

CITY OF SAN JOSE
2017-2021 ADOPTED CAPITAL IMPROVEMENT PROGRAM

SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES

The 2017-2021 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 2016-2020 Adopted CIP.

<u>Source</u>	<u>2016-2020 CIP</u> <u>(\$ millions)</u>	<u>2017-2021 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 589.6	\$ 470.9	(\$ 118.7)
Sale of Bonds & Commercial Paper Proceeds	530.0	380.4	(149.6)
Revenue from Other Agencies	356.5	430.9	74.4
Taxes, Fees and Charges	325.6	330.5	4.9
General Fund	83.4	97.7	14.3
Contributions, Loans and Transfers from Other Funds	530.8	562.7	31.9
Interest Income	26.4	28.5	2.1
Miscellaneous Revenue	132.2	140.0	7.8
TOTAL	\$ 2,574.5	\$ 2,441.6	(\$ 132.9)

BEGINNING FUND BALANCES

The Beginning Fund Balances in the 2017-2021 CIP total \$470.9 million, which is a decrease of approximately \$118.7 million (20.1%) from levels budgeted in the 2016-2020 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 \$141.8 million, accounting for 30.1% 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 Traffic Capital Program accounts for 19.5% (\$91.9 million) of the Beginning Fund Balances, representing a significant amount of project costs that will be spent over the next five years. The other programs with significant Beginning Fund Balances include Water Pollution Control (\$63.2 million), Airport (\$61.6 million), and Sanitary Sewer System (\$52.5 million). All three programs include a large number of projects whose delivery will result in much lower Ending Fund Balances by the end of the CIP.

SALE OF BONDS AND COMMERCIAL PAPER PROCEEDS

The 2017-2021 Adopted CIP includes revenues of \$380.4 million from the sale of bonds (\$379.2 million) and commercial paper proceeds (\$1.2 million). The Water Pollution Control Capital Program accounts for \$370.0 million from bonds that will be used for the implementation of capital improvement 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 (\$5.9 million) and Public Safety (\$3.3 million) Capital Programs incorporate the final bond issuances for the two General Obligation Bond programs, scheduled to be issued in 2017-2018. The Water Utility Capital Program includes \$1.2 million from commercial paper that will be used for the replacement of water meters, which will increase water conservation across the City.

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REVENUE FROM OTHER AGENCIES

The Revenue from Other Agencies category totals \$430.9 million and is comprised of contributions from other agencies that use the Water Pollution Control Plant (WPCP) (\$288.4 million) and the Sanitary Sewer System (\$10.2 million); federal (\$79.9 million) and State (\$20.5 million) grants; Valley Transportation Authority funding that is mostly from Measure B for pavement maintenance (\$29.5 million) and for the design review, encroachment permits, and construction inspection services for the Bay Area Rapid Transit (BART) extension to Berryessa (\$1.3 million); and other agency (\$1.1 million) contributions. Overall, estimated revenues from these sources reflect an increase of \$74.4 million (20.9%) from the 2016-2020 Adopted CIP, mainly due to the change in the approach to finance expansion and rehabilitation projects at the WPCP that results in higher contribution amounts from WPCP User Agencies.

Funding from the federal government (\$79.9 million) is allocated to several programs including: the Airport Capital Program (\$47.0 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; the Traffic Capital Program (\$31.6 million) primarily for grants related to multi-modal and pedestrian safety transportation projects (\$24.0 million); 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 \$20.5 million is mainly allocated to the Traffic Capital Program (\$17.0 million), of which \$12.0 million is for pavement maintenance activities from the Gas Tax.

TAXES, FEES AND CHARGES

The 2017-2021 Adopted CIP includes an estimate of \$330.5 million in the Taxes, Fees and Charges category, an increase of \$4.9 million from the estimated level in the 2016-2020 Adopted CIP. This slight increase is primarily the result of a higher revenue estimate from construction taxes levied on private development activity (\$3.9 million) and for Construction and Conveyance Tax revenues (\$1.0 million); both are discussed in detail below. The chart on the following page compares the components of the 2017-2021 Taxes, Fees and Charges estimates with those included in the 2016-2020 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>2016-2020 CIP</u>	<u>2017-2021 CIP</u>	<u>Difference</u>
Construction and Conveyance Tax	\$ 175,000,000	\$ 176,000,000	\$ 1,000,000
Construction Excise Tax	83,000,000	84,000,000	1,000,000
Building and Structure Construction Tax	62,000,000	65,000,000	3,000,000
Sanitary Sewer Connection Fees	3,400,000	3,250,000	(150,000)
Residential Construction Tax	950,000	875,000	(75,000)
Water Utility Fees	500,000	500,000	0
Storm Drainage Fees	750,000	875,000	125,000
TOTAL	\$ 325,600,000	\$ 330,500,000	\$ 4,900,000

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 4% 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 96% of the total C&C Taxes collected.

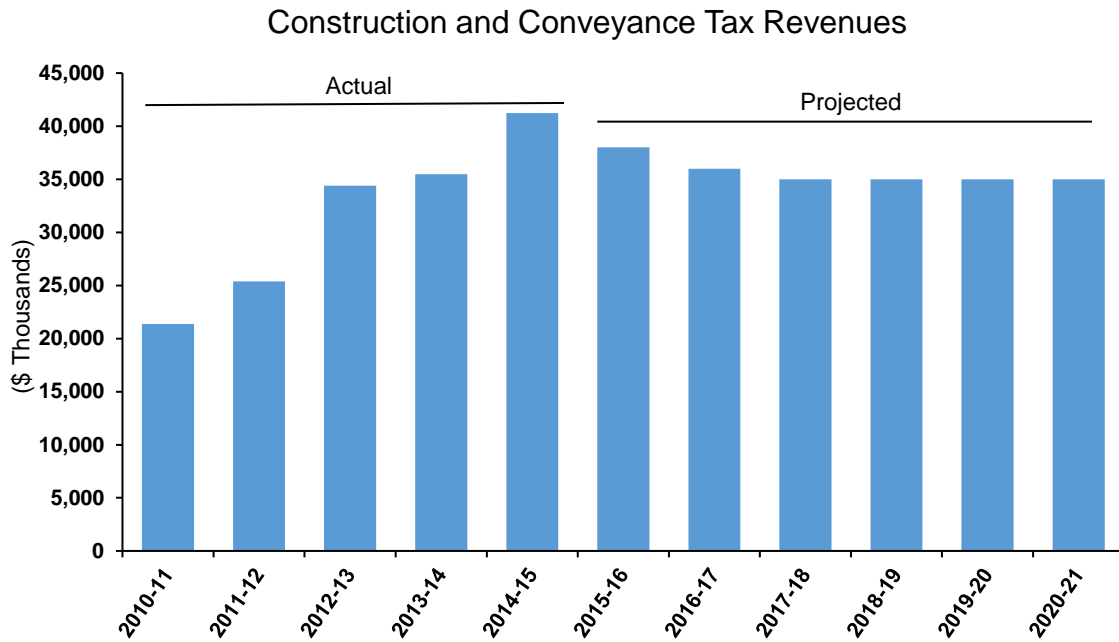
Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and real estate market. After reaching a record high of \$49.0 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to \$20.5 million in 2008-2009. However, collections have rebounded, reaching totals of \$41.2 million in 2014-2015. Based on increased home prices and number of property transfers, collections in 2015-2016 are projected to conservatively end the year at \$38.0 million, higher than the estimated \$35.0 million in the 2016-2020 Adopted CIP. However, because of the volatility of this revenue category, collections are programmed to decrease slightly to \$36.0 million in 2016-2017, then slightly down again to \$35.0 million annually throughout the remaining years in the CIP. The five-year projection for C&C Tax revenues totals \$176.0 million, remaining relatively the same as the 2016-2020 Adopted CIP (\$175.0 million). 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 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) the future projections of San José real estate market activity.

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Construction and Conveyance Tax (Cont'd.)



Based on the City Council-approved distribution formula, C&C funds allocated in the 2017-2021 CIP are displayed in the following table.

Construction and Conveyance Tax Distribution

Program	Dist.	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Parks	64.00%	23,040,000	22,400,000	22,400,000	22,400,000	22,400,000
Park Yards	1.20%	432,000	420,000	420,000	420,000	420,000
Fire	8.40%	3,024,000	2,940,000	2,940,000	2,940,000	2,940,000
Library	14.22%	5,119,200	4,977,000	4,977,000	4,977,000	4,977,000
Service Yards	8.78%	3,160,800	3,073,000	3,073,000	3,073,000	3,073,000
Communications	3.40%	1,224,000	1,190,000	1,190,000	1,190,000	1,190,000
Total	100.00%	36,000,000	35,000,000	35,000,000	35,000,000	35,000,000

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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 2015-2016 estimate for Construction Excise tax collections used in the development of the 2017-2021 Adopted CIP is \$18.5 million, down slightly from the 2015-2016 Adopted Budget estimate of \$19.0 million as a result of slightly lower than projected residential development 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 2017-2021 Adopted CIP total \$84.0 million, with receipts at \$17.0 million annually in 2016-2017 through 2019-2020, then dropping to \$16.0 million in 2020-2021. The Adopted CIP represents a slight increase of \$1.0 million (1.2%) from the total amount estimated in the 2016-2020 Adopted CIP to reflect the projected continued level of development activity.

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 2015-2016 estimate for Building and Structure Construction tax collections used in the development of the 2017-2021 Adopted CIP remains at the \$14.0 million used as the original budgeted estimate included at the beginning of the year. This estimate, however, is down from last year’s collection of \$16.6 million. 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 \$65.0 million. The Adopted CIP represents an increase of \$3.0 million (4.8%) from the estimates included in the 2016-2020 Adopted CIP based on revised projections on activity levels. It is anticipated that collections will drop from the 2015-2016 estimate of \$14.0 million to annual receipts of \$13.0 million over the five-year period as projects are completed and activity levels slightly decrease.

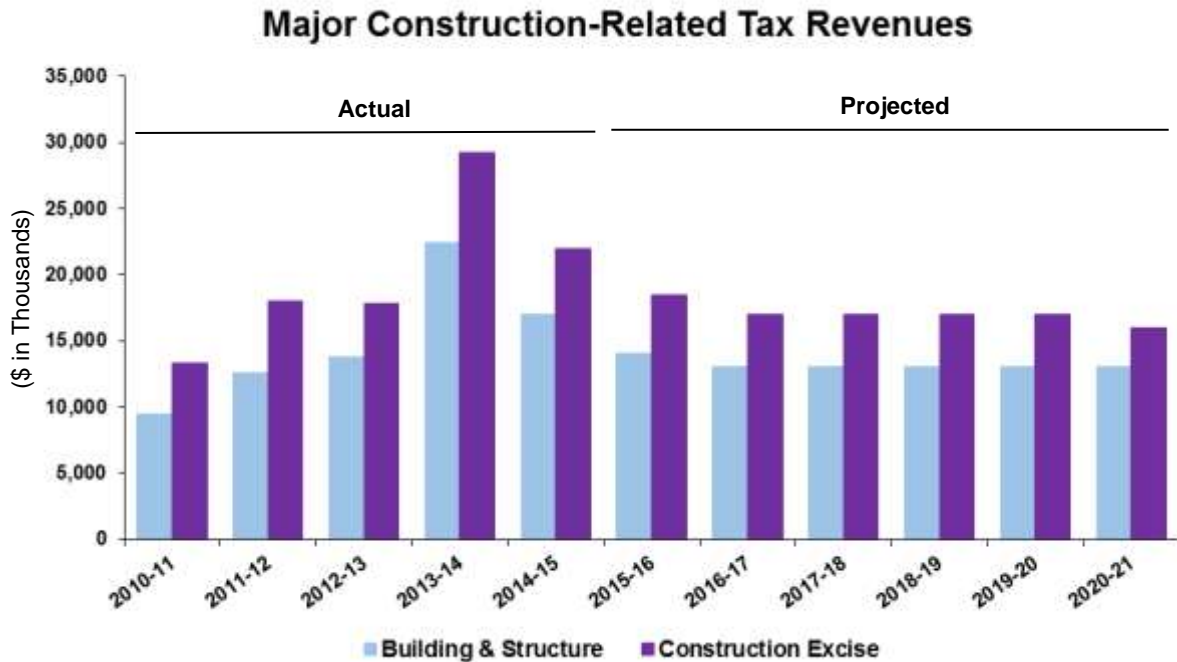
The graph on the following page compares the actual and projected revenues, by year, for both the Building and Structure Construction and the Construction Excise Taxes.

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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 \$97.7 million, up \$14.3 million from the last CIP.

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

- Municipal Improvements (\$30.3 million) – The largest General Fund investment in this category is the City Hall HVAC Control System Replacement project (\$5.0 million) that will replace the HVAC control system in City Hall with a new up-to-date control system. This program also invests \$3.8 million of General Fund dollars to rehabilitate cultural facilities from Transient Occupancy Tax revenues above the 2013-2014 actual collections set aside per City Council direction, including funding for improvements at Hammer Theatre (\$600,000), The Tech Museum (\$480,000), History San José (\$440,000), San José Museum of Art (\$340,000), Mexican Heritage Plaza (\$325,000), and Children’s Discovery Museum (\$20,000). This funding will also be used to help secure a permanent, publicly-owned site for the San José Stage Company (\$1.0 million) as directed from the Mayor’s March Budget Message for Fiscal Year 2016-2017 and to fund City Hall Rotunda Lighting (\$350,000), Family-Friendly City Facilities (\$110,000), and Downtown Ice Rink Improvements (\$100,000) as directed from the Mayor’s June Budget Message for Fiscal Year 2016-2017. Other

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GENERAL FUND

General Fund investments address critical infrastructure rehabilitation and repair needs at the Police Administration Building/Police Communications Center (\$8.7 million), City Hall (\$2.7 million), the Animal Care and Services building (\$900,000), San José Municipal Stadium (\$270,000), and the Municipal Garage at the Police Campus (\$85,000). Funding allocated for critical management systems or building assessments include the Arc Flash Hazard Analysis (\$510,000) and City-Wide Building Assessment (\$700,000). Ongoing projects include Unanticipated/Emergency Maintenance (\$4.1 million), Closed Landfill Compliance (\$1.8 million), City Hall and Police Communications Uninterrupted Power Supply Maintenance (\$1.1 million), Arena Repairs (\$600,000), and Fuel Tank Monitoring (\$250,000).

- Traffic (\$26.7 million) – As described in Manager’s Budget Addendum #14, Sales Tax Ballot Measure: 2016-2017 Provisional Budget and Ongoing Spending Priorities Plan, that was incorporated into the Mayor’s June Budget Message for Fiscal Year 2016-2017, as approved by City Council, \$17.7 million is included to increase pavement maintenance funding for major streets. Other investments include \$8.0 million for pavement maintenance activities that was rebudgeted from 2015-2016, \$750,000 for traffic calming and pedestrian safety improvements to support the Vision Zero goals, \$247,000 for LED streetlight conversions, \$10,000 for installation of bicycle racks on the Alameda, \$10,000 for pedestrian underpass lighting improvements in Council District 5, and \$3,000 for the layout of two intersection safety treatments at Campbell Avenue and Leigh Avenue in Council District 6.
- Public Safety (\$34.4 million) – Fire apparatus replacement continues to be a priority for the City, with a total allocation of \$32.9 million in the General Fund and \$3.9 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. As described in Manager’s Budget Addendum #14, Sales Tax Ballot Measure: 2016-2017 Provisional Budget and Ongoing Spending Priorities Plan, that was incorporated into the Mayor’s June Budget Message for Fiscal Year 2016-2017, as approved by City Council, \$1.2 million is included for an emergency vehicle preemption service. Also, as directed in the Mayor’s June Budget Message for Fiscal Year 2016-2017, \$127,000 is budgeted for a portable emergency mass warning system. Lastly, an additional \$221,000 is included for improvements and equipment needs for the South San José Police Substation.
- Communications (\$4.4 million) – Due to insufficient Communication C&C Tax Fund revenues, General Fund transfers are required starting in 2017-2018 to fully fund contributions to the Silicon Valley Regional Interoperability Authority (SVRIA).
- Service Yards (\$1.3 million) – Due to insufficient Service Yards C&C Tax Fund revenues, General Fund transfers are required to supplement funding for the Debt Service on Phase I Bonds issued to finance the Central Services Yard expansion.

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- Parks and Community Facilities Development (\$471,000) – As directed in the Mayor’s March Budget Message for Fiscal Year 2016-2017, funding of \$301,000 in Council District 7 will assist with fundraising and planning efforts related to developing the Vietnamese-American Community Center. An additional \$100,000 in Council District 4 to fund the Alviso Park Master Plan and \$70,000 in City-Wide Parks to fund the demolition of the damaged Kelley House are included.

CONTRIBUTIONS, LOANS AND TRANSFERS FROM OTHER FUNDS

Funding in this category totals \$562.7 million which is \$31.9 million above the amount included in the 2016-2020 Adopted CIP. The significant increases include: an increased transfer of \$26.6 million from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program to finance the capital improvement projects recommended in the Plant Master Plan; a new transfer of \$10.5 million from the Convention Center Facilities District Revenue Fund to provide for capital improvements at the McEnery Convention Center; and an increased contribution of \$2.4 million from the General Purpose Parking Fund into the Parking Capital Program, primarily to evaluate the development of an additional parking garage in Downtown.

Significant decreases include: a decreased transfer of \$5.0 million from the Storm Sewer Operating Fund to the Storm Sewer Capital Fund to reflect the planned expenditures in that fund; and a reduction of \$2.2 million from the Library C&C Tax Fund to the Library Capital Program to reflect the obligation of the payback of ineligible expenditures to the Branch Libraries Bond Fund being almost fulfilled.

The largest transfers of funds in this CIP are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$227.4 million) and the Sanitary Sewer System Capital Program (\$160.0 million) for costs related to the construction and maintenance of the WPCP and the City’s sanitary sewer collection system.

Other significant transfers are reflected in the following programs: Parks and Community Facilities Development Capital Program (\$50.7 million) from Central C&C Tax Fund to the ten Council Districts and Parks City-Wide C&C Tax Funds; Airport Capital Program (\$25.1 million from the Airport Revenue Surplus Fund); Storm Sewer System Capital Program (\$23.0 million from the Storm Sewer Operating Fund); and the Water Utility System Capital Program (\$22.3 million from the Water Utility Fund).

INTEREST INCOME

The 2017-2021 Adopted CIP includes \$28.5 million from interest income. These estimates are up \$2.1 million from those included in the 2016-2020 Adopted CIP. The range for the interest rates in the 2017-2021 Adopted CIP is 0.94% to 2.36% compared to a range of 0.74% to 2.50% used in the 2016-2020 Adopted CIP.

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MISCELLANEOUS REVENUE

The Miscellaneous Revenue category totals \$140.0 million, an increase of \$7.8 million from the 2016-2020 Adopted CIP. Revenue in this category is generated mainly through Airport Passenger Facility Charges (\$108.7 million), which constitutes approximately 78% of the total revenue. The remaining revenues in this category primarily include an estimate for the sale of the Main Service Yard in Japantown (\$17.5 million) and parking and lease revenue related to Lake Cunningham Park (\$4.5 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 \$5.3 million, which is \$200,000 above the 2016-2020 Adopted CIP estimate. The Developer Assisted Projects Capital Program includes \$4.3 million to support underground utility activities and the Traffic Capital Program includes \$1.0 million of fiber optics fee reimbursements from developers.