

CITY OF SAN JOSE

2019-2023 PROPOSED CAPITAL IMPROVEMENT PROGRAM

SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES

The 2019-2023 Proposed Capital Improvement Program (CIP) derives its funding from a variety of sources. The following table provides a listing of those sources grouped by major category, along with a comparison to the 2018-2022 Adopted CIP.

<u>Source</u>	<u>2018-2022 CIP</u> <u>(\$ millions)</u>	<u>2019-2023 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 441.9	\$ 299.7	(\$ 142.2)
Financing Proceeds	900.3	769.2	(131.1)
Revenue from Other Agencies	760.1	788.9	28.8
Taxes, Fees and Charges	487.7	508.8	21.1
General Fund	71.1	38.2	(32.9)
Contributions, Loans and Transfers from Other Funds	596.7	629.8	33.1
Interest Income	36.3	53.0	16.7
Miscellaneous Revenue	9.3	18.9	9.6
TOTAL	\$ 3,303.4	\$ 3,106.6	(\$ 196.8)

BEGINNING FUND BALANCES

The Beginning Fund Balances in the 2019-2023 CIP total \$299.7 million, which is a decrease of approximately \$142.2 million (32.2%) from levels budgeted in the 2018-2022 CIP. Beginning Fund Balances primarily reflect planned carryover funding for projects expected to be initiated or completed in the next five years. The Beginning Fund Balances will increase once additional project balances are carried over (rebudgeted) from 2017-2018 to 2018-2019. The Parks and Community Facilities Development Capital Program has Beginning Fund Balances totaling \$173.2 million, accounting for 57.8% of the total Beginning Fund Balances. A majority of the funds are reserved pending determination of final scope of projects and locations or availability of future funding within the nexus of a facility. The Traffic Capital Program accounts for 29.1% (\$87.3 million) of the Beginning Fund Balances, representing a substantial amount of 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).

FINANCING PROCEEDS

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. It is important to note that the revenue notes serve to provide interim funding that is largely refinanced with the bond proceeds in 2021-2022. 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,

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FINANCING PROCEEDS

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.

REVENUE FROM OTHER AGENCIES

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).

Funding from the federal government (\$177.0 million) is allocated to several programs including: the Airport Capital Program (\$101.0 million) from the Transportation Security Administration and the Federal Aviation Administration (FAA) for Airport Improvement Program (AIP) grants administered by the FAA; the Traffic Capital Program (\$65.1 million) primarily for grants related to multi-modal, corridor, and pedestrian safety transportation projects (\$44.6 million); and the Parks and Community Facilities Development Capital Program (\$9.6 million) primarily for the 2017 Flood FEMA reimbursements. Funding from the State in the amount of \$131.2 million is mainly allocated to the Traffic Capital Program (\$123.7 million), of which \$116.8 million is for pavement maintenance activities from the SB1 Road Repair and Accountability Act.

TAXES, FEES AND CHARGES

The 2019-2023 Proposed CIP includes an estimate of \$508.8 million in the Taxes, Fees and Charges category, which is slightly above the estimated level (\$487.7 million) in the 2018-2022 Adopted CIP. The Construction and Conveyance Tax (\$182.0 million); Building and Structure Construction Tax (\$76.0 million); and Construction Excise Tax (\$101.0 million) comprise the majority of tax revenues. The remainder of these fees and charges are mostly derived from the Airport Passenger Facility Charge proceeds (\$141.8 million). The chart on the following page compares the components of the 2019-2023 Taxes, Fees and Charges estimates with those included in the 2018-2022 Adopted CIP, followed by a discussion of the estimates for the four largest revenues within the Taxes, Fees and Charges category.

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TAXES, FEES AND CHARGES

<u>Source</u>	<u>2018-2022 CIP</u>	<u>2019-2023 CIP</u>	<u>Difference</u>
Construction and Conveyance Tax	\$ 176,000,000	\$ 182,000,000	\$ 6,000,000
Construction Excise Tax	105,000,000	101,000,000	(4,000,000)
Airport Passenger Facility Charge	120,400,000	141,800,000	21,400,000
Building and Structure Construction Tax	78,000,000	76,000,000	(2,000,000)
Sanitary Sewer Connection Fees	3,500,000	3,500,000	0
Residential Construction Tax	1,000,000	1,000,000	0
Water Utility Fees	375,000	375,000	0
Storm Drainage Fees	1,000,000	1,000,000	0
Other Taxes, Fees and Charges	2,400,000	2,090,000	(310,000)
TOTAL	\$ 487,675,000	\$ 508,765,000	\$ 21,090,000

Construction and Conveyance Tax

The Construction Tax portion of the Construction and Conveyance Tax (C&C) 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 a very small portion (approximately 1%) of the total Construction and Conveyance Taxes collected. The Conveyance Tax portion of this category is imposed upon each transfer of real property where the value of the property exceeds one hundred dollars. 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.

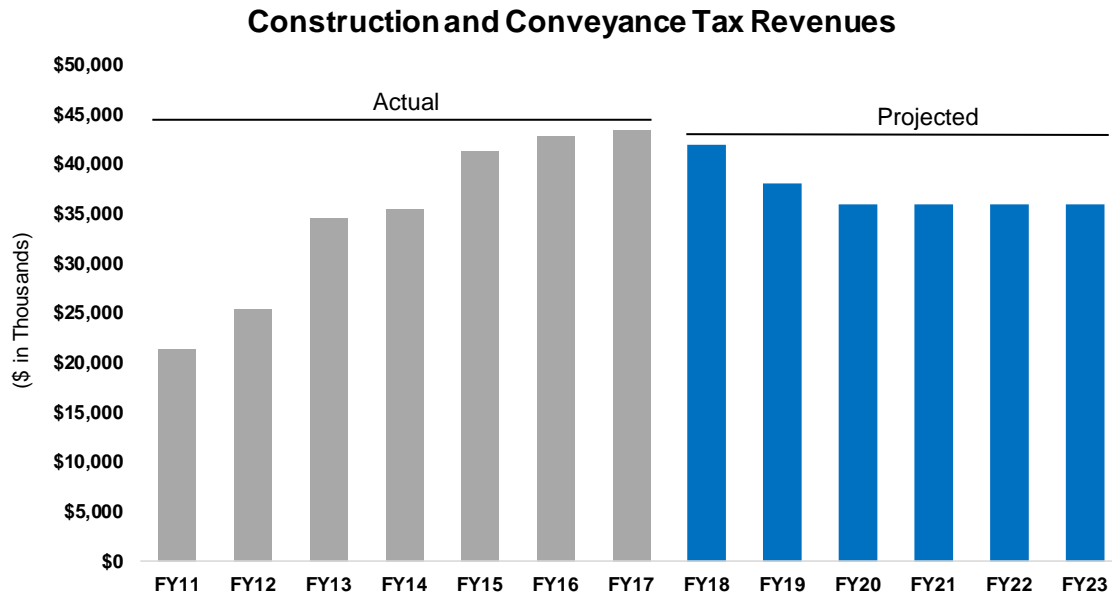
The five-year projection for Construction and Conveyance Tax revenue totals \$182 million, which is higher than the estimate of \$176 million used to develop the 2018-2022 Adopted CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 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 future strength of the San José real estate market. Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high of \$49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to \$20.5 million in 2008-2009. However, collections have rebounded in recent years with revenues expected to end 2017-2018 at \$42.0 million. This collection level is 3% below the actual receipts received in 2016-2017 (\$43.3 million), but is substantially higher than the \$36 million estimated in the 2018-2022 Adopted CIP. Based on recent collection trends and real estate activity, collections in this extremely volatile revenue category are forecasted to drop to \$38 million in 2018-2019, decrease to \$36 million in 2019-2020, and remain constant through the remainder of the forecast period. The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 10-year period.

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Construction and Conveyance Tax (Cont'd.)



Based on the City Council-approved distribution formula, C&C funds allocated in 2017-2018 and in the 2019-2023 CIP are displayed in the following table.

Construction and Conveyance Tax Distribution

<u>Program</u>	<u>Distribution</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>	<u>2021-2022</u>	<u>2022-2023</u>	<u>5 Year Total</u>
Parks	64.00%	\$ 26,880,000	\$ 24,320,000	\$ 23,040,000	\$ 23,040,000	\$ 23,040,000	\$ 23,040,000	\$ 116,480,000
Park Yards	1.20%	504,000	456,000	432,000	432,000	432,000	432,000	2,184,000
Fire	8.40%	3,528,000	3,192,000	3,024,000	3,024,000	3,024,000	3,024,000	15,288,000
Library	14.22%	5,972,000	5,404,000	5,119,000	5,119,000	5,119,000	5,119,000	25,880,000
Service Yards	8.78%	3,688,000	3,336,000	3,161,000	3,161,000	3,161,000	3,161,000	15,980,000
Communications	3.40%	1,428,000	1,292,000	1,224,000	1,224,000	1,224,000	1,224,000	6,188,000
Total		\$ 42,000,000	\$ 38,000,000	\$ 36,000,000	\$ 36,000,000	\$ 36,000,000	\$ 36,000,000	\$ 182,000,000

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TAXES, FEES AND CHARGES

Construction Excise Tax

The Construction Excise Tax (also referred to as the Commercial-Residential-Mobile Home Park Building Tax) is imposed upon the construction, alteration, repair or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. This general purpose tax may be used for any “usual current expenses” of the City; however, the City Council has historically used the majority of these funds for traffic improvements.

Tax receipts are anticipated to end the fiscal year at \$27 million, exceeding the current budgeted estimate by \$3 million. Based upon the construction projections provided by the Planning, Building & Code Enforcement (PBCE) Department and actual collections on this tax, Construction Excise Tax collections are projected to total \$101 million over the five year CIP, with proceeds estimated at \$21 million in 2018-2019, and decreasing to \$20 million in 2019-2020 through 2022-2023. This collection level represents a slight decrease of \$4 million (4%) from the 2018-2022 Adopted CIP. A comparison of the five-year forecast with actual collections in previous years for the Construction Excise Tax is shown in the chart that follows.

Building and Structure Construction Tax

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

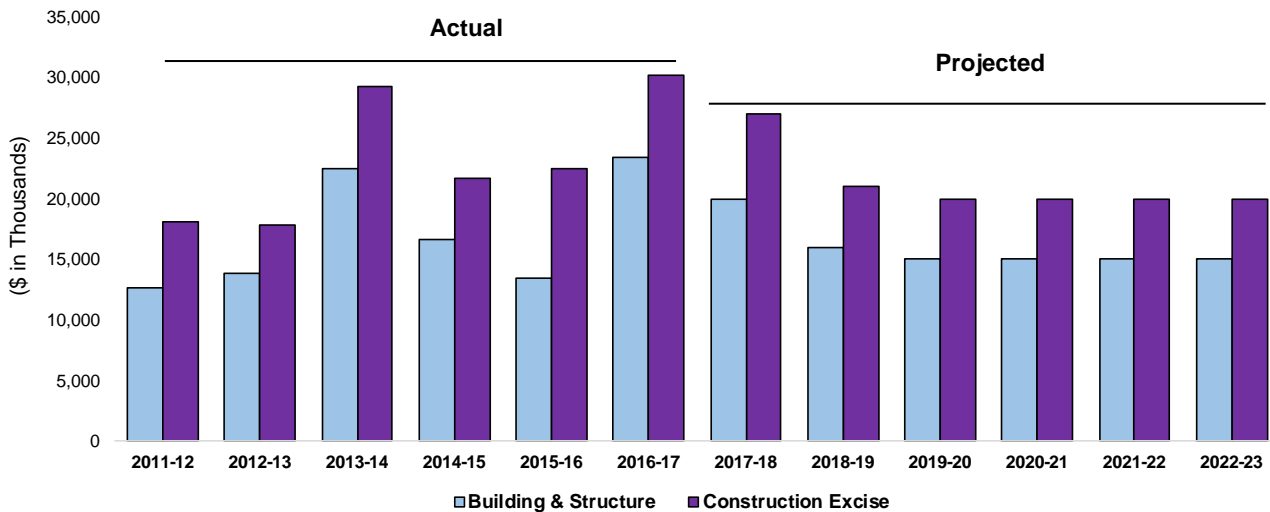
Building and Structure Construction Tax receipts are anticipated to end 2017-2018 at \$20 million, exceeding the budget estimate by \$2 million. Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections total \$76 million, slightly below the estimate included in the 2018-2022 Adopted Capital Improvement Program (CIP). It is projected that collections will drop from the 2017-2018 estimate of \$20 million to \$16 million in 2018-2019 and to \$15 million for the remainder of the forecast period as projects are completed and activity levels slightly decrease. The graph on the following page compares the actual and projected revenues, by year, for both the Building and Structure Construction and the Construction Excise Taxes.

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TAXES, FEES AND CHARGES

MAJOR CONSTRUCTION-RELATED TAX REVENUES



Passenger Facility Charge

The Passenger Facility Charge is a fee charged to every enplaned passenger at Norman Y. Mineta International Airport. Proceeds from the fee are used to support a variety of capital renewal and rehabilitation projects at the Airport. Set at \$4.50 per enplaned passenger, estimates included in the CIP assume an annual passenger growth of 3% in 2018-2019 at an amount of \$26.7 million and 3% annual growth through 2022-2023 for a five-year total of \$141.8 million.

GENERAL FUND

General Fund contributions to capital projects included in the CIP total \$38.2 million, down \$33.1 million from the last CIP.

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

- Public Safety (\$18.8 million) – Fire apparatus replacement continues to be a priority for the City, with a total allocation of \$18.8 million in the General Fund and \$4.7 million in the Fire C&C Tax Fund. This level of funding is based on an annual review of the Fire Apparatus Replacement Policy conducted by the Administration to maintain sufficient funding for emergency Fire Apparatus replacement through the five-year CIP.

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GENERAL FUND

- Municipal Improvements (\$11.2 million) – This category includes an ongoing annual allocation of \$900,000 to address a variety of unanticipated and emergency capital repairs across a wide range of municipal facilities (\$4.5 million over five years). Other annual ongoing allocations include \$350,000 annually for Closed Landfill Compliance (\$1.8 million), \$200,000 annually for City Hall and Police Communications Uninterrupted Power Supply Capital Maintenance (\$1.0 million), \$100,000 for Arena Repairs (\$500,000), and \$50,000 for Fuel Tank Monitoring (\$250,000).

One-time investments for improvements at City Hall total \$1.5 million for the preliminary labor and infrastructure needed to reconfigure the Network Operations Center (NOC) and modify the existing system to accommodate a new uninterrupted power supply (UPS). The final phase is estimated to cost \$3.0 million, which will procure and install equipment to transition the current system to the UPS. Additionally, one-time funding is added for the Police Communications Center Elevator Retrofit (\$600,000).

The Municipal Improvements program also allocates a total of \$1.5 million from the Cultural Facilities Capital Maintenance Reserve. These Cultural Facilities investments include funding for Hammer Theatre Center (\$375,000); History San José (\$50,000); San José Museum of Art (\$300,000); Mexican Heritage Plaza (\$50,000); the Children’s Discovery Museum (\$500,000); and miscellaneous Cultural Facility repairs (\$200,000).

- Communications (\$5.9 million) – Due to insufficient Communications C&C Tax Fund revenues, General Fund transfers are required to fully fund contributions to the Silicon Valley Regional Interoperability Authority (SVRIA).
- Service Yards (\$2.0 million) – Due to insufficient Service Yards C&C Tax Fund revenues, General Fund transfers are required to supplement funding for the Debt Service on Phase I Bonds issued to finance the Central Service Yard expansion.

CONTRIBUTIONS, LOANS AND TRANSFERS FROM OTHER FUNDS

Funding in this category totals \$629.8 million which is \$33.1 million above the amount included in the 2018-2022 Adopted CIP. 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).

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INTEREST INCOME

The 2019-2023 Proposed CIP includes \$53.0 million from interest income. These estimates are up \$16.7 million from those included in the 2018-2022 Adopted CIP. The range for the interest rates in the 2019-2023 Proposed CIP is 1.31% to 2.85% compared to a range of 1.20% to 2.15% used in the 2018-2022 Adopted CIP.

MISCELLANEOUS REVENUE

The Miscellaneous Revenue category totals \$18.9 million, an increase of \$9.6 million from the amounts included in the 2018-2022 CIP. This increase is primarily due to the insurance reimbursements (\$9.2 million) related to the 2017 Flood Event remediation projects.