both the Capital and Operating Budgets by their respective leads, and the submissions were not always cross-checked.

6. The process of getting discretionary operating funds and tracking them in the CIP is unclear.

- A number of capital projects are funded in part or fully by discretionary operating funds, particularly those that are difficult to fund due to the restrictions of regular capital fund sources. The process to obtain these operating funds, however, is not clearly defined. Additionally, all capital projects should be included in the CIP, even if they are fully funded by operating funds, but such projects are not consistently added to the CIP now.
- Interviewee: There is “not a specific pot that I could say in the budget [for discretionary operating funds].”

Areas for Improvement

Asset Management

7. The cost impact to the Operating Budget caused by the completion of a capital project is not regularly accounted for ahead of time.

- When a capital project is completed, it may have an impact on the Operating Budget. For instance, a completed project may increase operating costs (e.g.: More paint is needed for routing painting after a new green bike lane is finished.) or decrease operating costs (e.g.: Less funding needs to be spent on routine bus maintenance after a fleet overhaul.). These cost impacts are not regularly anticipated or accounted for ahead of time, coming as sudden spikes or dips whenever a project finishes.
- Interviewee: “Currently, we’re not thinking about operations; it’s not part of the process.”

8. The prioritization of projects within CIP Programs is not regularly informed by operating costs/asset management strategies.

- CIP Program Managers use a variety of tools and inputs when creating their program’s list of projects during CIP development. However, their prioritizations are not currently informed by robust operating cost information and cost-benefit analyses of which capital assets are most in need of overhaul or replacement. Lacking this analysis, capital project selection and prioritization is not done in a manner that most efficiently targets the capital assets in greatest need.
- Interviewee: “Can we save money on operating by investing in capital at the right time?”

Solutions

1. Create a CFPA liaison to the Operating Budget team

- A member of the Capital Financial Planning & Analysis unit will be designated as a liaison to the Operating Budget team. He or she will meet regularly with the Operating team, particularly to coordinate at key moments during the budget development process (such as when submittals are passed to the counterpart team). The liaison will ensure that the teams are in routine communication.
- Best practice: San Francisco Public Works has a position partially tasked with integrating the Capital and Operating Budgets.
- Best practice: Bay Area Rapid Transit (BART), the Chicago Transit Authority (CTA), and the New York City Department of Transportation (NYC DOT) place their Capital and Operating Budget teams under a common manager and have them work closely together.
- Best practice: Metrolink has the same people develop both budgets; San Mateo County Transit (SamTrans) is just starting to do so as well this year.

2. Move Submittal I (the submission of prioritized lists of CIP projects) and Submittal II (the submission of developed CIP project scopes, schedules, and budgets) earlier, to align with position requests

- Last budget cycle, CIP Submittal I was due in mid-October and Submittal II in mid-December. This cycle, Submittal I will be moved up to mid-August and Submittal II to late September. This change will allow for capital projects' scopes, schedules, and budgets to be developed simultaneously with PSF project-funded position requests (which must be due to the Operating Budget team in late September, in order to meet a Controller's Office deadline). This move will help solve the problems with resource analysis and position requests that occurred during the last budget development.
- Best practice: The Massachusetts Department of Transportation (MassDOT), Metrolink, and NYC DOT develop capital projects and position requests/operating costs simultaneously or nearly simultaneously.
- Best practice: At SamTrans and the Los Angeles County Metropolitan Transportation Authority (LA Metro), Capital Budget development is done before Operating.

3. Create a PMO bulletin on resource needs and position requests

- The Project Management Office will create a bulletin with formal, consistent instructions on how leads should estimate, develop, and submit their requests for PSF project-funded positions. This bulletin will come out in mid- to late July, two weeks after CIP revenue projections are released, and will use the projections for each program to give a unique set of position estimates to each program. These instructions and estimates will avoid previous confusion by ensuring that every division has useful and consistent directions as leads develop their requests. It will also streamline and clarify the position-request process in order to increase efficiency of capital-project delivery.
- Best practice: CTA has a committee that meets regularly to consistently vet new hiring requests across divisions.

Solutions

4. Pass submittals to counterpart team for review

- Between late September and October, CFPA staff will send their Submittal II submissions to the Operating Budget team for review, and the Operating Budget team will send their New Program Request submissions to CFPA for review. This review will move projects to the proper budget if they are miscategorized (according to the new definition below) and will remedy errors where the CIP Program Manager and Operating Budget Lead failed to properly coordinate their submissions. This process will involve giving the counterpart budget team access to SharePoint sites and other such repositories of budget development information.
- Best practice: CTA and Alameda-Contra Costa Transit (AC Transit) have the same division leads for both budgets.
- Best practice: CTA also has a single submittal form for any new project, with an option to select operating or capital.
- Best practice: At LA Metro, capital asks are given to the Chief Operating Officer and Operating Budget division leads as they develop their operating needs.

5. Develop a clear definition of “Capital Project,” for CIP purposes, in the Capital Plan and Program Policies

- To delineate the line between capital and operating, a definition of “Capital Project” will be added to the Capital Plan and Program Policies. This definition will not be used to determine eligibility for capital funds or operating funds but will instead determine which projects go in the CIP and which do not, regardless of their funding sources. It will offer clearer guidance on where to put borderline projects. The definition will be paired with a policy that the DOT/Executive Team or CFO will have the final say on whether a project is capital or not, to cover remaining ambiguous cases.
- Best practice: LA Metro has a robust definition to separate routine maintenance in the Operating Budget from overhaul/rehabilitation in the Capital Budget.

6. Add all capital projects funded by operating funds to the CIP and track them like any other capital project

- Regardless of how a project is funded, if it meets the definition of a capital project, it will be added to the CIP. This recommendation draws on the new definition above to sort out borderline projects for CIP inclusion. But it also ensures that unambiguous capital projects funded completely by operating funds are included in the CIP as well—which is not the case today. Including all capital projects in the CIP, even if they are paid for by operating funds, will allow for fuller and more accurate communication of the size and schedule of the SFMTA’s capital investment. All capital projects, regardless of fund source, will be held to the same capital performance tracking and metrics as well.

Solutions

7. Ask in Submittal II about projects' impact on the Operating Budget

- New questions will be added to the Submittal II form asking 1) whether the project will increase, decrease, or have no measurable impact on the Operating Budget when it is completed and 2) what categories of capital assets the project will create, replace, rehabilitate, etc. While it is not currently feasible to give a numerical estimate of the operating impact of a completed capital project, having at least the direction of impact and list of assets will be a first step towards longer-range Operating Budget planning. The information from these questions will be given to the Planning Subdivision and EAMS teams to form the basis of future cost estimates.
- Best practice: BART estimates the operating cost impact of extensions in their long-range plan.
- Best practice: LA Metro tries to telegraph operating cost savings or increases from capital projects ahead of time to the Operating Budget team.
- Best practice: NYC DOT asks in its new capital project form about which assets will be affected and who will maintain them after completion; this data is used to estimate operating costs well ahead of time. Projects will not be approved unless they can point to a source of funds for the maintenance of the project.

8. Continue to follow the Transportation Asset Management Plan by building out the Enterprise Asset Management System and eventually supplying models to CIP Program Managers

- Under the guidance of the Transportation Asset Management (TAM) Plan, the Enterprise Asset Management System (EAMS) is currently being built out to track assets and enable better work and materials management. EAMS will help produce condition assessments and lifecycle costs estimates of SFMTA assets. The information from a fully deployed EAMS will allow CIP Program Managers to better develop and prioritize which assets are most in need of a capital project to rehabilitate or replace them.
- Best practice: CTA also has a TAM plan in development.
- Best practice: BART has a whole asset management department.
- Best practice: MassDOT has a metric of project scoring for which projects to prioritize, based on the Tracker model (which includes performance metrics and asset condition models). Tracker creates cost-benefit analyses for asset overhaul or replacement, and MassDOT redirects investments based on its metrics.

Interviewees

Internal

November 2016 – December 2016

- Deanna Desedas, *Communications, Public Outreach & Engagement*
- Lulu Feliciano, *Communications, Public Outreach & Engagement*
- Monica Giese, *Sustainable Streets, Administration*
- Darton Ito, *Sustainable Streets, Innovation*
- John Knox White, *Sustainable Streets, Planning*
- Matt Lee, *Capital Programs & Construction, Program Management*
- Eloida Leonardo, *Finance and Information Technology, Accounting and Operating Budget*
- Luis Montoya, *Sustainable Streets, Livable Streets*
- Tess Navaro, *Finance and Information Technology, Accounting and Operating Budget*
- Leanne Nhan, *Sustainable Streets, Administration*
- Ricardo Olea, *Sustainable Streets, Transportation Engineering*
- Chad Rathmann, *Sustainable Streets, Livable Streets*
- Jonathan Rewers, *Finance and Information Technology, Performance and Project Controls*
- Jerad Weiner, *Sustainable Streets, Planning*
- Emily Williams, *Transit, Operations*
- Danny Yeung, *Transit, Operations*
- Li Zhang, *Finance and Information Technology, Accounting and Operating Budget*

External

December 2016 – March 2017

- Alameda-Contra Costa Transit District (AC Transit)
- Bay Area Rapid Transit (BART)
- Chicago Transit Authority (CTA)
- City and County of San Francisco Department of Public Works
- Massachusetts Department of Transportation (MassDOT)
- Metrolink
- New York City Department of Transportation (NYC DOT)
- Los Angeles County Metropolitan Transportation Authority (LA Metro) *(twice)*
- San Mateo County Transit (SamTrans)

Appendix: Diagram of the Capital and Operating Budgets

