

April 23, 2018

HONORABLE MAYOR AND CITY COUNCIL:

I am pleased to present the 2018-2019 Proposed Capital Budget (Budget) and the 2019-2023 Proposed Capital Improvement Program (CIP) for the City of San José. The Budget and CIP presented in this document guide the City in the planning, scheduling, and budgeting of capital improvement projects during the next five-year period. This overview highlights the major capital investments within each of the six City Service Areas (CSAs) and 14 Capital Programs as well as the major issues associated with this CIP.

Directed by the Envision San José 2040 General Plan (General Plan), this CIP maintains critical investments to sustain, enhance, and develop a wide array of public infrastructure to improve system reliability, enhance recreational experiences, advance public safety, and ensure that San José is well-positioned for further economic growth and opportunity. Accordingly, this CIP allocates significant resources to upgrade and revitalize the Water Pollution Control Plant (San José-Santa Clara Regional Wastewater Facility); continues the investment in the pavement maintenance program; invests in and sets aside funding for the rehabilitation and enhancement of a variety of park assets and recreational facilities; and continues the renovation of the City's outstanding cultural facilities. Grant resources are leveraged to implement projects throughout the CIP, including Airport projects and local multimodal transportation projects. Grant funds also support major regional projects, including the BART Phase II, High Speed Rail, and Diridon Station. In addition, investments in this CIP address emergency preparedness and flood-related needs, such as parks infrastructure repairs and flood protection improvements.

The City's 2018-2019 Proposed Capital Budget totals \$781.5 million and the 2019-2023 Proposed CIP totals \$3.1 billion. The 2018-2019 Proposed Capital Budget reflects a 22.1% decrease from the 2017-2018 Adopted Capital Budget of \$1.0 billion, and from a five-year perspective, the 2019-2023 Proposed CIP is 6.0% lower than the \$3.3 billion 2018-2022 Adopted CIP. Once funds to complete existing projects are rebudgeted from 2017-2018 to 2018-2019 as part of the Adopted Capital Budget process, funding in the 2019-2023 CIP is expected to be close to the 2018-2022 Adopted CIP level.

Even with strong emphasis placed on rehabilitation and renewal, the City continues to lack the resources required to fully maintain its infrastructure portfolio. The persistent gap between optimal levels of capital investment and available resources, including grants and revenues from other agencies, results in a backlog of unmet/deferred infrastructure needs. The Status Report on Deferred Infrastructure Maintenance Backlog, accepted by the City Council on March 6, 2018, identifies a \$1.39 billion backlog of unmet/deferred infrastructure needs with an ongoing investment need of approximately \$112 million annually to maintain and prevent further degradation of the City's infrastructure. These figures reflect an improvement from the \$1.51 billion one-time backlog and \$144 million ongoing funding need reported in March 2017, due primarily to the reevaluation of the city's pavement condition; however, transportation infrastructure continues to be the largest unfunded need.

It is largely because of this gap between available funding and investment needs across a variety of public infrastructure assets that the Administration is – at the direction of City Council with their passage of the Mayor's March Budget Message for Fiscal Year 2018-2019 – exploring the feasibility

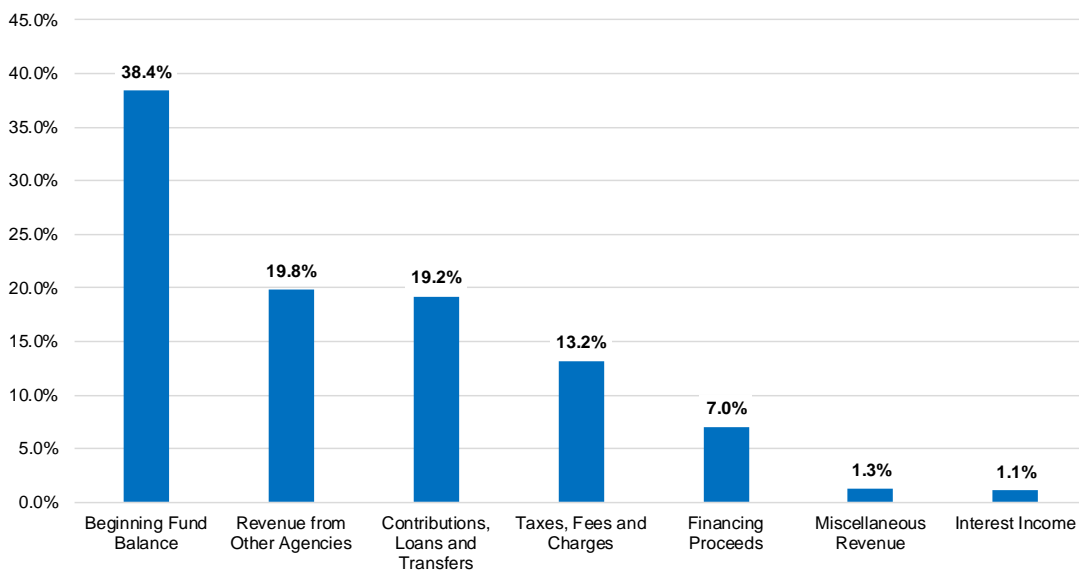
**2018-2019 PROPOSED CAPITAL BUDGET
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of a bond measure to provide a new and substantial infusion of capital funding. A recommendation on potential measures will be brought forward for City Council consideration in May 2018.

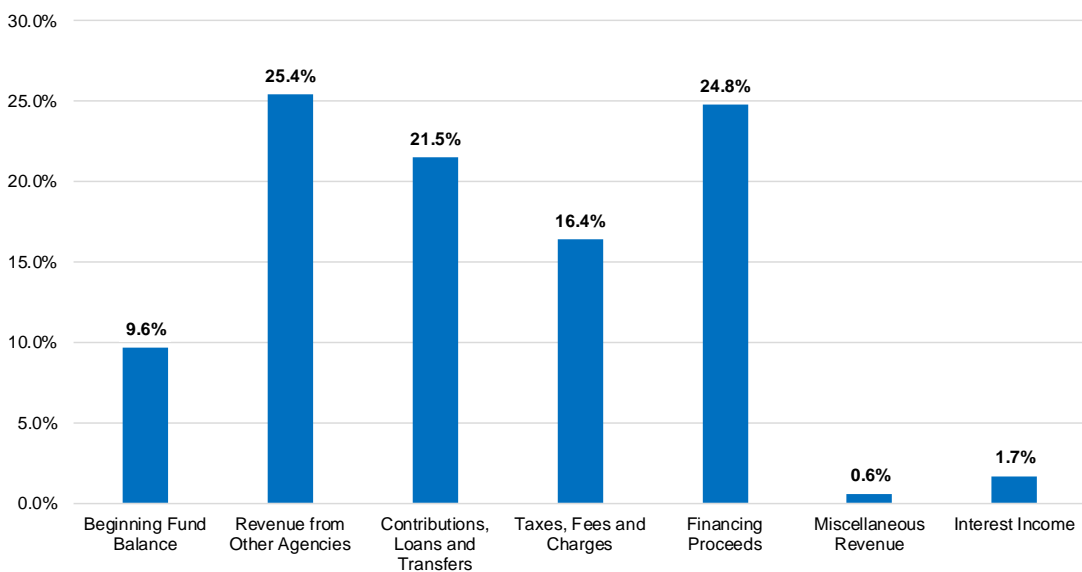
CAPITAL PROGRAM FUNDING SOURCES

The Capital Program is supported by a variety of funding sources as shown in the graphs below that depict both the 2018-2019 and five-year CIP funding.

**2018-2019 Proposed Capital Budget
Source of Funds (\$781.5 million)**



**2019-2023 Proposed Capital Budget
Source of Funds (\$3.1 billion)**



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CAPITAL PROGRAM FUNDING SOURCES

The Beginning Fund Balances in the 2019-2023 CIP total \$299.7 million, representing 38.4% of the 2018-2019 Proposed Capital Budget and 9.6% of the 2019-2023 CIP. The Parks and Community Facilities Development Capital Program has a Beginning Fund Balance totaling \$120.3 million, accounting for 40.1% of the total Beginning Fund Balances. The Traffic Capital Program accounts for 29.1% (\$87.3 million) of the Beginning Fund Balances, representing a significant amount of carryover project costs that will be spent over the next five years. The other programs with significant Beginning Fund Balances include Airport (\$26.1 million) and Water Pollution Control (\$12.7 million) Programs.

The Revenue from Other Agencies category totals \$788.9 million and is comprised of contributions from other agencies that use the Water Pollution Control Plant (WPCP) (\$316.6 million) and the Sanitary Sewer System (\$13.9 million); Federal (\$177.0 million) and State (\$131.2 million) grants and allocations; and Revenue from Local Agencies (\$148.7 million) mostly derived from Measure B Vehicle Registration Fee (\$29.5 million) and Measure B Valley Transportation Authority (\$118.8 million).

Contributions, Loans and Transfers from Other Funds total \$668.0 million. The largest transfers of funds are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$216.1 million) and to the Sanitary Sewer System Capital Program (\$160.0 million).

The 2019-2023 Proposed CIP includes an estimate of \$508.8 million in the Taxes, Fees and Charges category, a slight increase when compared to the estimated level (\$487.7 million) in the 2018-2022 Adopted CIP. Most this revenue is comprised of Construction and Conveyance Tax (\$182.0 million), Airport Passenger Facility Charge proceeds (\$141.8 million), Building and Structure Construction Tax (\$76.0 million), and Construction Excise Tax (\$101.0 million).

The 2019-2023 Proposed CIP includes revenues of \$769.2 million from the issuance of debt. The Water Pollution Control Capital Program accounts for \$753.3 million from both revenue notes (\$369.0 million) and bond proceeds (\$384.3 million) 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 2018-2019. The Parks and Community Facilities Development capital program accounts for \$6.7 million in commercial paper to address remediation projects related to the 2017 flood event.

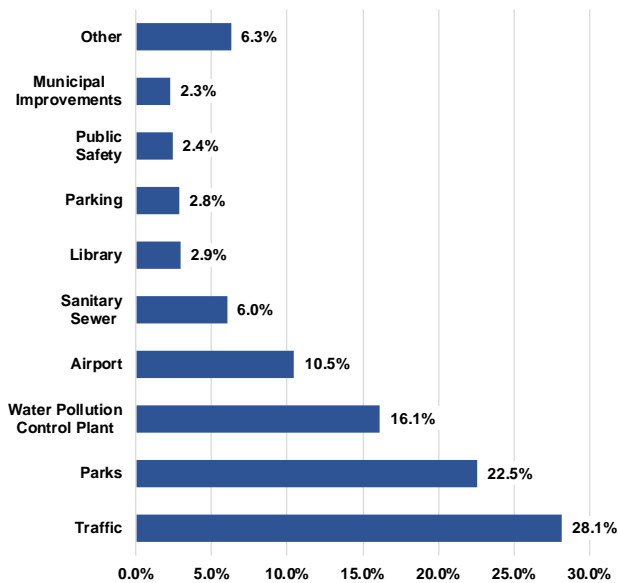
A more detailed discussion of revenues can be found in the Summary Information section of this budget document.

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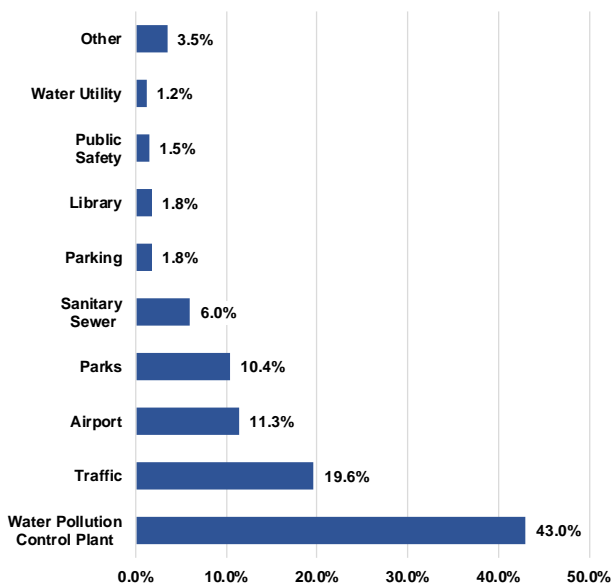
CAPITAL PROGRAM INVESTMENTS

The CIP consists of 14 capital programs. The following charts depict the uses of funds by capital program and percentage of funding for the 2018-2019 Capital Budget and the 2019-2023 Capital Improvement Program. Major projects to be completed over the next five years are highlighted in the sidebar.

**2018-2019 Capital Budget
Use of Funds (\$781.5 million)**



**2019-2023 Capital Improvement Program
Use of Funds (\$3.1 billion)**



Major Projects to be Completed Over the Next Five Years

2018-2019 Projects

- 2017 Flood Remediation Projects
- Arcadia Softball Facility
- Bollinger Rd./Moorpark Ave./Williams Rd. Sanitary Sewer Improvements
- Bridge Libraries
- Convention Center HVAC Upgrades
- Coyote Creek Trail (Story Rd. to Selma Olinder Park)
- Coyote Creek Trail (Story Rd. to Tully Road)
- Hathaway Park Renovation
- Large Trash Capture Devices
- Pavement Maintenance (Annual Program)

2019-2020 Projects

- 60" Brick Interceptor, Phase VIA and VIB
- Alviso Storm Pump Station
- Airport Parking Revenue Control System Upgrade
- Camden Community Center Improvements
- Convention Center Carpet Replacement
- Garage Elevator Upgrades
- Fire Facilities Remediation
- Mabury Pavement Repair/Resurfacing
- Nitrification Clarifier Rehabilitation
- Terminal A Baggage Claim Carousels
- Westmont Avenue and Harriet Avenue Sanitary Sewer Improvements

2020-2021 Projects

- Aeration Tanks and Blower Rehabilitation
- Aircraft Rescue and Fire Fighting Facility
- New Headworks
- Tully Road Corridor Safety Improvements
- West San Carlos Corridor Safety Improvements

2021-2022 Projects

- Airfield Geometric Implementation
- Airport Network Replacement
- Airport Perimeter Fence Upgrades
- McKee Road Corridor Safety Improvements
- Tunnel Rehabilitation

2022-2023 Projects

- Airfield Electrical Circuit Rehabilitation
- Additional Digester Upgrades
- Digested Sludge Dewatering Facility
- Terminal B Ramp Rehabilitation

**2018-2019 PROPOSED CAPITAL BUDGET
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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Each of the 14 capital programs is aligned to one of the six City Service Areas (CSAs). The chart below compares the 2018-2022 Adopted CIP with the 2019-2023 Proposed CIP for each CSA. As discussed earlier, the 2019-2023 Proposed CIP is 6% lower than the 2018-2022 Adopted CIP. Once funds to complete existing projects are rebudgeted from 2017-2018 to 2018-2019 as part of the Adopted Capital Budget process, the 2019-2023 CIP is expected to be at similar budgeted levels as the 2019-2023 Adopted Capital Budget.

2018-2022 Adopted CIP and 2019-2023 Proposed CIP Comparison (By City Service Area)

City Service Area	2018-2022 Adopted CIP	2019-2023 Proposed CIP	% Change
Community and Economic Development	\$14,888,423	\$14,141,408	(5.0%)
Environmental and Utility Services	1,822,504,911	1,590,301,310	(12.7%)
Neighborhood Services	359,132,030	376,746,925	4.9%
Public Safety	55,371,422	46,127,277	(16.7%)
Transportation and Aviation Services	969,815,713	1,017,622,981	4.9%
Strategic Support	81,647,612	61,621,328	(24.5%)
Total	\$ 3,303,360,110	\$ 3,106,561,229	(6.0%)

The following discussion of significant issues and projects included in the CIP is presented by CSA. A more detailed description and justification for the capital projects can be found in the Capital Programs by City Service Area (Section V) of the document.

Community and Economic Development CSA

The Community and Economic Development CSA includes the Developer Assisted Projects Capital Program.

Developer Assisted Projects Capital Program

The Developer Assisted Projects CIP ensures that residential developments within San José include the construction of public improvements necessary to maintain or improve the infrastructure of the City. This capital program is used to facilitate the undergrounding of existing overhead utilities and to reimburse residential developers for the construction of certain street improvements throughout the City. The underground utility projects are prioritized based on several criteria, the most significant of which is the level of fee revenue that has been collected within the Underground District.

The major undergrounding projects in this CIP include:

- White Road (Alum Rock to Rose Ave)
- Aborn Road (Pumpherstons Way to White Rd.)
- Monterey Road (Willow St. to Curtner Ave.)

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Environmental and Utility Services CSA

The Environmental and Utility Services CSA includes the Sanitary Sewer System, Storm Sewer System, Water Pollution Control, and Water Utility System Capital Programs.

Sanitary Sewer System Capital Program

The Sanitary Sewer System consists of approximately 2,030 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 (Plant). The objectives of this capital program are to reduce sanitary sewer overflows (SSOs); enhance sewer capacity to meet economic development; rehabilitate large diameter sanitary sewers; reduce water inflow and infiltration in sanitary sewers; and improve local neighborhood sewers.

As identified in the Status Report on Deferred Maintenance and Infrastructure Backlog accepted by City Council on March 6, 2018, the Sanitary Sewer Collection System has estimated unfunded needs of approximately \$1.5 million per year. With this remaining backlog, the City will continue to evaluate staffing levels and resources and overall strategic capital improvement priorities at both the Plant and the sanitary collection system to address the remaining unfunded needs in the future.



**Stevens Creek
Sanitary Sewer Replacement**

The Proposed CIP includes a 3.0% rate increase for the Sewer Service and Use Charge (SSUC) Fund in 2018-2019. In the remaining years of the CIP, rate increases of up to 6.0% are projected. These increases may be revised based on future assessments of capital and operating needs, changes in project costs, or other unforeseen circumstances.

The major projects in this CIP include:

- 60" Brick Interceptor, Phase VIA and VIB
- Almaden Supplement Sewer Rehabilitation (North)
- Bollinger Road – Moorpark Avenue – Williams Road Sanitary Sewer Improvements
- Cast Iron Pipe – Remove and Replace
- Condition Assessment Sewer Repairs
- Fourth Major Interceptor, Phase VIIA
- Immediate Replacement and Diversion Projects
- Rincon Avenue – Virginia Avenue Sanitary Sewer Improvements
- Westmont Avenue and Harriet Avenue Sanitary Sewer Improvements

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Storm Sewer System Capital Program

In accordance with the City's Envision San José 2040 General Plan, the goal of the Storm Sewer System CIP is to reduce the risk of drainage-related surface damage and manage the quality of storm water runoff. The City is responsible for the design, construction, and maintenance of facilities for the conveyance of surface runoff in the City's Urban Service Area to adjacent stream channels. However, the Santa Clara Valley Water District and the U.S. Army Corps of Engineers are responsible for the design and construction of flood control facilities or the modification and maintenance of stream channels.

Project funding levels in the CIP will not require a Storm Sewer Service Charge rate increase; however, this may change in the out-years based on recommendations from the Storm Sewer Master Plan. The first phase of the Storm Sewer Master Plan, completed in 2017, identified capital costs totaling \$230 million for high priority capacity projects. The Storm Sewer Master Plan will identify and prioritize capital improvements that maximize the efficiency and capacity of the storm drainage system city-wide. The need for a rate increase will be reassessed annually and any necessary increases will be brought forward for City Council consideration as part of the annual budget process.

Provision C.3 (New Development and Redevelopment) of the San Francisco Bay Regional Water Quality Control Board Municipal Regional Permit (MRP) requires development projects to address both soluble and insoluble storm water runoff pollutant discharges and prevent increases in runoff flows to local water bodies through the implementation of Low Impact Development (LID) techniques. The CIP includes several green street retrofit projects to allow stormwater run-off to be treated and infiltrated into the ground or before draining to the municipal storm sewer system, including the Horace Mann and Washington Neighborhood Green Alleyways Improvements (\$1.1 million) provided through Federal Community Development Block Grant funding. Provision C.10 of the MRP regulates the implementation of control measures and other actions required to reduce trash loads from the storm sewer system into the City's receiving waters. Funding of approximately \$6.8 million over the five-year CIP will be used for the design and installation of Large Trash Capture Devices throughout the City to meet MRP Provision C.10 trash reduction requirements.

The major projects in this CIP include:

- Green Infrastructure Improvements
- Large Trash Capture Devices
- Storm Sewer Improvements – Special Corridors
- Storm Sewer Master Plan – City-wide
- Urgent Flood Prevention and Repair Projects

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Water Pollution Control Capital Program

The Water Pollution Control Plant (Plant) is a wastewater treatment facility serving eight South Bay cities and four sanitary sewer districts. Accounting for 43.0% of the 2019-2023 Proposed CIP, the Plant CIP is the largest capital program. A total of \$1.33 billion will be directed to renovate and upgrade the Plant infrastructure to ensure capacity and reliability of treatment plant processes. This work is guided by the Plant Master Plan (PMP) and includes anticipated wastewater revenue notes (\$369.0 million) and bond issuances (\$384.3 million) over the next five years. The PMP recommends an estimated investment of approximately \$2.0 billion over a 30-year planning period to implement more than 114 capital improvement projects to perform long-term rehabilitation and modernization and address future regulatory requirements and capacity needs. Priorities for the near-term include obtaining short- and long-term financing for San José, continuing to prioritize and program projects, and managing project risks and variables.



**Aerial View of the San José-Santa Clara
Regional Wastewater Facility**



Headworks #1 Bar Screens

As discussed earlier, the 2019-2023 Proposed CIP includes a 3.0% rate increase for the SSUC Fund for 2018-2019, with rate increases of up to 6.0% in the out-years. These rates will be reassessed each year based on a detailed implementation plan. The next five to ten years will see significant investment at the Plant based on the PMP, resulting in revitalized infrastructure to meet current and future customer demands, meet future environmental regulatory standards, and reduce odor impacts to the surrounding community.

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Water Pollution Control Capital Program (Cont'd.)

The major projects in this CIP include:

- | | |
|--|---|
| <input type="checkbox"/> Aeration Tanks and Blower Rehabilitation | <input type="checkbox"/> Filter Rehabilitation |
| <input type="checkbox"/> Digested Sludge Dewatering Facility | <input type="checkbox"/> Headworks Improvements |
| <input type="checkbox"/> Digester and Thickener Facilities Upgrade | <input type="checkbox"/> New Headworks |
| <input type="checkbox"/> East Primary Rehabilitation, Seismic Retrofit, and Odor Control | <input type="checkbox"/> Nitrification Clarifier Rehabilitation |
| | <input type="checkbox"/> Yard Piping and Road Improvements |

Water Utility System Capital Program

The San José Municipal Water System provides water service to approximately 118,000 residents via 26,700 service connections in five areas within the City of San José: Alviso, Coyote Valley, Edenvale, Evergreen, and North San José. Projects in this CIP include the construction of new facilities, maintenance of existing infrastructure, and improvements to the Water Utility System facilities. A Water Utility average revenue increase of 5.0% is included in the 2018-2019 Proposed Operating Budget to offset increased operating costs.

To maintain and upgrade the City's Municipal Water distribution system, the Proposed CIP includes funding for an Annual Water Main Replacement allocation (\$8.5 million), which will prioritize water mains for replacement throughout the service areas by rating pipe segments based on age, adequacy of size and flow, the number of leaks or failures that have occurred, and the difficulty to repair the pipe if it failed considering location and traffic conditions.

Additionally, the North San José and Alviso service areas have experienced some growth in the last several years, and growth is assumed in this CIP. To take advantage of groundwater as the least expensive water supply to meet future demand forecasts, the City continues to work with developers to construct new groundwater wells once viable locations are determined. Increased focus on rehabilitation and construction of groundwater wells will enable the San José Municipal Water System to minimize costs to customers, supply groundwater under emergency situations, and take advantage of indirect potable reuse of purified water when available.

The major projects in this CIP include:

- Annual Water Main Replacement
- Fowler Pump Station Replacement
- Infrastructure Improvements
- North San José Reliability Well #6 Construction
- North San José Well #5 Development and Construction

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Neighborhood Services CSA

The Neighborhood Services CSA includes the Library and Parks and Community Facilities Development Capital Programs.

Library Capital Program

The City's library system underwent a major transformation as a result of the November 2000 voter-approved bond measure that approved the issuance of \$212 million in General Obligation bonds to improve the branch library system consistent with the Branch Facilities Master Plan. This bond measure provided funding for the reconstruction or replacement of 14 of the 17 existing branches and the construction of six new branches in underserved neighborhoods. The Village Square Branch, which opened in April 2016 and is located at the Evergreen Village Square, is the final bond-funded branch library. The 2019-2023 CIP assumes the final sale of bonds will occur in 2018-2019, which allows time to help identify potential bond-eligible projects. Proceeds from the final sale, along with remaining funding, will be used to recommend a new suite of bond-eligible projects in a future budget process, which includes improvements to three of the oldest library branches (Alviso, Biblioteca Latinoamericana, and West Valley).



Aside from the Bond program, the Library CIP receives funding from the Library C&C Tax Fund and the Library Parcel Tax Capital Fund. On June 3, 2014, over 81% of San José voters approved the continuation of the Library Parcel Tax for the next 25 years, beginning in 2015-2016. For 2018-2019, the Library Parcel Tax provides 35% of the \$5.7 million Acquisition of Materials budget and 60% of the \$1.0 million Automation Projects and System Maintenance budget. This funding will continue the replacement of library materials on an annual basis, replacement of public and staff computers, replacement and repair of the Library automated handling and self-checkout machines, and provide the stability needed to position the library system for growth.

The major project included in this CIP is Bridge Libraries. In 2018-2019, the Library Capital Program will fund this project, which will provide a space for the community to convene, engage, and access resources bridging known geographic and economic barriers. This project will also serve as a local hub for offering a range of library programs for both youth and families.

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Parks and Community Facilities Development Capital Program

The Parks and Community Facilities Development (P&CFD) Capital Program plans for and implements the acquisition, development, and protection of parks, recreation facilities, and open space to maintain a high quality of life in San José. This program provides oversight of the planning and development for approximately 3,500 acres of parks (regional/city-wide and neighborhood/community) and open space in the City's sphere of influence, as well as 11 City-operated community centers. In addition, the City has plans for construction of a trails and greenways system that will provide a 100-mile network of hiking, biking, jogging, and equestrian trails along the Guadalupe River, Coyote Creek, Los Gatos Creek, Penitencia Creek, San Tomas/Saratoga Creek, Thompson Creek, and other major feeder streams.

In November 2000, a \$228 million General Obligation Bond was approved by City voters for parks and recreational facilities improvements. The Bond program is nearing completion, with the final two projects, a soccer complex and a softball facility, anticipated to be completed in this CIP. As the Bond program nears completion, the primary sources of support for the P&CFD Capital Program remain the Construction and Conveyance Tax (C&C Tax) revenue and Parkland Dedication Ordinance/Park Impact Ordinance (PDO/PIO) fees.



Guadalupe River Trail

A major focus of the P&CFD CIP is the delivery of capital projects that rehabilitate City parks and recreation facilities damaged by the January and February 2017 storm events and flood. Through 2018-2019, the City expects to spend approximately \$27.8 million on project-related costs, of which \$23.4 million is related to the Parks and Community Facilities Development capital program. The balance of the project-related costs of \$4.4 million are for Traffic, Sanitary Sewer System, and Storm Sewer System.

The City plans to use \$8.7 million (of the \$21.0 million authorized) from the Commercial Paper (CP) Program, \$2.0 million in 2017-2018 and \$6.7 million in 2018-2019, for parks-related projects. The City will repay any CP notes issued for these purposes, including interest and all associated fees, with insurance proceeds, reimbursements from FEMA and CalOES, and from Parks C&C Funds over an anticipated three-year repayment schedule. The scope for each project, including any future mitigation measures, must be agreed to by FEMA prior to the start of construction; much of the last year has been spent on this coordination, as well as project development and design. The 2019-2023 CIP includes \$18.2 million for Parks flood-related projects.

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Parks and Community Facilities Development Capital Program (Cont'd.)

The major projects in this CIP include:

- Coyote Creek Trail: Story to Tully
- Emma Prusch All Inclusive Playground
- River Glen Park
- 2017 Flood – Alum Rock Park Service Road Repairs and Reconstruction
- 2017 Flood – Watson Park, Turf, Lighting, and Electrical Mitigation
- Welch Park and Neighborhood Center Improvements
- Southside Community Center Renovations



Japanese Friendship Garden

Public Safety CSA

The Public Safety CSA includes the Public Safety Capital Program.

Public Safety Capital Program

The objective of the Public Safety Capital Program is to provide, maintain, and improve facilities and equipment that support the delivery of effective emergency services to residents and visitors.

Over the last decade, the major investment in Public Safety infrastructure was made possible because of the voter approved Measure O, the “9-1-1, Fire, Police, Paramedic and Neighborhood Security Act.” This bond measure, approved in March 2002, authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund both Police and Fire Department capital improvements. Fire Station 37 is the final new station identified for construction as part of the Public Safety Bond Program. With remaining estimated construction costs of \$10.3 million, fixtures, furniture and equipment costs of \$540,000, and new fire engine and related equipment costs of \$800,000, the Fire Station 37 project has a funding shortfall of approximately \$7.0 million. In addition, ongoing funding of approximately \$3.7 million annually has not been identified for personnel, operations, and maintenance costs. As directed in the City Council approved Mayor’s March Budget Message for Fiscal Year 2016-2017, the Administration will return to the City Council with a multi-year funding strategy to fully fund the construction of Fire Station 37 by 2019, contingent on the development of an alternative service delivery model for emergency medical services that has improved cost recovery. The construction of this project, therefore, is deferred until the funding strategy is developed and approved by the City Council. Because Fire Station 37 is not moving forward at this time due to a capital and operating funding shortage, a funding shift was made in 2017-2018 to reallocate the Neighborhood Security Act Bond funds to eligible fire station capital projects that would otherwise be funded in the Fire C&C Tax Fund and allocate current and future C&C funds to a Fire

2018-2019 PROPOSED CAPITAL BUDGET 2019-2023 CAPITAL IMPROVEMENT PROGRAM

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Public Safety Capital Program (Cont'd.)

Station 37 Reserve. This allowed the Neighborhood Security Act Bond funds to be used while preserving funding for Fire Station 37. The remaining Neighborhood Security Bond funds will address critical capital improvement projects at fire stations identified in the life cycle and condition assessment reports conducted in April 2013 and later expanded in 2014-2015. These assessment reports allowed for the prioritization and budget estimates to be developed for remediation and rehabilitation of various fire stations. Additional life cycle and condition assessments were conducted in 2015-2016 to cover additional fire stations and to provide more in-depth analysis on facility condition. Remediation work at Fire Station 22 is anticipated to be completed in summer 2018. Remediation work for remaining Fire Stations 3, 4, 9, 30, and 14 is programmed for 2018-2019 and 2019-2020.



The Proposed 2019-2023 CIP includes \$23.5 million for fire apparatus replacement, of which \$6.9 million is budgeted in 2018-2019 (\$3.8 million from the General Fund, \$3.1 million from the Fire C&C Tax Fund). These funds replace fire engines, aerial ladder trucks, brush patrols, water tenders, and other emergency response apparatus. Scheduled replacements maintain the reliability of the Fire Department's fleet.

The 2019-2023 Proposed CIP highlights a continue effort to improve safety for Fire Fighters with an increase in funding for turnout cleaning and the establishment of a 10-year personal protective equipment replacement program. The replacement program currently has \$420,000 funded in 2018-2019 and an annual allocation of \$200,000 in the remaining years of the CIP for the implementation of a 10-year replacement cycle for Personal Protective Equipment (PPE). A total of \$520,000 annually is necessary to fund the PPE replacement. With a General Fund Operating Budget allocation of \$100,000, this program is fully funded in 2018-2019, but there is an annual shortfall of \$220,000 in the remaining years of the CIP. The 2018-2019 allocation also includes \$15,000 to fund software to monitor inventory within the company stores.

The major projects in this CIP include:

- Facilities Improvements
- Fire Apparatus Replacement
- Fire Facilities Remediation
- Fire Station 37 (Construction Reserve)
- Personal Protective Equipment
- Tools and Equipment
- Turnout Cleaning

2018-2019 PROPOSED CAPITAL BUDGET

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Transportation and Aviation Services CSA

The Transportation and Aviation Services CSA includes the Airport, Parking, and Traffic Capital Programs.

Airport Capital Program

The Proposed 2019-2023 CIP contains projects reflecting the Airport's strategic priorities to drive growth, innovate, fund the future, and reinvent the organization.

Recently completed and in-progress projects such as FIS Improvements, Southeast Ramp Reconstruction, Terminal B Gates 29 and 30, and future projects such as the Airfield Geometric Implementation, Terminal B Ramp Rehabilitation, and Aircraft Rescue and Fire Fighting Facility are all examples of the implementation of Airport's strategic priorities and master plan.



Southeast Ramp Reconstruction

Looking forward, projections indicate further growth in passenger activity. The Airport will continue to seek opportunities to receive federal grants or other outside funding to move forward with projects that modernize aging infrastructure, enhance security, and increase the capacity of Airport facilities. Airport will also continue to support the airlines and success of their flights by providing a favorable environment for sustained growth.

Major projects in this CIP include:

- Airfield Geometric Implementation
- Terminal B Ramp Rehabilitation
- Aircraft Rescue and Fire Fighting Facility
- Network Replacement
- Airfield Electrical Circuit Rehabilitation

Parking Capital Program

The 2019-2023 Proposed Parking CIP was developed with guidance from the Envision San José 2040 General Plan, particularly to provide well-maintained parking infrastructure with the goal of supporting Downtown as a regional job, entertainment, and cultural destination. The 2019-2023 CIP focuses on projects that will effectively maintain the City's parking facilities in a safe and operational manner, upgrade the Revenue Control System within key garages expand deployment of Smart Meters, support façade and internal aesthetic improvements, upgrade and expand elevator systems, and upgrade facility security. Additionally, funding will provide for multi-modal improvement projects in the greater Downtown, Diridon, and Meter District Areas.

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Parking Capital Program (Cont'd.)

With the December 2017 refunding of debt held by the Successor Agency to the Redevelopment Agency, the General Purpose Parking Fund received significant reimbursements for prior advances of debt service related to the 4th/San Fernando garage and is no longer required to serve as a backstop to future debt service payments. A significant portion of these additional resources is recommended to be transferred to the Parking Capital Program and reserved to fund future capital projects, investments, and improvements to parking, multi-modal transportation, and streetscapes within the SAP Center/Diridon area (\$14.0 million) and within the Greater Downtown and meter district areas (\$12.0 million).

The major projects in this CIP include:

- Greater Downtown Area Multi-Modal/Streetscape Improvements
- Garage Elevator Upgrades
- Minor Parking Facility Improvements
- Revenue Control and Meter Upgrades

Traffic Capital Program

The Traffic Capital Program is the second largest program, or 18.8% of this CIP, with a budget of \$609.8 million. The mission of the Traffic Capital Program is to implement a safe, efficient, and environmentally sensitive surface transportation system consistent with the goals and policies of the City's General Plan. The 2019-2023 Proposed CIP includes continued investment in street and pedestrian safety, pavement maintenance, and traffic management, while also leveraging grant resources to implement local multimodal projects and support the planning and delivery of major regional projects including BART Phase II, High Speed Rail, an expanded and redeveloped Diridon Station, Caltrain Modernization, and Highway Interchanges, as well as fulfilling the transportation-related economic development obligations of the former San José Redevelopment Agency (SJRA). Resources invested in the Traffic CIP also fund staff activities to ensure the projects are planned, funded, and delivered in a way that aligns with the City's interests.

Pavement Maintenance

Of the \$609.8 million total Traffic Capital Program, \$312.2 million (or 51%) is allocated to pavement maintenance and is broken down as follows: \$89.2 million in 2018-2019, \$69.6 million in 2019-2020, and \$51.2 million in 2020-2021, 2021-2022 and 2022-2023. Sources of funding for pavement maintenance activities include Construction Excise Tax revenue, VTA 2016 Measure B sales tax revenue, Vehicle Registration Fee (VRF) 2010 Measure B vehicle registration fee revenue, State Gas Tax revenue, including those from the recent passage of the Road Repair and Accountability Act (SB1 Beall), and federal grants. On an annual ongoing basis, funding for pavement maintenance is projected at \$51.2 million. This level of ongoing funding is sufficient to fully fund the \$23.3 million needed each year to maintain an average PCI of 70 or better on the Major Street Network, as well as pothole repairs

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Traffic Capital Program (Cont'd.)

and program management at \$7.0 million annually. Additionally, ongoing funding provides for a limited maintenance program on the Local and Neighborhood Street network, should all projected funding sources remain available. However, overall pavement maintenance funding continues to fall short of the annual ongoing investment of \$92.8 million that is required to achieve an overall “good” condition with a PCI rating of 70.

Revenue from 2016 VTA Measure B is the planned source of funding for the Local and Neighborhood Street Network maintenance plan, which is being delayed pending the resolution of the lawsuit. The VTA 2016 Measure B sales tax referendum is being legally challenged, so planned projects are on hold.

A lawsuit was filed and dismissed by the Santa Clara County Superior Court, but the decision was appealed to the 6th District Court of Appeals. Resolution is expected by December 2018. DOT is continuing to prepare a set of maintenance projects on local and neighborhood streets, and will be ready to proceed accordingly when the issue is resolved. In addition, there is currently a signature-gathering effort to put a repeal of SB1 on the November 2018 ballot, but the measure remains in effect and associated revenue is assumed for future planning until there is clear contrary guidance.

Transportation Safety and Multimodal Improvements

The 2019-2023 Proposed CIP also includes investments targeted towards supporting the Vision Zero San José (VZSJ) transportation safety initiative, which was adopted by City Council in May 2015, by funding approximately \$91.7 million in traffic safety and multimodal improvements, including \$72.7 million for Complete Street, pedestrian, and bicycle facility projects. To the extent possible, the CIP prioritizes delivery of traffic safety projects on the Priority Safety Corridors identified in the VZSJ plan as having the highest incidence of traffic fatalities and severe injuries. Grants support a significant portion of the funding for these projects.

Priority Transportation Plans and Policies

The North San José Transportation Funding Plan (Plan), adopted in 2005, identifies traffic infrastructure investments of over \$200 million to facilitate future growth and development of North San José. These improvements were originally envisioned to be primarily funded from traffic impact fees levied on developers and contributions from the San Jose Redevelopment Agency (SJRA). The lowering of impact fees to entice commercial/job-oriented development into North San José and the loss of SJRA contributions have created a large traffic infrastructure funding gap and made plan implementation more reliant on local City revenues and regional grant funding. Approved as part of the Mayor’s June Budget Message for Fiscal Year 2014-2015, Manager’s Budget Addendum #8 described a new funding strategy, dedicating future Building and Structure Construction Tax revenues (estimated to exceed \$32 million as development proceeds) and future Business Cooperation Program revenues generated from new development in North San José to be held in reserve for North San José transportation projects. This strategy has resulted in the collection of \$4.7 million in Building and Structure Construction Tax allocated to the North San José New Development Reserve. In addition, the 2019-2023 Adopted CIP also includes a North San José Transportation Improvements Reserve

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Traffic Capital Program (Cont'd.)

of \$8.0 million, of which \$2.0 million may be allocated towards the cost of interchange improvements at US 101/Oakland Road and at US 101/Mabury Road, with remaining funding allocated in the future for other North San José transportation improvements.

Due to development activity during 2016-2017 and 2017-2018, the 2019-2023 Proposed CIP also establishes the US 101/Oakland/Mabury New Development Reserve (\$2.6 million) in accordance with the Mayor's June Budget Message for Fiscal Year 2015-2016, and US 101/Oakland/Mabury Transportation Strategy (Manager's Budget Amendment #18), to set aside Building and Structure tax revenues generated from new development in the US 101/Oakland/Mabury area toward the cost of the interchange improvements at US 101/Oakland Road and at US 101/Mabury Road. It is anticipated that VTA 2016 Measure B grant funding will supplement, in a significant way, reserved Building and Structure Construction Tax revenue and traffic impact fees, for the future delivery of projects outlined in the North San José and US 101/Oakland/Mabury Transportation Funding Strategies.

Regional Transportation System

The transformation and expansion of the regional transportation system, including the projects collectively described as the San José Regional Rail Transportation Project, will represent the largest public infrastructure investment in the history of San José. These projects will dramatically transform Downtown San José and provide integrated travel choices across the region and state. Effective planning and delivery of these projects over the next decade is essential to the economic and mobility needs of San José to support the growth anticipated in the General Plan.

Individual elements of the regional transportation system are in various stages of conceptual planning, environmental clearance, and pre-construction including BART Phase II, California High Speed Rail, Caltrain Modernization, Airport People Mover, and the expanded Diridon Transportation Center, in addition to numerous highway interchange and overcrossing improvements that support the City's Area Development Policies. Resources invested in the Traffic CIP cover essential activities to ensure the projects are planned, funded, and delivered in a way that aligns with the City's interests. Additionally, the BART Phase I project, providing connectivity from Fremont into North San Jose, will potentially begin full service in late 2018/early 2019, a date solely determined by BART testing activities.

The major projects in this CIP include:

- Americans with Disabilities Act Sidewalk Accessibility Program
- McKee Road Safety Corridor Improvements
- McLaughlin Ave. Pedestrian/Bike Safety Enhancements
- Montague Expressway Improvements Phase 2
- Pavement Maintenance
- Tully Road Safety Corridor Improvements
- Safety - Pedestrian Improvements
- Senter Road Pedestrian Safety Improvements
- W San Carlos Corridor Safety Improvements

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Strategic Support CSA

The Strategic Support CSA includes the Communications, Municipal Improvements, and the Service Yards Capital Programs.

Communications Capital Program

The guiding objective of the Communications Capital Program is the provision of reliable and necessary public safety and non-public safety-related communications equipment for all City employees who need this equipment to perform their job duties. In addition, this Program funds capital improvements related to communications facilities including land and interests in land, buildings, structures, and radio and other equipment.



ECOMM Antennae at Eagle Rock

The Silicon Valley Regional Interoperability Authority (SVRIA) is a joint powers authority consisting of 19 member agencies, including the City of San José, whose mission is to identify, coordinate and implement communication interoperability solutions to its member agencies by integrating voice and data communications between law enforcement, fire and rescue services, emergency medical services, and emergency management for routine operations, critical incidents and disaster response and recovery. The Silicon Valley Regional Communications System (SVRCS), a multi-stage project coordinated by SVRIA, will replace the existing public safety radio systems currently in use in Santa Clara County with a system that uses the 700/800MHz spectrum, which allows for enhanced data transmissions, additional capacity for mutual aid scenarios, and the ability to record transmissions for training purposes. The additional transmission towers, repeater sites, and other infrastructure required to build out the SVRCS is estimated to cost \$28.9 million, and are anticipated to be complete by the end of 2018.

The City entered into a Memorandum of Understanding (MOU) with SVRIA, as approved by the City Council on June 16, 2015, for the City's proportionate share of the infrastructure buildout for the SVRCS project in the amount of \$7.6 million over a three-year period. The City's portion is now paid in full. Eight transmission sites have been completed in the central cell with an additional transmission site to be constructed. The City also purchased new radios and dispatch consoles so that the City can be fully operational on the new system.

To date, a total of \$10.9 million has been allocated for radio replacements. In addition, over the five-year CIP, approximately \$2.5 million is included in the Silicon Valley Regional Communications System – Radios project to complete the necessary radio purchases.

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Communications Capital Program (Cont'd.)

The City has purchased 33 dispatch consoles for use in the Police and Fire Communications Center that serves as the primary Public Safety Answering Point (PSAP) and 14 consoles for use in the South San José Police Substation that serves as the secondary PSAP.

The major projects in this CIP include:

- Silicon Valley Regional Communications System – Radios
- Silicon Valley Regional Interoperability Authority
- Communications Equipment Replacement and Upgrade

Municipal Improvements Capital Program

The Municipal Improvements Capital Program provides capital improvements and maintenance for City facilities and their operating systems that are not funded in other capital programs. The CIP includes new one-time funding of \$2.1 million from the General Fund to address several needs, the largest of which includes the City Hall Network Operations Center – Electrical Switch Replacement project and the Police Communications Center Elevator Retrofit.

The General Fund Cultural Facilities Capital Maintenance Reserve is used to support City-owned cultural and arts facilities. In the 2019-2023 CIP, \$1.5 million is programmed in 2018-2019 from this reserve to address capital needs at City-owned cultural and arts facilities, which include the Children's Discovery Museum (\$500,000), Hammer Theatre (\$375,000) San José Museum of Art (\$300,000), Miscellaneous Cultural Facilities (\$200,000), History San José (\$50,000), and Mexican Heritage Plaza (\$50,000).

The Convention and Cultural Affairs Capital Fund and the Convention Center Facilities District Revenue Fund, also both driven by strong hotel taxes, provide funding of \$16.0 million to address a variety of electrical, mechanical, structures, unanticipated, and miscellaneous rehabilitation and repair projects at the Convention Center and cultural facilities managed by Team San Jose.

The major projects in this CIP include:

- City Hall Network Operations Center – Electrical Switch Replacement
- Convention Center Carpet Replacement – Phases II/IV
- Convention Center HVAC Upgrades
- Police Communications Center Elevator Retrofit

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Service Yards Capital Program

The objective of the Service Yards Capital Program is to maintain and improve the existing conditions at the City's Service Yards by implementing projects to reduce safety hazards, increase efficiencies, and provide necessary equipment and materials for operations. While ongoing funding is allocated to address general capital improvement needs, the repayment of debt associated with the Central Service Yard Phase I and Phase II projects represents the largest use of funds in the 2019-2023 CIP. The Central Service Yard Phase I project included the purchase of the Central Service Yard property and renovation of Building A. The Central Service Yard Phase II project entailed construction and relocation of remaining operations from the old Main Yard property to the Central Service Yard. In the 2019-2023 CIP, a total of \$8.3 million is budgeted for debt service on Phase I bonds and \$3.5 million for Phase II commercial paper repayments.



Fire Truck Maintenance at the Central Service Yard

The 2019-2023 CIP also includes funding of \$1.2 million for pavement repair and resurfacing at the Mabury Yard, and \$500,000 for the construction of a new fueling island at the Central Service Yard to allow for more efficient vehicle deployment and reduced travel times.

The major projects in this CIP include:

- Central Service Yard Fueling Island
- Debt Service on Phase I Bonds and Phase II Commercial Paper
- Mabury Pavement Repair/Resurfacing
- Roof Replacement, Painting, and Supplemental Needs

OTHER CAPITAL PROGRAM HIGHLIGHTS

Unmet Infrastructure/Maintenance Needs

As presented in a report to the City Council on October 1, 2007, insufficient funding has created a structural deficit between the funding available and the resources necessary to maintain the overall condition of the City infrastructure. This includes the City's buildings, parks, traffic (streets, traffic lights, signs, and streetlights), utility, and technology infrastructure. The figures in this report are updated annually, and the most recent report was reviewed by the Transportation and Environment Committee on February 5, 2018 and approved by the City Council on March 6, 2018 (latest report included as an Appendix to this document). In this most recent report, the infrastructure backlog totaled \$1.39 billion across the City. Assuming this one-time backlog could be met, an ongoing annual

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OTHER CAPITAL PROGRAM HIGHLIGHTS

investment of approximately \$112 million would also be needed to maintain and prevent further degradation of the City’s infrastructure. This CIP, as well as investments included in the 2018-2019 Proposed Operating Budget, allocate limited resources to the most immediate and critical deferred infrastructure needs.

Operating Budget Impacts

This CIP continues to balance the delivery of capital programs with the limited resources available to operate and maintain existing and newly-constructed facilities. The Administration continues to pursue strategies to ensure the most cost effective operation of City facilities, such as entering into agreements with developers to initially maintain facilities, and installing capital improvements that would reduce costs, such as energy efficient traffic signals.

In March 2008, the City Council approved Budget Principle #8 that states capital improvement projects “shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire project, including operating and maintenance costs, will not require a decrease in existing basic neighborhood services.” In addition, all capital improvement projects with new General Fund operating and maintenance costs will be detailed in the Five-Year General Fund Forecast and included as part of the annual CIP. There are no projects in this CIP that require City Council certification due to the annual operating and maintenance impact of the facility exceeding \$100,000.

The table below summarizes the additional annual resources required to operate and maintain new facilities coming on-line during the five-year CIP or planned by other agencies (such as developers).

**Projected Total New Operating and Maintenance Costs
(Cumulative)**

<u>Project Title</u>	2019-2020	2020-2021	2021-2022	2022-2023
Parks Facilities	\$ 335,000	\$ 442,000	\$ 502,000	\$ 577,000
Traffic Projects	45,000	69,000	82,000	95,000
General Fund Total	\$ 380,000	\$ 511,000	\$ 584,000	\$ 672,000
Water Pollution Control Plant (Special Fund)	84,000	1,387,000	1,711,000	10,588,000
All Funds Total	\$ 464,000	\$ 1,898,000	\$ 2,295,000	\$ 11,260,000

For the General Fund, these costs are estimated at \$380,000 in 2019-2020 and are anticipated to increase to \$672,000 by 2022-2023. These figures do not include the funding needed in 2018-2019 to operate and maintain new facilities as these amounts have been incorporated into the 2018-2019 Proposed Operating Budget.

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OTHER CAPITAL PROGRAM HIGHLIGHTS

In addition, the expanded infrastructure investment at the Water Pollution Control Plant will result in significant operating costs in the coming years. It is estimated that additional maintenance and operations costs will total \$1.4 million starting in 2020-2021, largely due to completion of large projects such as the Digester and Thickener Facilities Upgrade project. In 2022-2023, the additional operating costs at the Plant are expected to increase by \$10.6 million as the Digested Sludge Dewatering Facility is expected to come online and replace the existing sludge storage lagoons.

Art in Public Places

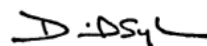
Funding of the Public Art Program provides the City iconic public art works at the Airport, Downtown, public safety, parks, and library facilities. A sample of projects funded through the public art allocation in the various Capital Programs can be found in the Art in Public Places section in the Appendix of this CIP. A total investment of \$3.1 million is programmed for eligible public art projects that span all capital programs in the 2019-2023 Proposed CIP. This figure does not include the \$4.5 million in public art expenditures for 2017-2018.

CONCLUSION

The City of San José's 2019-2023 Proposed CIP continues to focus on the rehabilitation and revitalization of existing infrastructure, making strategic investments impacting the entire community now and for years to come. Projects delivered over the next five years will positively impact areas such as pavement maintenance, the appearance and reliability of parks and recreational facilities, the reliability and performance of the City's wastewater treatment facility, and reduction of pollutants within storm drains and creeks.

Just as important, projects now in their early planning phases will set the stage for large-scale improvements in the years to come. The BART extension into Downtown, the modernization of Caltrain service, and the coming of High Speed Rail will dramatically alter transportation and economic development within and around the Diridon Station Area. With the continued increase in passengers and airline service, City staff have begun preparations for the second phase expansion at the Mineta San José International Airport to accommodate anticipated growth. Finally, at the direction of the City Council through the Mayor's March Budget Message for Fiscal Year 2018-2019, efforts are underway to assess the feasibility of a bond measure to address the sizeable deferred maintenance and infrastructure backlog.

This capital improvement program has been developed to reflect the needs and priorities of the City Council, our residents, businesses, and visitors within available funding levels. Under the direction of the City Manager's Budget Office, the 2019-2023 Proposed CIP was developed in coordination with all the CSAs and City departments responsible for capital projects. I want to acknowledge and thank the many employees who made direct contributions to the analysis and production of this CIP and document.



David Sykes
City Manager