



2014-2015 CAPITAL BUDGET

2015-2019 CAPITAL IMPROVEMENT PROGRAM



SUMMARY INFORMATION

CITY OF SAN JOSE
2015-2019 ADOPTED CAPITAL IMPROVEMENT PROGRAM

SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES

The 2015-2019 Adopted Capital Improvement Program (CIP) derives its funding from a variety of sources. The following table provides a listing of those sources grouped by major category, along with a comparison to the 2014-2018 Adopted CIP.

<u>Source</u>	<u>2014-2018 CIP</u> <u>(\$ millions)</u>	<u>2015-2019 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 590.2	\$ 579.8	\$ (10.4)
Sale of Bonds	186.6	457.4	270.8
Revenue from Other Agencies	375.0	316.8	(58.2)
Taxes, Fees and Charges	280.7	354.2	73.5
General Fund	58.6	60.5	1.9
Contributions, Loans and Transfers from Other Funds	479.8	515.4	35.6
Interest Income	9.2	13.2	4.0
Miscellaneous Revenue	116.5	128.9	12.4
TOTAL	\$ 2,096.6	\$ 2,426.2	\$ 329.6

BEGINNING FUND BALANCES

The Beginning Fund Balances in the 2015-2019 CIP total \$579.8 million, which is a decrease of approximately \$10.4 million (1.8%) from levels budgeted in the 2014-2018 CIP. Beginning Fund Balances primarily reflect planned carryover funding for projects expected to be initiated or completed in the next five years. The Parks and Community Facilities Development Capital Program has Beginning Fund Balances totaling \$142.8 million, accounting for 24.6% of the total Beginning Fund Balances. A majority of the funds are reserved pending determination of final scope of projects and locations or availability of future funding within the nexus of a facility. The Airport Capital Program, which accounts for 18.4% (\$106.8 million) of the Beginning Fund Balances, includes remaining bond proceeds that are programmed to offset qualified operating expenses. The other programs with significant Beginning Fund Balances include Water Pollution Control (\$105.4 million), Traffic (\$88.9 million), and Sanitary Sewer System (\$72.2 million). All three programs host a large number of projects whose delivery will result in much lower Ending Fund Balances by the end of the CIP.

SALE OF BONDS

The 2015-2019 Adopted CIP includes total bond issuances of \$457.4 million related to the Water Pollution Control (\$448.2 million), Library (\$5.9 million), and Public Safety (\$3.3 million) Capital Programs. The bond issuances for the Water Pollution Control Capital Program will be used for the implementation of capital improvement program projects recommended by the City Council-approved Plant Master Plan that responds to aging infrastructure, future regulations, population growth, and treatment technology improvements. The Library and Public Safety figures represent the final bond issuances for these two General Obligation Bond programs. It was previously anticipated that these bond proceeds would be issued in 2013-2014; however, based on the current financial market conditions, and the City's need for this funding, the bonds are now scheduled to be issued in 2014-2015.

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REVENUE FROM OTHER AGENCIES

The Revenue from Other Agencies category totals \$316.8 million and is comprised of contributions from other agencies that use the Water Pollution Control Plant (\$133.2 million) and the Sanitary Sewer System (\$0.8 million); federal (\$93.5 million) and State (\$55.1 million) grants; County of Santa Clara funding that is mostly from Measure B for pavement maintenance (\$27.3 million); Valley Transportation Authority funding for project management services and design review, encroachment permits, and construction inspection services for the BART extension to Berryessa (\$2.7 million); and other agency (\$4.0 million) proceeds. Overall, estimated revenues from these sources reflect a decrease of \$58.2 million (15.5%) from the 2014-2018 Adopted CIP, mainly due to the revisions in the approach to finance expansion and rehabilitation projects at the Water Pollution Control Plant (WPCP) that resulted in lower contribution amounts from WPCP User Agencies.

Funding from the federal government (\$93.5 million) is allocated to several programs including: the Traffic Capital Program (\$57.1 million) primarily for pavement maintenance activities from the One Bay Area Grant (\$12.9 million) and the State Route Relinquishment (\$12.4 million), and a variety of multi-modal and transportation improvement projects (\$31.8 million); the Airport Capital Program (\$35.1 million) from the Transportation Security Administration and the Federal Aviation Administration (FAA) for Airport Improvement Program (AIP) grants administered by the FAA, which are eligible but have not yet been secured; and the Water Pollution Control Capital Program (\$1.3 million) from the US Bureau of Reclamation for the construction of recycled water infrastructure, studies, delivery of recycled water for irrigation and industrial purposes, or other needs, as specified by individual grant agreements with the Bureau.

Funding from the State in the amount of \$55.1 million is mainly allocated to the Traffic Capital Program (\$53.3 million), of which \$47.5 million is for pavement maintenance activities from Gas Tax.

TAXES, FEES AND CHARGES

The 2015-2019 Adopted CIP includes an estimate of \$354.2 million in the Taxes, Fees and Charges category, an increase of \$73.5 million from the estimated level in the 2014-2018 Adopted CIP. This increase is primarily the result of a higher estimate for Construction and Conveyance Tax revenues (\$45.0 million) and revenue from construction taxes levied on private development activity (\$28.0 million); both are discussed in detail below. The chart on the following page compares the components of the 2015-2019 Taxes, Fees and Charges estimates with those included in the 2014-2018 Adopted CIP, followed by a discussion of the revenue estimates for the three largest sources within the Taxes, Fees and Charges category.

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TAXES, FEES AND CHARGES

<u>Source</u>	<u>2014-2018 CIP</u> <u>(\$ millions)</u>	<u>2015-2019 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Construction and Conveyance Tax	\$ 150.0	\$ 195.0	\$ 45.0
Construction Excise Tax	70.0	87.0	17.0
Building and Structure Construction Tax	55.0	66.0	11.0
Sanitary Sewer Connection Fees	3.2	3.7	0.5
Residential Construction Tax	0.9	0.9	0.0
Water Utility Fees	0.8	0.8	0.0
Storm Drainage Fees	0.8	0.8	0.0
TOTAL	\$ 280.7	\$ 354.2	\$ 73.5

Construction and Conveyance Tax

The Construction Tax portion of the Construction and Conveyance (C&C) Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from \$75 per unit located in a building containing at least 20 dwelling units to \$150 for a single-family residence. The commercial and industrial rate is eight cents per square foot of floor area constructed. The Construction Tax accounts for approximately 1.0% of the total C&C Taxes collected. The Conveyance Tax portion of the C&C Tax category is levied upon each transfer of real property, where the value of the property exceeds \$100. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately 99.0% of the total C&C Taxes collected.

Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and real estate market. After reaching a record high of \$49.0 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, remaining low through 2010-2011 (\$21.2 million). In 2011-2012, tax collections rose to \$25.1 million, which was the highest collection level experienced in four years. Construction and Conveyance Tax revenue collections have continued to experience strong growth and are expected to end 2013-2014 at \$37.0 million, up 7.5% from the actual 2012-2013 collection level. In 2014-2015, collections are budgeted to increase an additional 5.0% to \$39.0 million and remain flat for each year of the CIP. This collection level reflects what is believed to be a sustainable level of ongoing housing resale activity, though actual tax receipts may vary substantially depending on local economic conditions.

The five-year projection for C&C Tax revenues totals \$195.0 million, a 30.0% increase above the 2014-2018 CIP, attributable to the assumption that strong collection levels experienced over the past year will continue. The C&C Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the strength of the San José real estate market.

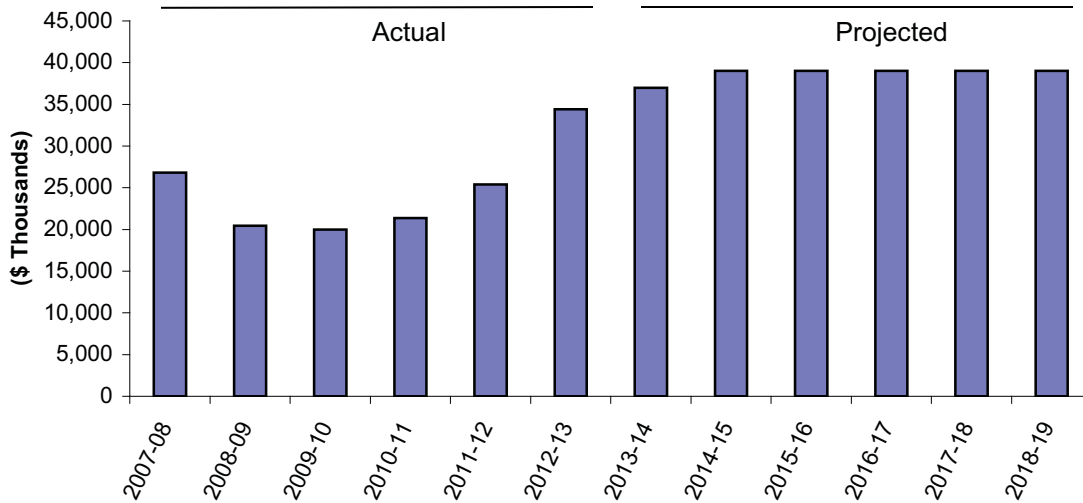
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TAXES, FEES AND CHARGES

Construction and Conveyance Tax (Cont'd.)

Construction and Conveyance Tax Revenues



Based on the City Council-approved distribution formula, C&C funds allocated in the 2015-2019 CIP are displayed in the following table.

Construction and Conveyance Tax Distribution

Program	Dist.	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Parks	64.00%	24,960,000	24,960,000	24,960,000	24,960,000	24,960,000
Park Yards	1.20%	468,000	468,000	468,000	468,000	468,000
Fire	8.40%	3,276,000	3,276,000	3,276,000	3,276,000	3,276,000
Library	14.22%	5,546,000	5,546,000	5,546,000	5,546,000	5,546,000
Service Yards	8.78%	3,424,000	3,424,000	3,424,000	3,424,000	3,424,000
Communications	3.40%	1,326,000	1,326,000	1,326,000	1,326,000	1,326,000
Total	100.00%	39,000,000	39,000,000	39,000,000	39,000,000	39,000,000

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Construction Excise Tax

The Construction Excise Tax (also known as the Commercial, Residential, Mobile Home Park Tax) is levied upon construction, alteration, repair, or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. The tax may be used for any “usual current expense” of the City; however, the City Council has historically used the majority of these funds for traffic improvements, including street maintenance and resurfacing, streetlights, and bicycle and pedestrian facilities.

The 2013-2014 estimate for Construction Excise tax collections used in the development of the 2015-2019 Adopted CIP is \$26.0 million, up significantly from the \$14.0 million budgeted estimate included at the beginning of the year. This recent surge in revenues is caused by large increases in both residential and commercial construction activity. Based upon the construction valuation projections provided by the Planning, Building and Code Enforcement Department and an analysis of historical and current collection patterns, the revenue estimates included in the 2015-2019 Adopted CIP total \$87.0 million. The Adopted CIP represents an increase of \$17.0 million from the total amount estimated in the 2014-2018 Adopted CIP, reflecting revised expectations for residential and commercial development.

Building and Structure Construction Tax

The Building and Structure Construction Tax is levied on residential, commercial, and industrial development and is based on building valuation. The use of funds is restricted to capital improvements on major arterial and collector streets, including bridges, culverts, lighting, and traffic control systems that improve the Level of Service (LOS). LOS refers to the efficiency with which streets and roadways accommodate peak level traffic.

The 2013-2014 estimate for Building and Structure Construction tax collections used in the development of the 2015-2019 Adopted CIP is \$21.0 million, up significantly from the \$11.0 million budgeted estimate included at the beginning of the year. Similar to the surge in the Construction Excise Tax, the large increase is due to significant gains across all sectors of private construction activity. Based on construction valuation forecasts supplied by the Planning, Building and Code Enforcement Department and an analysis of actual collection patterns, the five-year projection for this tax totals \$66.0 million. The Adopted CIP represents an increase of \$11.0 million from the estimates included in the 2014-2018 Adopted CIP, reflecting revised expectations for development activity.

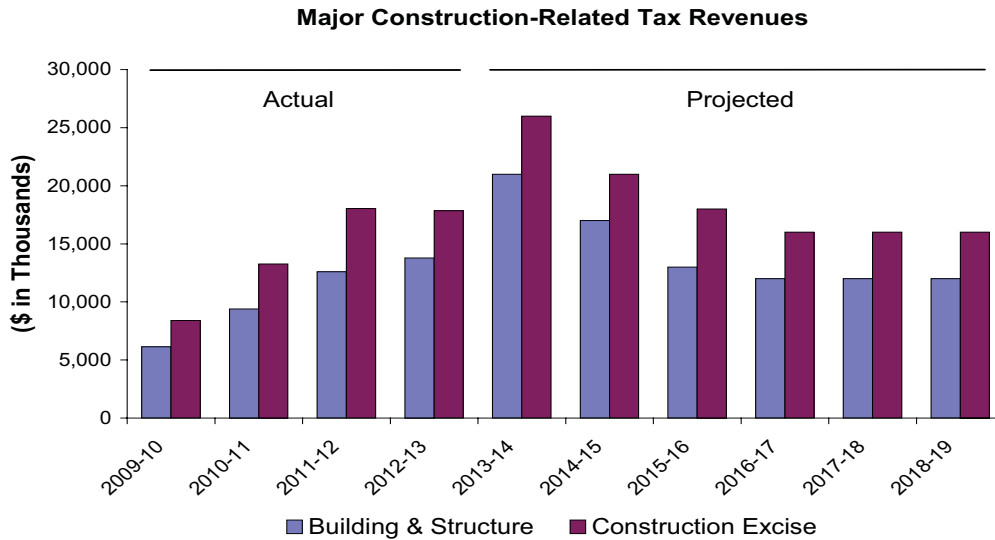
The graph on the following page compares the actual and projected revenues, by year, for both the Building and Structure Construction and the Construction Excise Taxes.

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TAXES, FEES AND CHARGES

Building and Structure Construction Tax (Cont'd.)



GENERAL FUND

General Fund contributions to capital projects included in the CIP total \$60.5 million, nearly flat when compared to \$58.6 million in the last CIP.

General Fund contributions are primarily used to support the following capital programs:

- Public Safety (\$29.6 million) – Fire apparatus replacement continues to be a priority for the City, with a total allocation of \$28.5 million in the General Fund and \$3.1 million in the Fire C&C Tax Fund. This level of funding is based on an annual review of the Fire Apparatus Replacement Policy conducted by the Administration in order to maintain sufficient funding for emergency Fire Apparatus replacement through the five-year CIP. After updating the ten-year replacement schedule with recent prices paid for fire apparatus and related equipment that yielded substantial savings, and the increased Fire C&C revenues, the General Fund contribution for Fire Apparatus replacement was reduced from \$5 million to \$4 million per year while still maintaining the same level of replacement. In addition, \$9.6 million was rebudgeted from 2013-2014. Other General Fund investments include Fire Facilities Remediation and fixtures, furniture, and equipment for the South San José Police Substation.
- Municipal Improvements (\$25.5 million) – The most significant new General Fund investment in this category is the United States Patent and Trademark Office – City Staff Relocation project (\$4.5 million) that will move staff from the City Hall Wing to the Tower. Other investments address critical infrastructure rehabilitation and repair needs such as the Police Communications Emergency Uninterrupted Power Supply (\$3.3 million), Police Communications Fire Protection

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GENERAL FUND

System Upgrade (\$3.0 million), Police Administration Building/Police Communications Center Chiller Replacements (\$2.0 million), Police Communications Center Electrical System Upgrade (\$1.6 million), City Hall Waterproofing (\$1.4 million), Children’s Discovery Museum portico reroofing and chiller replacements (\$950,000), Police Administration Building Elevator Retrofit (\$595,000), Police Administration Building/Police Communications Center Exterior Waterproofing (\$350,000), and Police Communications Center Parking Deck and Ramp Restoration (\$350,000). Key ongoing projects include Unanticipated/Emergency Maintenance (\$3.2 million), Closed Landfill Compliance (\$1.8 million), and City Hall and Police Communications Uninterrupted Power Supply Capital Maintenance (\$750,000).

- Communications (\$1.8 million) – Due to insufficient Communication C&C Tax Fund revenues, General Fund transfers are required in order to primarily fund contributions to the Silicon Valley Regional Interoperability Authority (SVRIA).

CONTRIBUTIONS, LOANS AND TRANSFERS FROM OTHER FUNDS

Funding in this category totals \$515.4 million which is \$35.6 million above the amount included in the 2014-2018 Adopted CIP. This higher level is due primarily to a net increased transfer of \$11.7 million from the Sewer Service and Use Charge Fund and the Sewage Treatment Plant Connection Fee Fund to the Water Pollution Control Capital Program for critical projects recommended by the Plant Master Plan (described in more detail in the Water Pollution Control Capital Program Overview, Section V of this document), and an increased transfer of \$24.7 million from the Central C&C Tax Fund to the Council Districts and City-Wide C&C funds resulting from increased levels of C&C revenues.

The largest transfers of funds in this CIP are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$230.0 million) and the Sanitary Sewer System Capital Program (\$123.0 million) for costs related to the construction and maintenance of the Water Pollution Control Plant and the City’s sanitary sewer collection system.

Other significant transfers are reflected in the following programs: Parks and Community Facilities Development Capital Program (\$66.2 million) from Central C&C Tax Fund to the ten Council Districts and City-Wide C&C Tax Funds, Storm Sewer System Capital Program (\$39.9 million from the Storm Sewer Operating Fund), Airport Capital Program (\$22.7 million from the Airport Revenue Surplus Fund), and the Water Utility System Capital Program (\$17.5 million from the Water Utility Fund).

INTEREST INCOME

The 2015-2019 Adopted CIP includes \$13.2 million from interest income. This is an increase of \$4.0 million from the estimate included in the 2014-2018 Adopted CIP, primarily as a result of higher fund balances assumed in this CIP. The range for the interest rates in the 2015-2019 CIP is 0.35% to 0.50% compared to a range of 0.33% to 0.80% used in the 2014-2018 Adopted CIP.

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MISCELLANEOUS REVENUE

The Miscellaneous Revenue category totals \$128.9 million, an increase of \$12.4 million from the 2014-2018 Adopted CIP. Revenue in this category is generated mainly through Airport passenger facility charges (\$97.1 million), which constitutes approximately 75.3% of the total revenue. The remaining revenues in this category primarily include an estimate for the sale of the Main Service Yard in Japantown (\$18.0 million) and parking and lease revenue related to Lake Cunningham Park (\$4.0 million). In the Water Pollution Control Capital Program, a total of \$1.9 million is estimated for revenue from the Calpine Metcalf Energy Center for facilities repayment and the Santa Clara Valley Water District.

The Miscellaneous Revenue category also includes developer contributions of \$5.5 million, which equals the 2014-2018 Adopted CIP estimate. The Developer Assisted Projects Capital Program includes \$4.5 million to support underground utility activities and the Traffic Capital Program includes \$1.0 million of fiber optics fee reimbursements from developers.