

**2011-2012 CAPITAL BUDGET**

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**2012-2016 CAPITAL  
IMPROVEMENT PROGRAM**



**SUMMARY  
INFORMATION**

**CITY OF SAN JOSE**  
**2012-2016 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

The 2012-2016 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 with the 2011-2015 Adopted CIP.

<u>Source</u>	<u>2011-2015 CIP</u> <u>(\$ millions)</u>	<u>2012-2016 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 670.0	\$ 822.1	\$ 152.1
Sale of Bonds	11.0	9.2	(1.8)
Revenue from Other Agencies	246.9	249.3	2.4
Taxes, Fees and Charges	172.1	186.0	13.9
General Fund	30.6	40.8	10.2
Contributions, Loans and Transfers from Other Funds	434.6	465.5	30.9
Interest Income	45.8	25.3	(20.5)
Miscellaneous Revenue	<u>122.6</u>	<u>122.1</u>	<u>(0.5)</u>
<b>TOTAL</b>	<b>\$ 1,733.6</b>	<b>\$ 1,920.3</b>	<b>\$ 186.7</b>

**Beginning Fund Balances**

The 2012-2016 Beginning Fund Balances of \$822.1 million are currently estimated above the 2011-2015 CIP level by \$152.1 million (23%). The Airport Capital Program accounts for 42% (\$344.1 million) of the Beginning Fund Balances, reflecting the Airport Department's presentation of commercial paper capacity (budgeted in the Airport Revenue Bond Improvement Fund), which is used to fund projects when necessary. The Parks and Community Facilities Development Capital Program has Beginning Fund Balances totaling \$132.4 million accounting for 16% of the total Beginning Fund Balances. A majority of the funds are in reserves pending final scope of projects and locations or pending future funding becoming available within the nexus of the facility. In the Municipal Improvements Capital Program, the Convention Center Facilities District Project Fund's Beginning Fund Balance make up approximately 12% or \$99.9 million of the 2012-2016 Beginning Fund Balances as a large portion of the Convention Center Expansion and Renovation project is anticipated to occur next fiscal year. The remaining fund balance primarily reflects planned carryover funding for projects expected to be initiated or completed in the next five years.

**Sale of Bonds**

For the 2012-2016 Adopted CIP, total bond issuances of \$9.2 million related to the Library (\$5.9 million) and Public Safety (\$3.3 million) Capital Programs are expected to fund project expenditures that will be completed during this Adopted CIP. This reflects a \$1.8 million (16%) decrease compared to the estimates included in the last CIP, due primarily to the completion of General Obligation Bond projects.

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**Revenue from Other Agencies**

This category totaling \$249.3 million is comprised of federal (\$64.3 million) and State (\$48.5 million) grants, contributions from other agencies that use the Water Pollution Control Plant (\$109.2 million) and the Sanitary Sewer System (\$3.3 million), County of Santa Clara funding from Measure B for pavement maintenance (\$21.2 million), Valley Transportation Authority funding for the Automated Transit Network (\$1.1 million) and other agency (\$1.7 million) proceeds. Overall, estimated revenues from these sources reflect an increase of \$2.4 million (1%) from the 2011-2015 Adopted CIP mainly due to an increase of funds from the County of Santa Clara (Measure B) and an increase from Water Pollution Control Plant User Agencies offset by a decrease in funding from the State and federal governments.

Funding from the federal government is allocated to the Airport Capital Program (\$39.5 million) from the Transportation Security Administration and the Federal Aviation Administration; to the Traffic Capital Program (\$23.3 million) including \$14.9 million is from the Federal Transportation Bill, \$4.3 million for the Intelligent Transportation System: Transportation Incident Management Center, and \$1.8 million in funds associated with the American Recovery and Reinvestment Act (ARRA); and to the Water Pollution Control Capital Program (\$1.5 million) from the US Bureau of Reclamation (\$500,000) and funds associated with the ARRA (\$1.0 million).

**Taxes, Fees and Charges**

The 2012-2016 Adopted CIP includes an estimate of \$186.0 million from the Taxes, Fees and Charges category, an increase of \$13.9 million from the estimated level in the 2011-2015 Adopted CIP. Over this period, the revenue estimates in this category assume a modest increase (8%) to reflect a projected stabilization in construction and property resale activity. For these construction-related revenues, the chart below compares the components of the 2012-2016 Adopted Taxes, Fees and Charges estimates with those included in the 2011-2015 Adopted CIP.

<u>Source</u>	<u>2011-2015 CIP</u> <u>(\$ millions)</u>	<u>2012-2016 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Construction and Conveyance Tax	\$ 107.0	\$ 109.0	\$ 2.0
Construction Excise Tax	33.0	41.5	8.5
Building and Structure Construction Tax	27.5	31.5	4.0
Sanitary Sewer Connection Fees	2.1	2.7	0.6
Water Utility Fees	1.5	0.6	(0.9)
Storm Drainage Fees	0.7	0.5	(0.2)
Residential Construction Tax	0.3	0.2	(0.1)
<b>TOTAL</b>	<b>\$ 172.1</b>	<b>\$ 186.0</b>	<b>\$ 13.9</b>

Following is 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 (Cont'd.)**

Construction and Conveyance Tax

The Construction Tax portion of the Construction and Conveyance 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% of the total Construction and Conveyance Taxes collected.

The Conveyance Tax portion of the Construction and Conveyance 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% of the total Construction and Conveyance Taxes collected.

The five-year projection for Construction and Conveyance Tax revenues totals \$109.0 million, which is a \$2.0 million (2%) increase from the \$107.0 million estimated in the 2011-2015 Adopted CIP. The Construction and Conveyance (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. In this CIP, collections are estimated at \$21.0 million in 2011-2012 and then are projected to increase slightly to \$22.0 million in 2012-2013 and remain flat in the remaining years of the CIP, as can be seen below in the Construction and Conveyance Tax Distribution table.

After the extreme distress in both the national and local real estate markets, Construction and Conveyance Tax revenues have leveled off from the sharp declines experienced through 2009-2010. This budget assumes that the housing market has bottomed out and will remain relatively flat during the next five years. Therefore, it is anticipated that C&C tax receipts will stabilize as a revenue source for the five-year CIP.

Based on the City Council-approved distribution formula, C&C funds allocated in the 2012-2016 Adopted CIP are displayed in the table below.

**Construction and Conveyance Tax Distribution**

<b>Program</b>	<b>Dist.</b>	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>	<b>2014-2015</b>	<b>2015-2016</b>	<b>5-Year Total</b>
Parks	64.00%	13,440,000	14,080,000	14,080,000	14,080,000	14,080,000	69,760,000
Park Yards	1.20%	252,000	264,000	264,000	264,000	264,000	1,308,000
Fire	8.40%	1,764,000	1,848,000	1,848,000	1,848,000	1,848,000	9,156,000
Library	14.22%	2,986,200	3,128,400	3,128,400	3,128,400	3,128,400	15,499,800
Service Yards	8.78%	1,843,800	1,931,600	1,931,600	1,931,600	1,931,600	9,570,200
Communications	3.40%	714,000	748,000	748,000	748,000	748,000	3,706,000
<b>Total</b>	<b>100.00%</b>	<b>21,000,000</b>	<b>22,000,000</b>	<b>22,000,000</b>	<b>22,000,000</b>	<b>22,000,000</b>	<b>109,000,000</b>

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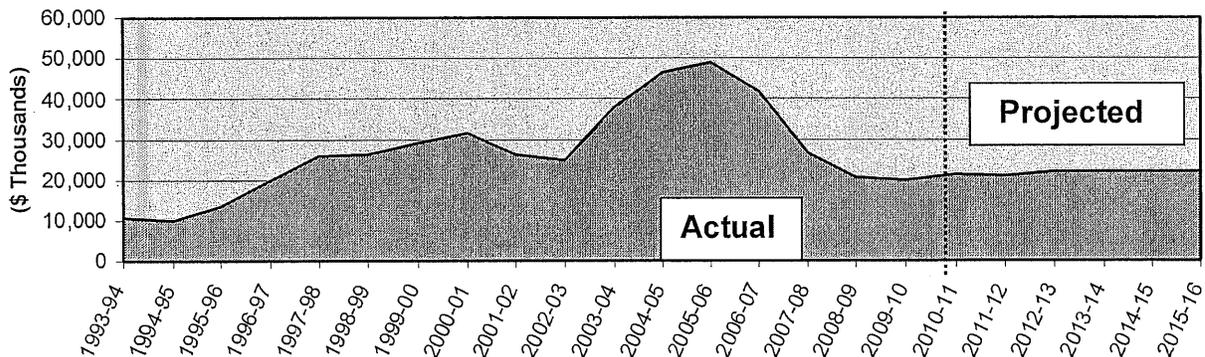
**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

**Taxes, Fees and Charges (Cont'd.)**

Construction and Conveyance Tax (Cont'd.)

A graph of the actual and projected C&C Tax revenues is provided below. This chart illustrates the volatility of this revenue source with tremendous growth that reached a peak of \$49 million in 2005-2006 followed by a rapid decline due to the severe economic downturn and its impact on construction activity. Based on April data, collections are estimated to exceed the 2010-2011 budgeted estimate of \$20 million by \$1.5 million. Projected in this CIP is a modest increase of \$1.0 million in 2011-2012 (from \$20.0 million in 2010-2011) and an additional increase in 2012-2013 to \$22.0 million. The last three years are projected to remain constant.

**Construction and Conveyance Tax Revenues**



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. As of April, collections have already exceeded the 2010-2011 budgeted estimate of \$6.0 million and are expected to end the year \$6.5 million over the budgeted estimate. This significant increase is due to residential permits pulled in December 2010 for two new housing developments in the North San José area and to take advantage of temporary exemptions of affordable housing requirements and lower fees. Based upon the construction projections provided by the Planning, Building and Code Enforcement Department and historical collection patterns, the revenue estimates included in the 2012-2016 Adopted CIP total \$41.5 million, with \$8.0 million estimated for 2011-2012 and future year proceeds ranging from \$8.0 million to \$8.5 million annually. The 2012-2016 Adopted CIP represents an increase of \$8.5 million (26%) from the total amount estimated in the 2011-2015 Adopted CIP. This increase reflects the projected modest recovery in construction activity levels; however, it is at a significantly lower level compared to the 2008-2012

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**Taxes, Fees and Charges (Cont'd.)**

Building and Structure Construction Tax

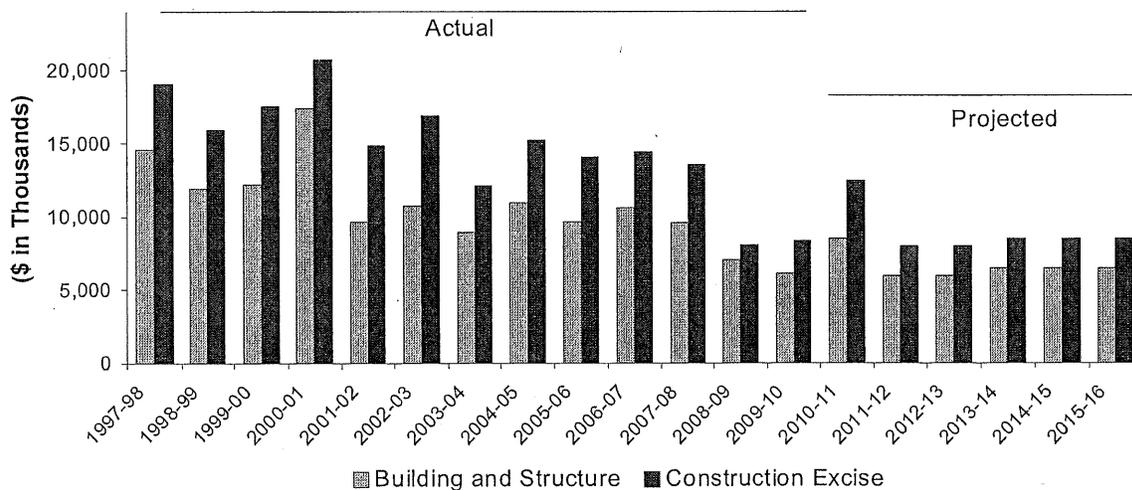
Adopted CIP level of \$72.2 million which was the highest level of revenues programmed for this tax in the last ten years.

The Building and Structure Construction Tax is levied on residential, commercial, and industrial development. The tax is collected based on building valuation, which was updated in the Municipal Code in 2009-2010. 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.

As of April, collections for these revenues have exceeded the 2010-2011 budgeted estimate of \$4.5 million and are expected to end the year \$4.0 million over the budgeted estimate. Similar to the spike in the Building and Structure Construction Tax, the significant increase is due to residential permits pulled in December 2010. Based on construction activity 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 \$31.5 million, with annual proceeds ranging from \$6.0 million to \$6.5 million. This is an increase of approximately \$4.0 million (15%) from the estimates included in the 2011-2015 Adopted CIP reflecting somewhat conservative assumptions about the recovery of this construction-related tax. Although an increase from the prior CIP, this revenue estimate is at a significantly lower level compared to the 2008-2012 Adopted CIP programmed level of \$50.2 million which was the highest level of revenues for this tax in the last ten years.

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

**Major Construction-Related Tax Revenues**



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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

**General Fund**

General Fund contributions to capital projects included in the Adopted CIP total \$40.8 million. This reflects a \$10.2 million increase compared to the last CIP, due primarily to an increase for fire apparatus replacement, partially offset by completion of projects.

These funds are used to support the following capital programs:

- Public Safety Capital Program – Fire apparatus replacement continues to be a priority for the City with a total allocation of \$25.7 million in the General Fund. Funding is also allocated in the Fire C&C Tax Fund (\$810,000) and in the Community Development Block Grant Fund (\$1.65 million). This level of funding is based on a 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. Should some additional funds be available in the Fire C&C Tax to replace fire apparatus in the near future, it may not be necessary for the General Fund to subsidize the fire apparatus replacement at the current level. In addition, \$846,000 is allocated for the South San José Police Substation for furniture, fixtures and equipment and \$620,000 for construction of Fire Station 37.
- Service Yards (\$7.7 million) – Funds the majority of the Central Service Yard Phase I debt service payments with \$650,000 allocated in the Service Yards C&C Tax Fund; Unless it is determined that the Service Yards C&C Tax Fund has available funding in 2012-2013 to pay a portion of the debt service payment, it is assumed that the General Fund will be responsible for the entire debt service payment.
- Municipal Improvements (\$3.8 million) – Funds for Building Facilities Maintenance Backlog (\$2.0 million) as well as funds for several capital projects which include closed landfill compliance, unanticipated/emergency repairs, fuel tank monitoring, and Arena repairs.
- Communications (\$150,000) – Transfers a portion of the revenues from Comcast that are deposited in the General Fund to repay the Communications C&C Tax Fund for a portion of the costs associated with the Civic Center Television Broadcast Equipment and Maintenance Replacement project.

**Contributions, Loans and Transfers from Other Funds**

Transfers totaling \$465.5 million is the second largest source of revenue in the 2012-2016 Adopted CIP due to the inclusion of transfers between funds associated with the Water Pollution Control Capital Program (\$222.4 million) and the Sanitary Sewer System Capital Program (\$131.0 million).

Other significant transfers are reflected in the following programs: Storm Sewer System Capital Program (\$23.0 million), Airport Capital Program (\$20.0 million), Water Utility System Capital Program (\$14.7 million), and Library Capital Program (\$12.3 million).

The transfer amount in the 2012-2016 Adopted CIP is \$30.9 million above the amount included in the 2011-2015 Adopted CIP. This higher level is due primarily to the increase in the Transfer from the

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**Contributions, Loans and Transfers from Other Funds (Cont'd.)**

Sewer Service and Use Charge Fund to ensure capacity needs are met and that there is sufficient funding available to perform the necessary rehabilitation of the aging sanitary sewer system.

**Interest Income**

The 2012-2016 Adopted CIP includes \$25.3 million from interest income. The 2011-2012 estimate for interest earnings assumes an average interest rate of only 0.22% applied to an average cash balance of a fund. This is a decrease of \$20.5 million (45%) from the estimate included in the 2011-2015 Adopted CIP. This decrease primarily results from lower interest rates assumed (on average 1 point less each year) in this CIP when compared to the 2011-2015 Adopted CIP. The range for the interest rates in the 2011-2015 Adopted CIP was 1.25% to 4.02% compared to a range of 0.22% to 2.78% used for the 2012-2016 Adopted CIP.

**Miscellaneous Revenue**

The Miscellaneous Revenue category totals \$122.1 million, a minor decrease of \$500,000 (less than 1%) from the 2011-2015 Adopted CIP. Revenue in this category is generated mainly through Airport passenger facility charges (\$91.4 million), which constitutes approximately 75% of the total revenue. Also included are the sale of surplus real property in the Service Yards Capital Program (\$12.0 million), sale of land in the Library Capital Program (\$2.0 million), and the sale of two former fire stations in the Public Safety Capital Program (\$800,000). In the Water Pollution Control Capital Program, a total of \$2.9 million is estimated for revenue from the Calpine Metcalf Energy Center for facilities repayment and the Santa Clara Valley Water District. Lastly, revenues in this category primarily include parking and lease revenue related to Lake Cunningham Park (\$3.1 million) and lease revenue related to Emma Prusch Park (\$400,000) in the Parks and Community Facilities Development Capital Program.

The Miscellaneous Revenue category also includes developer contributions of \$8.8 million, which is lower than the 2011-2015 Adopted CIP total of \$10.4 million. The Developer Assisted Projects Capital Program includes \$4.1 million to support underground utility activities; the Parks and Community Facilities Development Capital Program includes \$3.4 million from anticipated park impact fees; and the Traffic Capital Program includes \$1.3 million of fiber optics fee reimbursements from developers.