

**2008-2009  
MID-YEAR BUDGET REVIEW  
Section II**

**CAPITAL BUDGET PROGRAMS STATUS REPORT**

At mid-year, the City Manager's Budget Office conducts a comprehensive review of each capital budget program. This section of the report summarizes the financial status of each program, including a discussion of the major revenue sources and any major expenditure variances.

The 2008-2009 Adopted Capital Budget totaled \$1.2 billion. Through the first six months of the year, the City Council approved budget adjustments that, in total, increased the capital budget by \$128.3 million to over \$1.3 billion. The majority of the increase (\$79.5 million) reflects the impact of technical adjustments that were processed as part of the 2007-2008 Annual Report. These adjustments primarily consist of an increase of \$63.8 million to account for changes to fund balance and an increase of \$8.8 million for rebudgets of unexpended project funds. The remainder of approved adjustments to the budget through the first six months of the fiscal year included a short-term loan to the Redevelopment Agency from Sanitary Sewer Capital Funds (\$34.4 million), the addition of a small number of new projects, projects with changes in cost and/or scope, as well as technical adjustments to funding sources.

During the first half of the year, construction-related revenues were impacted significantly by the national recession and financial market turmoil. In addition, the significant decline in the median price of homes continues to drive down the City's Construction and Conveyance Tax collections. As a result, rebalancing actions for a number of capital programs are recommended in this document and described later in this document. Sufficient ending fund balance is available in most cases to offset these revenue revisions, however, rebalancing actions are necessary in the Building and Structure Construction Tax Fund and Construction Excise Tax Fund in the Traffic Capital Program, Fire Construction and Conveyance Tax Fund in the Public Safety Capital Program, and Storm Drainage Fee Fund in the Storm Sewer Capital Program. In addition, it should be noted that lower levels of overall revenues will result in reduced and/or deferred projects in the upcoming Proposed Capital Improvement Program. In summary, downward revenue adjustments are recommended for the following:

- Construction and Conveyance Tax revenue estimate is recommended to be reduced by \$4.0 million from \$23.0 million to \$19.0 million as a result of declining home prices,
- Construction-related revenue estimates reductions for the Construction Excise Tax (down \$5.975 million to \$7.0 million), the Building and Structure Construction Tax (down \$2.205 million to \$6.5 million), the Sanitary Sewer Connection Fee (down \$407,000 to \$500,000), the Underground Utility In-Lieu Fees (down \$300,000 to \$1.0 million), the Storm Drainage Fee (down \$184,000 to \$125,000), and the Residential Construction Tax (down \$50,000 to \$100,000), and;
- Sale of Surplus Property estimated proceeds related to the former Main Yard in Japantown (\$14.0 million) and the sale of Fire Stations 12 and 17 (\$1.0 million) are recommended to be eliminated as they will be delayed beyond the 2008-2009 fiscal year.

As a result of declining revenue and the required corresponding decrease in capital project expenditures, the elimination of 28.5 vacant positions in the Public Works Department that support capital project

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delivery is recommended in this document. In addition, the elimination of nine positions is recommended in the Traffic Capital Program as part of the recommendations included in this document to rebalance that program.

On a more positive note, project expenditures are generally tracking within budget in all programs and the economic slowdown has created a more favorable bidding environment for construction projects. However, unforeseen complications with the design documents for the South San José Police Substation will require additional funding (\$4.5–\$6.5 million) to be appropriated to the project. Options to increase funding for the substation construction will be discussed in a separate memorandum. The discussion below provides a summary of revenue and expenditure performance for each capital program area.

**AIRPORT**

Financial Status

The Airport Capital Program is composed of four funds: The Airport Capital Improvement Fund, the Airport Revenue Bond Improvement Fund, the Airport Renewal and Replacement Fund, and the Airport Passenger Facility Charge (PFC) Fund.

The Airport Capital Improvement Fund is funded by grant revenues. Principally, these are federal grants administered by the Federal Aviation Administration (FAA) under its Airport Improvement Program (AIP). Most grants provide an 80% reimbursement of project costs matched by a 20% local share from the Airport. The local share is primarily funded by PFCs or Airport operating revenues. Overall, grant income in the Airport Capital Improvement Fund is tracking below budgeted levels since grant revenues are typically received on a reimbursement basis; however, a significant portion of budgeted revenue is still expected to be received by year-end. Commitments through December in the Airport

Capital Improvement Fund totaled \$16.2 million, or approximately 49% of the budget for capital projects.

Mid-year adjustments recommended for this fund include recognition of a grant agreement for \$18,135,000 from the United States Transportation Security Administration (TSA), which was approved by the City Council in October 2008. This agreement provides for reimbursement of 90% of the allowable costs of an automated in-line checked baggage explosive detection system. The remaining 10% local share is primarily funded by the Airport Revenue Bond Improvement Fund. A corresponding adjustment in the Terminal Area Improvement Program (TAIP) project is also recommended in this report.

Technical adjustments in this fund are proposed to reduce the Fire Truck appropriation (\$1,000) and reestablish the Noise Monitoring Units (\$20,000) appropriation. These adjustments would allow for the correct allocation of expenditures between grant reimbursable costs and the local share for these projects. The net impact of these actions is a decrease to the Ending Fund Balance in the amount of \$19,000.

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AIRPORT (CONT'D.)

Financial Status (Cont'd.)

The Airport Revenue Bond Improvement Fund provides funding for major capital projects financed by bond issuances and other debt instruments. The Airport is currently using bond proceeds, including the 2007 Airport Revenue Bonds issued in September 2007, along with commercial paper to provide funding for projects in this fund. Commercial paper capacity is initially reflected in fund balance and then recorded as revenue as it is used to meet project cash flow requirements. Project progress and cash requirements make it appear these revenues are tracking above anticipated levels through December. Commitments through December in this fund totaled \$575.5 million, or approximately 80.9% of the budget for capital projects, however, it is still anticipated that total revenue in this fund will end the year approximately at budgeted levels.

Mid-year adjustments recommended in this report for this fund include the establishment of a transfer from the Airport Fiscal Agent Fund (Fund 525) reflecting balances in the 2007A and 2007B bond cost of issuance accounts that are eligible for use in the Airport Capital Improvement Program (\$21,000) and the advancement of funding for Public Parking Improvements (\$50,000) in order to fund pre-design activities for this project in 2008-2009. In addition, two other actions (to the North Concourse Building and TAIP appropriations) are recommended in this fund related to the receipt of federal grant funding for the Terminal A in-line baggage system and a concurrent

request by the airlines to increase the baggage handling program in Terminal A and Terminal B to provide features that would improve the functionality and efficiency of the systems. The net impact of these actions is an increase to the Ending Fund Balance in the amount of approximately \$2.7 million.

The Airport Renewal and Replacement Fund's primary source of revenue is a transfer from Airport operating funds. Supplementing this revenue are construction laydown rents associated with the lease of Airport West/FMC property. Other sources of revenue include interest income and tenant improvement payments, as well as a one-time transfer from the Airport Revenue Fund for the TAIP. Commitments through December in the Airport Renewal and Replacement Fund totaled \$6.6 million, or 30.7% of the budget for capital projects, and are tracking within estimated budget levels.

There are several mid-year appropriation adjustments recommended in this report for the Airport Renewal and Replacement Fund. They include recognition of additional revenue for the Tenant Improvement Payments line item (\$898,000) as well as the establishment of five new projects: Baggage Carousel Support Arms (\$260,000), Boiler Replacement (\$347,000), Central Plant Chiller Maintenance (\$36,000), Fire Bottles for Rampside Safety (\$17,000) and Runway Paint Removal (\$70,000). Other adjustments to existing appropriations include an increase for Advanced Planning (\$20,000), and Tenant Plan Review (\$300,000), a reduction in Fuel Storage Tank Repairs (\$20,000), and elimination of 2008-2009 funding for the

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AIRPORT (CONT'D.)

Financial Status (Cont'd.)

Terminal A Baggage Claim Escalator (\$713,000). This last project was deferred until 2009-2010. In addition, technical adjustments are proposed to increase the Fire Truck appropriation (\$1,000) and the transfer to the Airport Passenger Facility Charge Fund of \$54,545 to allow for proper recording of expenditures relating to various prior year projects. These actions result in a net increase of \$525,455 to the Ending Fund Balance.

The Airport Passenger Facility Charge Fund includes projects that have been approved by the Federal Aviation Administration for funding from PFCs, which is a \$4.50 fee charged to departing passengers. Projects within this Fund are determined in consultation with the airlines that utilize the Airport facilities. PFC revenue collections are tracking below estimated levels as a result of overall lower enplanements coupled with the fact that the PFC revenues are recorded one to two months in arrears. PFC fund balance is sufficient to cover anticipated shortfalls in 2008-2009. Commitments through December in the Airport PFC Fund totaled approximately \$6.1 million or 10.6% of the budget for capital projects.

A mid-year adjustment is included in this Fund to establish a transfer from the Airport Renewal and Replacement Fund representing a net expenditure adjustment to various PFC funded projects completed in prior years. This action results in a net increase of \$54,545 to the Ending Fund Balance.

COMMUNICATIONS

Financial Status

The Communications Program was established to replace and upgrade the public safety and non-public safety radio equipment and is funded from Construction and Conveyance (C&C) Taxes.

As discussed in detail in the Parks and Community Facilities Development Capital Program section of this document, C&C Tax receipts continue to experience significant declines. The 2008-2009 Adopted Capital Budget estimate for C&C taxes is \$23.0 million, of which 3.4% is allocated to the Communications Capital Program. The adopted C&C estimate allowed for a 14% drop from the 2007-2008 collection level, however, through the first half of the fiscal year, collections have experienced sharper declines than were originally anticipated. Therefore, included in this document is a recommendation to decrease the overall C&C Tax revenue to \$19.0 million. As a result of this recommendation, revenues in the Communications Capital Program would be impacted by approximately \$136,000. Sufficient funding is available in the Ending Fund Balance to offset this drop in revenue.

Expenditures within this fund are tracking below budgeted levels through December. The Fire Radio Infrastructure project is expected to be completed by April 2009. Due to technical challenges, the COPS 2003-2004 Interoperability project, originally anticipated to be completed in January 2009, is now expected to be completed by March 2009. Once

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**COMMUNICATIONS (CONT'D.)**

Financial Status (Cont'd.)

completed, this will allow the General Services Department to move forward with the completion of the Fire Station 22 Radio Site project. This project, which will enhance radio coverage for all City radio systems in the Almaden area, is not expected to be completed until 2009-2010. The City-Wide Supervisory Control and Data Acquisition (SCADA) Systems Feasibility Study, although scheduled to be completed this fiscal year, is not expected to be completed until 2009-2010.

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**DEVELOPER ASSISTED PROJECTS**

Financial Status

The Developer Assisted Projects Capital program includes the Underground Utility Fund and the Residential Construction Tax Contribution Fund, which are used primarily to receive money from and/or provide payments to developers and utility companies for the construction of street improvements throughout the City and to encourage the undergrounding of existing overhead utilities. The Underground Utility Fund is supported by In-Lieu fees paid by developers. Revenue collections through December of \$258,000 are significantly behind pace for achieving the adopted estimate of \$1.3 million. It is now anticipated that year-end collections will be approximately \$1.0 million, and the revenue estimate is recommended to be adjusted accordingly in this document. The

reduction to the revenue estimate is recommended to be offset by a decrease to the Underground Utility Program appropriation. As a result of this adjustment, fewer projects are expected to be undertaken, and those delayed will need to be deferred to future years. Expenditures are also tracking below budgeted levels through December; however, activities are expected to increase as the Public Works Department plans to request approval in February from the City Council to enter into an agreement with the Pacific Gas and Electric Company in the amount of \$1.4 million to fund construction of the Jackson/Taylor In-Lieu Fee Underground Utility District Project.

The Residential Construction Tax Contribution Fund generates its revenue from the Residential Construction Tax. Revenue collections in this category (\$89,000) are also projected to fall well short of the adopted estimate (\$150,000). It is anticipated that year-end collections will total approximately \$100,000, and the revenue estimate is recommended to be adjusted accordingly in this document, with an offsetting adjustment to the Ending Fund Balance. Expenditures are tracking below budgeted levels through December.

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**LIBRARY**

Financial Status

The Library Capital Program provides funding to construct new library facilities, renovate existing facilities, acquire materials, install automation equipment to provide information access and electronic processing, and support

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LIBRARY (CONT'D.)

Financial Status (Cont'd.)

other miscellaneous facility improvements. The Library Capital Program is funded primarily from Construction and Conveyance (C&C) Taxes, proceeds from the Library Bond Measure, and proceeds from the Library Parcel Tax.

As discussed in detail in the Parks and Community Facilities Development Capital Program section of this document, C&C Tax receipts continue to experience significant declines. The 2008-2009 Adopted Capital Budget estimate for C&C taxes is \$23.0 million, of which 14.22% is allocated to the Library Capital Program. The adopted C&C estimate allowed for a 14% drop from the 2007-2008 collection level, however, through the first half of the fiscal year, collections have experienced sharper declines than were originally anticipated. Therefore, included in this document is a recommendation to decrease the overall C&C Tax revenue to \$19.0 million. As a result of this recommendation, revenues in the Library Capital Program would be impacted by approximately \$569,000. Sufficient funding is available in the Ending Fund Balance to offset this drop in revenue.

Overall, expenditures in the Library C&C Tax Fund are tracking within estimated levels through December. No expenditure adjustments to the fund are recommended at this time.

On November 7, 2000, City voters approved Measure O, a \$211.8 million general obligation bond for library improvements. In June 2007, a total of \$5.3 million in bond proceeds were obtained, which will provide sufficient funding for 2008-2009 expenditures. A total of \$205.9 million of bonds have been issued in prior fiscal years, and the 2008-2009 Adopted Capital Budget includes an additional bond issuance of \$5.9 million. It is anticipated that the remaining bond proceeds will be issued at the end of the fiscal year to ensure sufficient funding for the remaining Library Bond projects.

Expenditures in the Branch Libraries Bond Projects Fund are generally tracking within estimated levels through December. However, included in this document is a recommendation to increase the East San José Carnegie Branch project by \$600,000 primarily to provide funding for additional project management and inspection staff costs related to unforeseen conditions of the historical building. This recommendation is offset by a corresponding decrease to the Library Bond Projects Contingency Reserve.

Through December, revenues and capital project expenditures in the Library Parcel Tax Fund are tracking within estimated levels. No capital project related adjustments to the fund are recommended at this time.

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**MUNICIPAL IMPROVEMENTS**

Financial Status

The Municipal Improvements Capital Program provides capital improvements and maintenance for City facilities that are not funded in other capital programs. The majority of the capital expenditures in this capital program are discussed as part of the Status of General Fund Expenditures section of this document. The discussion below summarizes the status of the remaining funds included in the Civic Center Construction, Civic Center Parking, and Civic Center Improvements Funds. Activities include city-wide infrastructure projects that were funded from interest earnings in the construction bonds including technology improvements and the cleanup of Watson Park.

On the revenue side, commercial paper issuance in the Civic Center Improvement Fund totaled \$702,000 through December compared to a budget of \$6.8 million (remaining projects include storage area network, cabling/fiber optics and Police Administration Building network improvements). The remaining commercial paper issuance scheduled in this fund will be made as actual expenditures occur later in the fiscal year.

On the expenditure side, appropriations are tracking within expected levels. The projects funded in the remaining allocations include project closeout costs, cable/fiber connections to public safety facilities, additional improvements at City Hall, voice and data network enhancements at the Police Administration Building, secondary cooling at the City Hall

Network Operations Center, and cleanup of Watson Park. Any unspent project funds are anticipated to be rebudgeted at year-end to fund the completion of these projects.

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**PARKING**

Financial Status

The Parking Capital Program provides funding to maintain and improve existing parking facilities, upgrade and replace both on-street and off-street parking equipment, and develop parking facilities. The Parking Capital Program is funded from the General Purpose Parking Fund.

Revenues in the General Purpose Parking Fund are primarily generated from fees charged at downtown garages, lots, and parking meters. A portion of those revenues is transferred to the Parking Capital Program to fund capital improvements. Revenues are currently tracking within projected estimates primarily due to the Enhanced Parking Security and Cleaning Plan, which charged customers a flat \$2 rate everyday after 6 pm and a flat \$3 rate everyday after 6 pm starting January 2009.

Through December, capital project expenditures in the General Purpose Parking Fund are tracking within generally expected ranges. However, there are a number of adjustments being recommended in this report. A Transfer to the General Fund for \$47,361 is being recommended as a result of net parking revenue collected from the Cirque du Soleil event. Revenues from parking attendees at the C-Lot at old City Hall were collected in the General

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PARKING (CONT'D.)

Financial Status (Cont'd.)

Purpose Parking Fund to offset expenditures associated with signage, traffic control, and restoration costs. Since the C-Lot is not considered a Downtown parking lot, the net revenue generated will be transferred to the General Fund.

In addition, a few capital projects are being recommended for adjustments as part of this report. An increase of \$20,000 is recommended for the Facility Improvements and Maintenance appropriation to fund the implementation of the Convention Center Deck Repair project. This additional funding will provide for the final repairs necessary as a result of additional water damage discovered during construction. Also, an increase of \$100,000 is recommended for the Minor Parking Facility Repairs appropriation to fund the implementation of the Second and San Carlos Garage Elevator project. The additional funding will replace the existing machine room, equipment, and improve the overall elevator system performance and reliability. Sufficient Ending Fund Balance is available and recommended to offset these actions.

PARKS AND COMMUNITY  
FACILITIES DEVELOPMENT

Financial Status

The Parks and Community Facilities Development Capital Program is a long-term

capital investment plan for the acquisition, development, and maintenance of parks, recreational facilities, trails, and open space.

The Parks Capital Program is funded primarily through Construction and Conveyance (C&C) Tax revenues, Parkland Dedication Ordinance Fees from development, and proceeds from the Parks Bond Measure. In addition to these revenues, the Parks Capital Program is also supported by grants from the federal and State governments, developer's contributions, and interest earnings.

Construction and Conveyance Tax Funds

As previously reported in Monthly Financial Reports, Construction and Conveyance Tax revenues continue to experience significant declines due to the slowdown in the local real estate market. Nearly 98% of the total C&C taxes are comprised of conveyance receipts, or property transfers, which are the main driver in this revenue category. The number of property transfers for all types of residences in the first half of 2008-2009 has increased by 52% compared to the first six months of 2007-2008. This high level of activity is likely attributed to the low median home price, which was \$452,000 in December 2008. This figure represents a 35% drop from the median home price in December 2007 of \$699,000. The December 2008 figure represents the lowest median home price within the City since spring 2004. Additionally, the amount of time to sell these homes has increased slightly from 60 days in December 2007 to 62 days in December 2008.

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**PARKS AND COMMUNITY  
FACILITIES DEVELOPMENT  
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Construction and Conveyance Tax Funds  
(Cont'd.)

The 2008-2009 Adopted Capital Budget estimate for C&C taxes is \$23.0 million, of which 65.2% is allocated to the Parks Capital Program. Through December, C&C Tax receipts totaled \$10.0 million or 44% of the adopted estimate. This figure represents a 25% decrease from the \$13.3 million collected through December 2007. In addition to these revenues, the City has since received January Conveyance Tax receipts totaling \$1.7 million. This amount is 32% lower than the January 2008 amount of \$2.5 million. With this decrease, C&C Tax collections have now experienced decreases in 30 out of the last 33 months when compared to the same months in the prior year.

The adopted C&C Tax estimate allowed for a 14% drop from the 2007-2008 collection level of \$26.8 million. However, through the first half of the fiscal year, collections have experienced sharper declines than originally anticipated. Therefore, included in this document is a recommendation to decrease the overall C&C Tax revenue by \$4.0 million, bringing the budgeted collection level down to \$19.0 million. As a result of this recommendation, revenues in the Parks Capital Program would be impacted by \$2.6 million. Sufficient funding is available in the Council Districts and Parks City-Wide C&C Fund

Ending Fund Balances to offset this drop in revenue. Given the current state of the economy, which may continue to impact the housing market, staff will continue to monitor receipts closely and make additional recommendations, if necessary, at a later date.

A revenue estimate increase of \$310,977 is recommended in the Council District 4 Construction and Conveyance Tax Fund section of this document to recognize funding received from the Federal Government through the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) grant. SAFETEA-LU grant funding was received in November and December 2008 for the Bay Trail Reach 9 (Gold Street to San Tomas Aquino) project (\$206,100) and the Lower Guadalupe River Trail (Gold Street to Highway 880) project (\$104,877). This recommendation is offset by a corresponding increase to the Council District 4 Construction and Conveyance Tax Fund Ending Fund Balance.

Expenditures in the various Parks Construction and Conveyance Tax Funds are generally tracking within estimated levels, however, there are several expenditure adjustments recommended in this report.

The Council District 1 C&C Tax Fund includes a recommendation to eliminate the Starbird Park Irrigation Renovation project (\$185,000) and reallocate the funding to the Reserve: Starbird Park Irrigation Renovation appropriation. This project is currently on hold pending the

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**PARKS AND COMMUNITY  
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Construction and Conveyance Tax Funds  
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completion of the updated Starbird Park Master Plan.

The Council District 7 C&C Tax Fund and the Parks City-Wide C&C Tax Fund sections of this document both include recommendations to eliminate the Vietnamese American Community Center appropriations (\$1,000,000 – Council District 7 C&C Tax Fund, and \$133,000 – Parks City-Wide C&C Tax Fund) and reallocate the funding to the Reserve: Vietnamese American Community Center allocation. Funding for the Vietnamese American Community Center will not be needed until the design phase of the project is ready to begin, which is not anticipated to occur until after 2009-2010. In addition, the Parks City-Wide C&C Tax Fund section of this document includes a recommendation to reallocate funding (\$17,000) from the Vietnamese Cultural Heritage Garden project to the Reserve: Vietnamese American Community Center allocation. This adjustment is recommended due to funds being inadvertently charged last fiscal year to the Vietnamese American Community Center project instead of the Vietnamese Cultural Heritage Garden project.

The Council District 9 C&C Tax Fund section of this document includes a recommended increase for the Camden Community Center

Locker Room Renovation (\$150,000) project. Funding is needed to renovate the ventilation system, replace water fixtures, replace the lockers, and install new flooring and natural lighting. This adjustment will be offset by a corresponding decrease to the Reserve: Aquatics Master Plan Implementation appropriation.

In addition to the Vietnamese American Community Center funding shifts previously mentioned, the Parks City-Wide C&C Tax Fund also includes recommendations to increase the Environmental Mitigation Maintenance and Monitoring allocation (\$10,000) and the Family Camp Lease allocation (\$7,000). An increase to the Environmental Mitigation Maintenance and Monitoring allocation is recommended to ensure adequate funding is available to complete an active service agreement for mitigation monitoring of the Quail Hollow Bridge, which is located at Alum Rock Park. An increase to the Family Camp Lease allocation is recommended to ensure sufficient funding is available to pay the United States Forest Service. These two recommendations are offset by a decrease to the Parks City-Wide C&C Tax Fund Ending Fund Balance.

Parks and Recreation Bond Projects Fund

On November 7, 2000, City voters approved Measure P, a \$228.0 million general obligation bond for park and recreational improvements. In June 2008, the final bond sale for this general obligation series was issued. Bond proceeds of \$27.8 million were sold, which in conjunction with remaining interest earnings, will fund all

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Parks and Recreation Bond Projects Fund  
(Cont'd.)

remaining project expenditures in the Parks and Recreation Bond Projects Fund.

Expenditures in the Parks and Recreation Bond Projects Fund are generally tracking within estimated levels. No adjustments to this fund are recommended at this time.

Other Funds

In the other funds that support the Parks and Community Facilities Development Capital Program (Emma Prusch Fund, Lake Cunningham Fund, and Subdivision Park Trust Fund), revenues and expenditures are generally tracking within estimated levels through December.

Several expenditure adjustments are recommended in the Subdivision Park Trust Fund, including eliminating the Starbird Park Irrigation Renovation appropriation (\$153,000) and reallocating the funding to the Reserve: Starbird Park Irrigation Renovation appropriation. As previously stated in the C&C Tax Funds section, the Starbird Park Irrigation Renovation project is currently on hold pending the completion of the updated Starbird Park Master Plan. Also included in this document are recommendations to increase the Aborn Park Playground Improvements project (\$32,000),

decrease the Hitachi Turnkey Project Design Review and Inspection allocation (\$67,000), and decrease the Butcher Dog Park project (\$10,000). Additional funding is needed for the Aborn Park Playground Improvements project to purchase new play equipment as well as increase the size of the playground to accommodate the new play equipment. The Hitachi Turnkey Project Design Review and Inspection allocation is recommended to be decreased due to funds for this project being expended against the Preliminary Studies – Turnkey Parks appropriation in 2007-2008. Therefore, these funds are not needed in the current fiscal year. A recommendation to decrease the Butcher Dog Park project is included in this document due to the most recent cost estimates being lower than originally anticipated. These three recommendations are offset by a \$45,000 increase to the Reserve: Future PDO/PIFO Projects appropriation.

In addition to these adjustments, the Lake Cunningham Fund includes a recommendation to increase the Lake Cunningham Playground Renovation project by \$60,000. Funding is needed to design new play lots at Lake Cunningham Park which were removed in 2007-2008 due to disrepair and have not been replaced. This adjustment will be offset by a decrease to the Reserve: Playground Renovations appropriation.

For more detailed information on all the adjustments made to the Parks Capital Program, please refer to Section III of this document.

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**PUBLIC SAFETY**

Financial Status

The Adopted 2008-2009 Public Safety Capital Program is funded from three sources: proceeds from the Neighborhood Security Act Bond Measure (\$44.4 million); Fire Construction and Conveyance (C&C) Tax Fund (\$10.2 million) and the General Fund (\$13.0 million).

On March 5, 2002, the voters in San José approved Measure O, the “9-1-1, Fire, Police, Paramedic and Neighborhood Security Act”, a \$159 million general obligation bond for Police and Fire capital improvements. A total of \$146.7 million of bonds have been issued in prior fiscal years, and the 2008-2009 Adopted Capital Budget includes an additional bond issuance of \$12.3 million. Through December, revenues from Fire C&C Tax receipts are lower than estimated and therefore several project expenditures in this program are recommended to be lowered in accordance with the reduced revenue as fund balance is not sufficient to offset the revenue loss.

As discussed in detail in the Parks and Community Facilities Development Capital Program section of this document, C&C Tax receipts continue to experience significant declines. The 2008-2009 Adopted Capital Budget estimate for C&C taxes is \$23.0 million, of which 8.4% is allocated to the Fire Department in the Public Safety Capital Program. The adopted C&C estimate allowed for a 14% drop from the 2007-2008 collection

level, however, through the first half of the fiscal year, collections have experienced sharper declines than were originally anticipated. Therefore, included in this document is a recommendation to decrease the overall C&C Tax revenue to \$19.0 million. As a result of this recommendation, revenues in the Public Safety Capital Program would be impacted by approximately \$336,000. In order to offset this reduction in revenue, a series of reductions to project expenditures is recommended in this document: Traffic Control Equipment (\$100,000), Underground Fuel Tank Renovation/Replacement (\$30,000), Capital Project Management (\$27,000), Traffic Control Equipment (\$25,000), Tools and Equipment (\$20,000), and Emergency Response Maps (\$10,000). Minimal impacts to service delivery are expected from these reductions. A reduction in the Ending Fund Balance of \$124,000 is recommended to offset the remainder of the C&C Tax revenue reduction. Savings are available as a result of favorable bids for the construction contract for the Fire Station 2 – Rebuild project, awarded by the City Council on January 13, 2009. The City Council previously approved transferring savings of \$124,000 from the Fire Station 2 – Rebuild appropriation to the Ending Fund Balance.

In the Adopted 2008-2009 Public Safety Capital Program, \$2.1 million in revenue was estimated for the sale of four former fire stations. In the 2007-2008 Annual Report, \$1.1 million in revenue was reduced due to the timing of the sales not occurring in 2008-2009. The remaining \$1.0 million is now recommended to be reduced in this document due to the current

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**PUBLIC SAFETY (CONT'D.)**

Financial Status (Cont'd.)

real estate market and timing of the sales of Fire Stations 12 and 17. These sales are expected to occur in 2009-2010 or later, following community outreach. An offsetting reduction (\$1.0 million) to the Furniture, Fixtures, and Equipment (FF&E) and Facility Improvements appropriation is also recommended. These expenditures will be deferred to 2009-2010 to coincide with future station openings.

In the Neighborhood Security Act Bond Fund, a reallocation of \$100,000 in the Fire Station 17 – Relocation (Cambrian) appropriation to the Fire Station 19 – Relocation (Piedmont) appropriation is recommended. The relocation of Fire Station 17 was completed in December 2008 and came in under budget. Additional funding is needed for the Fire Station 19 relocation project to cover change orders that were inadvertently left out of the construction contract. This action would fund the current change orders, while leaving enough funding in the project's contingency reserve to cover any unforeseen complications with the project in the future.

Expenditures in this program, including General Fund funded apparatus replacements, are generally tracking within anticipated levels. Major projects include Fire Station 19 and the Police Substation, which are currently underway, and Fire Station 2 which was awarded for construction on January 13, 2009.

However, unforeseen complications with the design documents for the South San José Police Substation will require substantial additional funding (\$4.5-\$6.5 million) to be appropriated to the project. Options to increase funding for the substation construction will be discussed in a separate memorandum. Any unexpended funds for the other projects in this program will be recommended later in this fiscal year to be carried over to 2009-2010 to allow for project completion.

**SANITARY SEWER**

Financial Status

The Sanitary Sewer System of the City of San José consists of approximately 2,000 miles of sewer mains ranging in diameter from six to 90 inches. The system serves the City as well as three other jurisdictions, and conveys sewage to the San José/Santa Clara Water Pollution Control Plant. The Sanitary Sewer Capital Program has two major funding sources: the Sewer Service and Use Charge Capital Improvement Fund and the Sanitary Sewer Connection Fee Fund. These funds are supported through transfers from the Sewer Service and Use Charge Fund, joint participation revenues, connection fee revenues, interest, and other miscellaneous revenue.

The Sewer Service and Use Charge Capital Improvement Fund is funded through transfers from the Sewer Service and Use Charge Fund and interest earnings. Transfers will occur as

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**SANITARY SEWER (CONT'D.)**

Financial Status (Cont'd.)

planned by year-end, in the budgeted amount of \$16.0 million. Through the first six months, interest earnings are tracking above anticipated levels at \$771,000 or 77.1% of the budgeted amount (\$1.0 million) due to higher than expected cash balances.

Expenditures in the Sewer Service and Use Charge Capital Improvement Fund are tracking as expected, with the exception of four projects for which the timelines for project construction may be delayed into 2009-2010. The Edenvale Sanitary Supplement, Spreckles Sanitary Sewer Force Main, the 30" Old Bayshore Supplement, and the University Avenue Sanitary Sewer Replacement projects will incur only minor expenditures this year, and funding remaining from these projects is expected to be rebudgeted into 2009-2010.

Connection fees, interest earnings, and Joint Participation Revenues support the Sanitary Sewer Connection Fee Fund. Through December, collections of Sanitary Sewer Connection Fees were running well below anticipated levels due to the decrease in development activity. This report recommends decreasing the revenue estimate for Sanitary Sewer Connection Fees by \$407,000 to \$500,000. Sufficient fund balance is available to absorb this decrease without an impact on current projects. Through December, joint participation revenue collected was \$699,000,

exceeding the budgeted amount of \$186,000. Joint participation revenues, usually invoiced and accrued at the end of the fiscal year, reflect cost sharing of actual expenditures incurred during the fiscal year. The additional revenue in this category will accrue to fund balance and be carried over to next year. Interest income and miscellaneous revenues total \$213,000 through December, compared to the budgeted amount of \$318,000.

Expenditures in the Sanitary Sewer Connection Fee Fund are tracking as expected and should end the year within budgeted allocations.

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**SERVICE YARDS**

Financial Status

The Service Yards Capital Program funds the construction and capital improvements for City Service Yards, which house all the support shops that maintain City vehicles, buildings, sanitary sewers, storm drains, streets, and related facilities. The Service Yards Capital Program is supported by Construction and Conveyance (C&C) Taxes.

As discussed in detail in the Parks and Community Facilities Development Capital Program section of this document, C&C Tax receipts continue to experience significant declines when compared to the record high collection levels experienced through 2006-2007. The 2008-2009 Adopted Capital Budget estimate for C&C taxes is \$23.0 million, of

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SERVICE YARDS (CONT'D.)

Financial Status (Cont'd.)

which 8.78% is allocated to the Service Yards Capital Program. The adopted C&C estimate allowed for a 14% drop from the 2007-2008 collection level, however, through the first half of the fiscal year, collections have experienced sharper declines than were originally anticipated. Therefore, included in this document is a recommendation to decrease the overall C&C Tax revenue to \$19.0 million. As a result of this recommendation, revenues in the Service Yards Capital Program would be impacted by approximately \$351,000. Sufficient funding is available in the Ending Fund Balance to offset this drop in revenue.

The 2008-2009 Adopted Capital Budget had assumed \$14.0 million in proceeds from the sale of the Main Yard; however, due to the unlikelihood of this sale, this document includes a recommendation to decrease Earned Revenue by this amount, with a corresponding decrease to the Repayment of Phase II Commercial Paper appropriation. The sale of this property is currently under discussion, and will be delayed beyond this fiscal year. In the meantime, sufficient funding is available in the Ending Fund Balance to support interest-only payments on the outstanding Commercial Paper for several years, if necessary.

Included in this document is a recommendation to establish an appropriation in the amount of \$100,000 for a Fuel Tank Vapor Recovery

System Upgrade at both the South Service Yard and the Mabury Service Yard. This upgrade, mandated by the Bay Area Air Quality Management District (BAAQMD), is expected to be completed by April 2009. The addition of this project, which was not programmed in the 2008-2009 Adopted Capital Budget, will not cause any projects to be eliminated or deferred as there is sufficient funding in the Ending Fund Balance to offset this action.

Expenditures in this fund are tracking as expected and should end the year within budgeted levels.

STORM SEWER

Financial Status

The purpose of the Storm Sewer System is to collect storm water separate from the Sanitary Sewer System, assure the quality of the runoff through best practices, and convey the runoff to nearby creeks and rivers. The Storm Sewer Capital Program is primarily funded by Storm Drainage Fees, transfers from the Storm Sewer Operating Fund and interest earnings.

In the Storm Sewer Capital Fund, transfers from the Storm Sewer Operating Fund have totaled \$1.1 million or 33.3% of the budgeted amount (\$3.4 million). The full amount is expected to be transferred by year-end. Through December, interest earnings are tracking below projected levels at \$38,000, which represents 29.2% of the budgeted amount (\$130,000). If the interest

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STORM SEWER (CONT'D.)

Financial Status (Cont'd.)

revenue collected does fall below the budgeted estimate by year-end, there is sufficient fund balance to cover the shortfall in this fund.

In the Storm Drainage Fee Fund, Storm Drainage Fees generate the majority of revenues for this fund. Through December, collections of Storm Drainage Fees totaled \$51,000, which is 16.7% of the estimated revenues (\$309,000). Storm Drainage fees are collected from developers for the construction or reconstruction of the storm drainage system. Due to the slow development environment, this report recommends decreasing the revenue estimate for Storm Drainage Fees by \$184,000, to \$125,000. To offset this decrease, a shift in funding for the Chateau Drive Storm Drain Improvement project is recommended as part of this report. This action would decrease the project's funding in the Storm Drainage Fee Fund and increase project funding in the Storm Sewer Capital Fund.

The remaining expenditures in both of these funds are tracking as expected and should end the year within the budgeted allocation.

TRAFFIC

Financial Status

The Traffic Capital Program's mission is to implement a safe, efficient, and environmentally sensitive surface transportation system. The Traffic Capital Program is funded primarily by Building and Structure Construction Taxes and Construction Excise Taxes. Revenues in both categories are tracking well below estimated levels, and recommendations to reduce the revenue estimates are included in this report. Since the ending fund balance in the funds which support this program are not sufficient to offset this drop in revenue, extensive project expenditure reductions based on program priorities are also being recommended as detailed below.

Building and Structure Construction Tax Fund

Building and Structure Construction Tax receipts through December totaled \$5.2 million (59.2% of the current 2008-2009 estimate of \$8.7 million). This represents a decrease (11%) from last year's year-to-date receipts of \$5.8 million. The budgeted estimate for this category, however, allows for a 9.5% drop in 2008-2009 compared to the actual 2007-2008 performance. It should be noted, however, that this total includes above average December 2008 collections, not deemed sustainable for the remainder of the year, which resulted from residential permits that were pulled prior to the implementation of new building codes. As a result, current projections indicate that revenues

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TRAFFIC (CONT'D.)

Building and Structure Construction Tax Fund  
(Cont'd.)

will fall well below the budgeted estimate by year-end; therefore, a recommendation to adjust the revenue estimate downward by \$2.2 million bringing the estimate to \$6.5 million is included in this report.

Revenue from grants and reimbursements are tracking below estimated levels primarily due to the status of various federal and State grants. Postponements in Intelligent Transportation Systems (ITS) projects are the primary contributing factor to the anticipated delays in federal reimbursements. Since these projects are funded on a reimbursement basis, this delayed collection in revenues is coupled by lower expenditures. The revenue estimates and appropriations for these grants will be rebudgeted into the next fiscal year as part of the 2010-2014 Proposed Capital Improvement Program. A grant reimbursement from the State for the Traffic Signal Communications and Synchronization (\$5.8 million) project has been placed on hold until the State's cash flow and State budget deficit are addressed. Actual expenditures spent, thus far, represent the City's local match and the Department of Transportation plans to freeze expenditure spending beyond the City's local match portion until a more positive outlook on the State's cash flow situation is known. Staff will continue to monitor these revenues closely and bring forward any necessary adjustments to these revenues at the year-end clean-up process.

There are several revenue adjustments being recommended in this report. An increase of \$80,000 is recommended to increase the Autumn Street Corridor Planning project. Funding has been received from Cousins Properties, Inc. to construct an at-grade railroad crossing at Autumn Street. A corresponding increase to the project budget is also recommended. In addition, an increase of \$67,000 is recommended to increase the Traffic Signals project. Funding (\$40,000) was received from a developer to replace damaged interconnect cables at a traffic signal located on Monterey Road between Curtner Avenue and Alma Avenue. Additional funding (\$27,000) was also received from various developers for the purchase of traffic signal controller equipment at several intersections.

In order to rebalance this fund, as a result of the recommended downward revenue revision, there are a number of expenditure adjustments recommended in this report. A decrease of \$1.3 million to the Traffic Signals project is recommended. This will require the elimination of two filled positions and defer the award of two traffic signal projects (Cherry/Hillsdale and Miller/Rainbow). These projects will be delayed until the funding has been secured. A decrease of \$500,000 to the Capitol Light Rail Transit to Eastridge project is also recommended which will require the elimination of two vacant positions and defer project development activity associated with this regional project. Funding may be restored once the Valley Transportation Authority resumes the project. Decreases to the Reserve – King Road: Penitencia Creek Bridge project

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TRAFFIC (CONT'D.)

Building and Structure Construction Tax Fund  
(Cont'd.)

(\$1,000,000) and the Branham Lane Improvements project (\$425,000) are also recommended. These projects will be deferred until full project funding can be secured. Decreases to the following projects are recommended as a result of project savings: Hamilton Avenue – Meridian Avenue to Hamilton Way (\$648,000); Union Avenue at Ross Creek (\$75,000); Taylor Street: First to Coleman (\$40,000); and Oakland Road: Route 101 to Montague (\$25,000). Also, decreases to the ITS: Stevens Creek – West (\$159,000) project and the Traffic Signals Rehabilitation (\$50,000) project are recommended as a result of work scope reduction.

As a result of necessary rebalancing actions in the Construction Excise Tax Fund the reallocation of funding sources for several projects from the Construction Excise Tax Fund to the Building and Structure Construction Tax Fund are also recommended in this report: Project Development Engineering (\$300,000); Bicycle/Pedestrian Program Management (\$248,000); ITS: Operations and Management (\$200,000); and Traffic Flow Management and Signal Retiming (\$100,000).

In contrast, an increase of \$1,468,000 to the Jackson Street: Light Rail Transit to Japantown is recommended to accelerate the project in order to meet federal grant reimbursement

deadlines. The reimbursement for this project is anticipated to be received in 2009-2010. To offset all the adjustments to the Building and Structure Construction Tax Fund recommended in this document, a decrease of \$299,000 to the Ending Fund Balance is recommended.

Construction Excise Tax Fund

Tax receipts through December for the Construction Excise Tax Fund totaled \$5.9 million, which represents a 32.1% decrease over last year's \$8.7 million received over the same period. Collections for the first six months of this year total 45.7% of the 2008-2009 estimate of \$12.975 million. The budgeted estimate for this category requires a 4.3% increase in 2008-2009 compared to actual 2007-2008 performance. However, as previously mentioned, this total includes above average December 2008 collections, not deemed sustainable for the remainder of the year, which resulted from residential permits that were pulled prior to the implementation of new building codes. Prior to the abnormal collections, monthly collections in this tax totaled approximately \$260,000 in November 2008 and current indications point to another sluggish month in January 2009. Current projections, as a result of the decreased development activity, indicate that revenues will fall far below the budgeted estimate by year-end; therefore, a recommendation to adjust the revenue estimate by \$5.975 million bringing the revenue estimate to \$7.0 million is included in this report.

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**TRAFFIC (CONT'D.)**

Construction Excise Tax Fund (Cont'd.)

In addition, funding from the State for the Proposition 42 – Pavement Maintenance project is tracking below estimated levels as a result of the State placing the funds on hold until the State's cash flow crisis and State budget deficit are addressed. In addition, with recent information indicating that the actual amount of revenue for Proposition 42 will be less than originally estimated, a decrease of \$2.0 million to the revenue estimate and corresponding appropriation are recommended.

There are two small upward revenue adjustments being recommended in this report. An increase of \$80,000 is recommended for the Bicycle and Pedestrian Facilities project to allow use of funds received from the Valley Transportation Authority. The project's budget is recommended to be augmented by this amount plus an additional \$50,000. This additional funding will support bicycle/pedestrian signs and striping, and improvements on Bird Avenue. Also, an increase of \$300,000 is recommended to increase the Fiber Optics Engineering project. The additional revenue recognizes additional permit fees expected to be collected from fiber cable companies. The funding will provide for the installation of conduits, vaults, and cables in the public right-of-way.

There are a number of actions recommended in this report to decrease project expenditures in order to rebalance the budget as a result of the

revenue reductions recommended in this fund. The largest action decreases a transfer to the General Fund in the amount of \$3.5 million. Associated reductions in the General Fund for several capital improvements projects are recommended to offset this decrease in General Fund revenue.

Decreases to the following projects are a result of shifting funding sources for these projects from the Construction Excise Tax Fund to other funding sources: Project Development Engineering – transfers project funding to the Building and Structure Construction Tax Fund and eliminates one filled position (\$400,000); Miscellaneous Street Improvements – transfers \$250,000 in project funding to the Major Collectors and Arterials Fund; Bicycle/Pedestrian Program Management – transfers project funding to the Building and Structure Construction Tax Fund and eliminates one filled position (\$248,000); ITS: Operations and Management – transfers \$200,000 in project funding to the Building and Structure Construction Tax Fund; and Traffic Flow Management and Signal Retiming – transfers \$100,000 in project funding to the Building and Structure Construction Tax Fund. In addition, decreases to the following projects are recommended as part of the recommended plan to rebalance the fund: Traffic Safety Data Collection (\$315,000) which will reduce the scope of work; Traffic Calming (\$300,000) as a result of reduced activity in development areas; City-Wide Emergency Repairs (\$124,000) which will reduce funding for any unanticipated repairs; BART Project Management (\$100,000) which will eliminate one filled position; Local

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TRAFFIC (CONT'D.)

Construction Excise Tax Fund (Cont'd.)

Transportation Policy and Planning (\$100,000) which will transfer projects and one position to existing funds in the Building and Structure Construction Tax Fund; North San José Administration (\$100,000) which will eliminate one vacant position; Traffic Congestion Studies (\$100,000) which will eliminate one filled position; Transportation Demand Management and Taxi Program (\$100,000) which will shift the funding source for one position to existing General Purpose Parking Funds; Rural Road Safety Improvements (\$85,000) which will defer this project; Ortho Photo Project (\$83,000) and Transportation Needs Master Plan (\$50,000) which both result from project savings; and Bridge Maintenance and Repair (\$47,000) which will defer minor non-safety related repairs. To offset all the adjustments to the Construction Excise Tax Fund recommended in this document, an increase of \$177,000 to the Ending Fund Balance is recommended.

Other Funds

The Traffic Capital Program is also supported in small part by the Major Collectors and Arterials Fund and the North San José Traffic Impact Fee Fund. The Major Collectors and Arterials Fund allocates developer contributions for specific purposes related to major collectors and arterials, including signal retiming necessitated by increased congestion caused by development. Revenues received through December totaled \$89,000 or 35.7% of the 2008-2009 budgeted

estimate of \$250,000. This revenue source is traditionally very unpredictable since it is based on developers' decisions. Collections in this category will be closely monitored with actions recommended at year-end should revenue continue to fall below budgeted estimates. An increase to the Miscellaneous Street Improvements project (\$250,000) is recommended as a result of shifting the funding source for this project from the Construction Excise Tax Fund to the Major Collectors and Arterials Fund. The North San José Traffic Impact Fee Fund allocates developer contributions for traffic impacts from the new industrial and residential development within the North San José area. Revenues received through December totaled \$4,000, which represents less than 1% of the budgeted revenue estimate. The lower than estimated revenue collection is due to the slowdown in developer activity in the North San José area. A decrease to the revenue estimate of \$1,547,000 is recommended as well as offsetting decreases to the Montague Expressway Improvements project (\$74,000) and the Ending Fund Balance (\$1,473,000).

The Traffic Capital Program also receives significant funding from the General Fund. A decrease of \$2,293,000 to the Maintenance Backlog – Street Surface Resurfacing (Story Rd and Leigh Ave) project is recommended to offset the reduction in the General Fund as a result of decreasing a transfer to the General Fund for Pavement Maintenance from the Construction Excise Tax Fund. The City of San José has been approved to receive \$14.6 million in Proposition 1B funds from the State, and this anticipated funding is expected to support this

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**TRAFFIC (CONT'D.)**

Other Funds (Cont'd.)

project. However, these funds are being held until the State's cash flow and budget deficit are addressed. In addition, to offset the recommended decrease of a transfer to the General Fund for General Purpose uses from the Construction Excise Tax Fund, a decrease to the Seven Trees Boulevard Sidewalk project (\$700,000) and the Traffic Calming (\$507,000) appropriation are recommended in this report. The decrease to the Seven Trees Boulevard Sidewalk Project will be offset by other funding sources without impacting the project schedule. The remaining funding in this project will continue project development and design efforts. The decrease to the Traffic Calming appropriation will impact the number of traffic calming studies and projects that can be completed this fiscal year. However, in order to balance the budget and compared to other highly valuable core services, this reduction is recommended. Also, the Adopted San Jose Redevelopment Agency Budget includes funding for traffic calming studies and projects in various Strong Neighborhoods Initiative areas. To mitigate the impacts of this reduction, staff will focus its efforts in conjunction with the San Jose Redevelopment Agency on traffic calming in Strong Neighborhoods Initiative areas.

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**WATER POLLUTION CONTROL**

Financial Status

The San José/Santa Clara Water Pollution Control Plant is a regional wastewater treatment facility serving eight tributary sewage collection agencies, including municipalities and sanitary sewer districts. The Water Pollution Control Capital Program is funded primarily through contributions from Tributary Agencies, interest, transfers from Sewer Service & Use Charge Fund and Sewage Treatment Plant Connection Fee Fund, Silver Creek pipeline contributions from the Santa Clara Valley Water District, grant revenues from the United States Bureau of Reclamation (USBR), and Proposition 13 funding from the State Water Resources Control Board.

Through December, revenues from Tributary Agencies are tracking close to year-to-date estimates. Collections through the first six months of the year totaled \$7.2 million, or 59.3% of the budgeted amount (\$12.1 million). Through December, interest revenues totaled \$1.5 million or 35.3% of the budgeted amount (\$4.1 million). Transfers from the Sewer Service and Use Charge Fund and the Sewage Treatment Plant Connection Fee Fund, on the other hand, are occurring as scheduled and are expected to reach the budgeted amount for 2008-2009 (\$22.7 million).

The San José/Santa Clara Treatment Plant Capital Fund has been significantly impacted by the ongoing turmoil in the financial markets. Several actions are being taken with regard to the San José-Santa Clara Clean Water Financing

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**WATER POLLUTION CONTROL  
(CONT'D.)**

Financial Status (Cont'd.)

Authority's bond financing. These actions required that a total of \$10.8 million from the Ending Fund Balance be set aside. Due to a downgrade of the surety bond policy used to meet the reserve requirement for the Authority's 2005A Bonds, \$5.4 million was taken from the Ending Fund Balance to fund the reserve requirement in January 2009. An additional \$1.7 million was used to fund a reserve requirement for the 2009A bonds currently being issued. These funds (\$7.1 million) will not be available to the San José/Santa Clara Treatment Plant Capital Fund until either the bonds mature or an alternate mechanism is found to fund the reserve requirement. Finally, provisions in the Standby Bond Purchase Agreement between the Authority and Depfa Bank would require the City to make principal amortization payments on the 2005B Bonds ahead of schedule if the Bonds are not refinanced. While staff anticipates that the 2005B bonds will be refinanced before principal amortization payments are required, \$3.7 million has been set aside in the event payments need to be made. If this money is not used to fund the principal amortization payments, approximately \$3.5 million will return to the Ending Fund Balance during 2008-2009, and the remaining balance will fund the increased interest rate on the bonds. As a result of these actions, reprioritization of projects or alternative funding mechanisms will be evaluated and

recommended as part of the upcoming Capital budget process.

Three capital projects are undergoing assessments which will push their construction schedule beyond the current fiscal year. The Digester Rehabilitation and Digester Gas Line Replacement projects are undergoing a pre-design study to explore the suitability of digesting alternate feedstock, including fats, oil and grease, and organic wastes. The study will also evaluate alternative technologies for heating and mixing the digesters, and options for integrating pre-digestion treatment and thickening of digester feedstocks. Staff anticipates that the study will conclude within 2008-2009, that the design phase will take place in 2009-2010, and that construction efforts will begin in 2010-2011. Because of the significant delay in these projects, this report recommends that \$15.9 million for the Digester Rehabilitation project and \$1.1 million for the Digester Gas Line project be returned to the Ending Fund Balance.

The Headworks Enhancement project, funded by the Plant Infrastructure Improvements appropriation, is also delayed. An assessment of the old headworks was necessary before commencement of design and construction, and is expected to be awarded during 2008-2009. Due to the delay, this report recommends that \$3.0 million for this project be returned to the Ending Fund Balance. The Environmental Services Department plans to bring this project forward in the upcoming Proposed Capital Improvement Program budget process, at the current amount, but with a revised timeline.

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**WATER POLLUTION CONTROL  
(CONT'D.)**

Financial Status (Cont'd.)

The South Bay Water Reservoir Facility may be delayed beyond the current fiscal year, as negotiations with the City's partner in the project, the Santa Clara Water District, are still in process.

This report recommends an augmentation to the Alternative Disinfection project budget (\$500,000). This project funds an ongoing effort to expand and convert the existing sodium hypochlorite backup facilities into the primary source of disinfection, thereby eliminating the reliance upon the gaseous chlorine process. This augmentation captures savings realized in the project last year, and funds construction management.

This report also recommends the establishment of a Reserve for Electrical Reliability Improvements (\$5.3 million) to ensure sufficient funding for future years of the Plant Electrical Reliability project, approved in the 2008-2009 Capital Improvement Program. Tributary agencies have contributed \$1.7 million since 2007-2008 toward this reserve, with the balance (\$3.6 million) representing the City's share of the reserve.

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**WATER UTILITY SYSTEM**

Financial Status

The San José Municipal Water System provides water utility service, in accordance with the State of California Department of Health Services requirements, to areas approved for development by the City Council and within the City's water service area. The Water Utility System Capital Program is funded primarily through fees paid by developers for direct services, interest, and transfers from the Water Utility Fund.

Through December, fee collections in the Water Utility System Capital Fund totaled only \$104,000 or 12.8% of the budgeted amount for 2008-2009 (\$810,000). This fee revenue is tracking far below expected levels due to much lower than anticipated development activity. Service Connection, Meter Installation, and Advanced System Design fees are collected as reimbursements for actual expenditures. Expenditure savings in these categories will offset the overall fee revenue shortfall, however due to expenditure and payment patterns, it is unlikely that the full savings will be captured in the current fiscal year. Staff will continue to monitor these revenues and bring forward adjustments at year-end, if necessary.

Interest earnings in the Water Utility System Capital Fund totaled \$93,000 through December, or 98.9% of the budget estimate of \$94,000. Interest earnings are expected to exceed the budgeted amount due to higher than anticipated cash balance levels.

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**WATER UTILITY SYSTEM  
(CONT'D.)**

Financial Status (Cont'd.)

Transfers from the Water Utility Fund are occurring as scheduled.

The Major Facilities Fee Fund receives revenue from a connection fee charged to developers and, according to State law, the revenue, as well as interest income, may be used only for the construction of new facilities to service future

developments. Due to income from two projects, "The First" and "The America Center", fee collections totaled \$491,000 and have exceeded the budgeted amount for 2008-2009 (\$100,000). The revenue collected is set aside in a reserve for projects necessitated by system growth. Interest earnings totaled \$53,000 of the budgeted amount (\$72,000).

Expenditures in this program are tracking as estimated and are expected to end the year within the budgeted allocations.