

CITY OF SAN JOSE
2018-2022 ADOPTED CAPITAL IMPROVEMENT PROGRAM

SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES

The 2018-2022 Adopted Capital Improvement Program (CIP) derives its funding from a variety of sources. The following table provides a listing of those sources grouped by major category, along with a comparison to the 2017-2021 Adopted CIP.

<u>Source</u>	<u>2017-2021 CIP</u> <u>(\$ millions)</u>	<u>2018-2022 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 470.9	\$ 441.9	(\$ 29.0)
Financing Proceeds	380.4	900.3	519.9
Revenue from Other Agencies	430.9	760.1	329.2
Taxes, Fees and Charges	330.5	487.7	157.2
General Fund	97.7	71.1	(26.6)
Contributions, Loans and Transfers from Other Funds	562.7	596.7	34.0
Interest Income	28.5	36.3	7.8
Miscellaneous Revenue	140.0	9.3	(130.7)
TOTAL	\$ 2,441.6	\$ 3,303.4	\$ 861.8

BEGINNING FUND BALANCES

The Beginning Fund Balances in the 2018-2022 CIP total \$441.9 million, which is a decrease of approximately \$29.0 million (6.2%) from levels budgeted in the 2017-2021 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 increased versus Proposed due to additional project balances that were carried over (rebudgeted) from 2016-2017 to 2017-2018. The Parks and Community Facilities Development Capital Program has Beginning Fund Balances totaling \$134.2 million, accounting for 30.2% 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 26.9% (\$119.4 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 Water Pollution Control (\$57.2 million), Sanitary Sewer System (\$52.2 million), and Airport (\$24.2 million). All three programs include a large number of projects whose delivery will result in lower Ending Fund Balances by the end of the CIP.

FINANCING PROCEEDS

The 2018-2022 Adopted CIP includes revenues of \$900.3 million from the issuance of debt. The Water Pollution Control Capital Program accounts for \$891.0 million from both commercial paper (\$455.0 million) and bond proceeds (\$436.0 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 2017-2018.

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REVENUE FROM OTHER AGENCIES

The Revenue from Other Agencies category totals \$760.1 million and is comprised of contributions from other agencies that use the Water Pollution Control Plant (WPCP) (\$318.9 million) and the Sanitary Sewer System (\$9.65 million); Federal (\$189.6 million) and State (\$110.3 million) grants and allocations; Valley Transportation Authority funding that is mostly derived from a county-wide sales tax measure allocated toward pavement maintenance (\$130.7 million); and other agency contributions (\$550,000). Overall, estimated revenues from these sources reflect an increase of \$329.2 million (76.4%) from the 2017-2021 Adopted CIP, mainly due to a significant increase in Federal, State and Valley Transportation Authority funding for pavement maintenance.

Funding from the federal government (\$189.6 million) is allocated to several programs including: the Airport Capital Program (\$115.1 million) from the Transportation Security Administration and the Federal Aviation Administration (FAA) for Airport Improvement Program (AIP) grants administered by the FAA, which are eligible but have not yet been secured; the Traffic Capital Program (\$73.2 million) primarily for grants related to multi-modal and pedestrian safety transportation projects (\$53.8 million); and the Water Pollution Control Capital Program (\$1.3 million) from the US Bureau of Reclamation for the construction of recycled water infrastructure, studies, delivery of recycled water for irrigation and industrial purposes, or other needs, as specified by individual grant agreements with the Bureau. Funding from the State in the amount of \$110.3 million is mainly allocated to the Traffic Capital Program (\$107.7 million), of which \$100.0 million is for pavement maintenance activities from the Gas Tax.

TAXES, FEES AND CHARGES

The 2018-2022 Adopted CIP includes an estimate of \$487.7 million in the Taxes, Fees and Charges category, an increase of \$157.2 million from the estimated level in the 2017-2021 Adopted CIP. This increase is due to shifting Airport Passenger Facility Charge (PFC) Proceeds to this category from Miscellaneous (\$120.4 million) and a higher revenue estimate from construction taxes levied on private development activity (\$34.0 million). The chart on the following page compares the components of the 2018-2022 Taxes, Fees and Charges estimates with those included in the 2017-2021 Adopted CIP, followed by a discussion of the revenue estimates for the three largest economically sensitive tax revenues within the Taxes, Fees and Charges category.

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TAXES, FEES AND CHARGES

<u>Source</u>	<u>2017-2021 CIP</u>	<u>2018-2022 CIP</u>	<u>Difference</u>
Construction and Conveyance Tax	\$ 176,000,000	\$ 176,000,000	\$ 0
Construction Excise Tax	84,000,000	105,000,000	21,000,000
Building and Structure Construction Tax	65,000,000	78,000,000	13,000,000
Sanitary Sewer Connection Fees	3,250,000	3,500,000	250,000
Residential Construction Tax	875,000	1,000,000	125,000
Water Utility Fees	500,000	375,000	(125,000)
Storm Drainage Fees	875,000	1,000,000	125,000
Other Taxes, Fees and Charges	0	122,800,000	122,800,000
TOTAL	\$ 330,500,000	\$ 487,675,000	\$ 157,175,000

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 a very small portion (approximately 1%) of the total Construction and Conveyance Taxes collected.

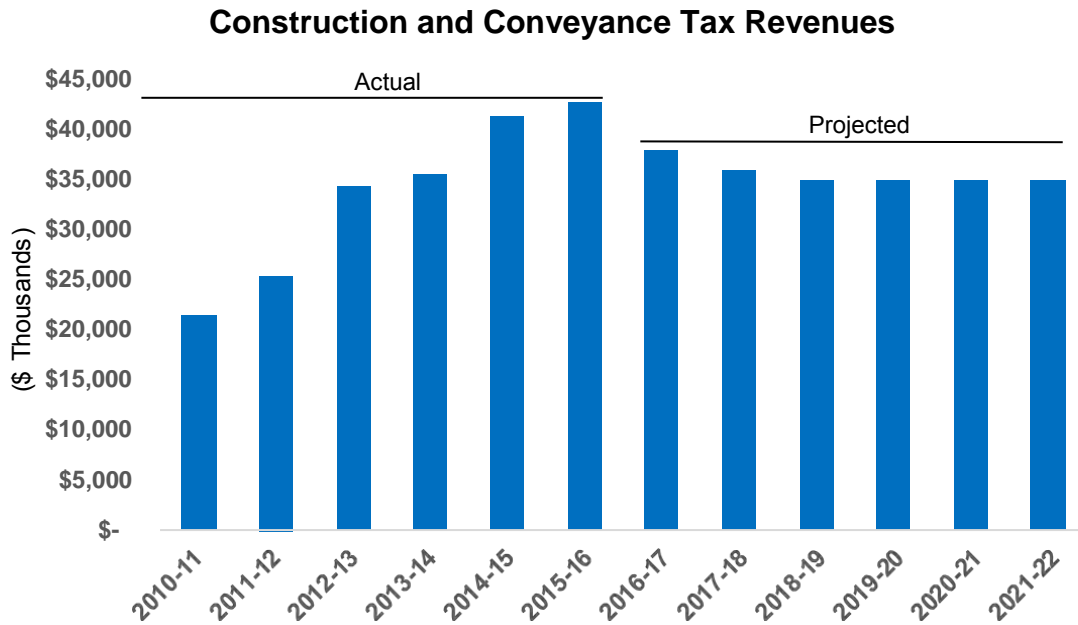
Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high of \$49 million in 2005-2006, tax collections continuously fell for several years 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 reaching \$42.7 million in 2015-2016. Due to increased home prices coupled with lower inventory and property transfers, collections in 2016-2017 are projected to end the year at \$38 million. This collection level is 11% below the actual receipts received in 2015-2016 (\$42.7 million), but is slightly higher than the \$36 million estimated in the 2017-2021 Adopted CIP. Based on recent collection trends and real estate activity, collections in this extremely volatile revenue category are anticipated to drop slightly to \$36 million in 2017-2018, decrease to \$35 million in 2018-2019, and remain constant through the remainder of the forecast period. 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) the future projections of San José real estate market activity.

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Construction and Conveyance Tax (Cont'd.)



Based on the City Council-approved distribution formula, C&C funds allocated in the 2018-2022 CIP are displayed in the following table.

Construction and Conveyance Tax Distribution

Program	Dist.	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Parks	64.00%	\$23,040,000	\$22,400,000	\$22,400,000	\$22,400,000	\$22,400,000
Park Yards	1.20%	432,000	420,000	420,000	420,000	420,000
Fire	8.40%	3,024,000	2,940,000	2,940,000	2,940,000	2,940,000
Library	14.22%	5,119,000	4,977,000	4,977,000	4,977,000	4,977,000
Service Yards	8.78%	3,161,000	3,073,000	3,073,000	3,073,000	3,073,000
Communications	3.40%	1,224,000	1,190,000	1,190,000	1,190,000	1,190,000
Total	100.00%	\$36,000,000	\$35,000,000	\$35,000,000	\$35,000,000	\$35,000,000

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Construction Excise Tax

The Construction Excise Tax (also 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 estimated to end 2016-2017 at \$32 million, exceeding the budgeted estimate by \$15 million. Based upon the construction projections provided by the Planning, Building & Code Enforcement Department and actual collections on this tax, Construction Excise Tax collections in the 2018-2022 CIP are projected to drop from the extremely high annual collection level in 2016-2017. Over the five-year forecast period, \$105 million is projected with proceeds estimated at \$24 million in 2017-2018, then dropping to \$21 million in 2018-2019, and decreasing to \$20 million in 2019-2020 through 2021-2022. While below 2016-2017 receipts, this collection level represents a significant increase of \$21 million (25%) from the 2017-2021 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.

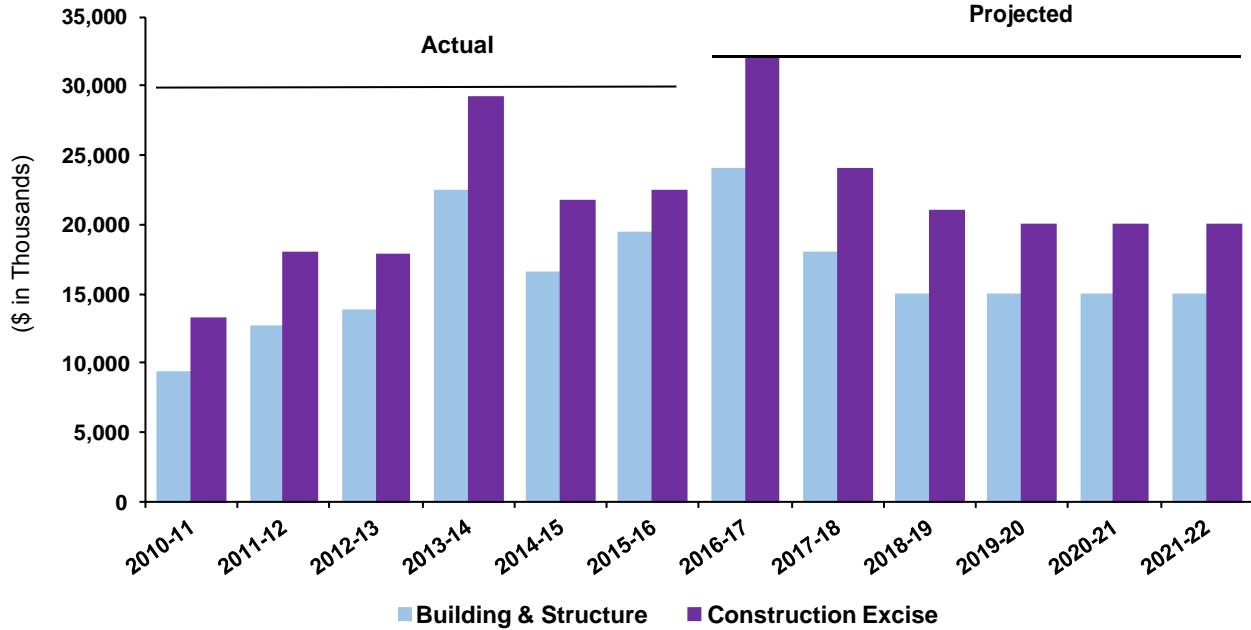
Building and Structure Construction Tax receipts are anticipated to end 2016-2017 at \$24 million, exceeding the budget estimate by \$11 million. Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, Building and Structure Construction Tax collections are projected to drop from the extremely high collection level experienced in 2016-2017. Over the five-year period, receipts are estimated at \$78 million with collections declining to \$18 million in 2017-2018 and to \$15 million for the remainder of the forecast period as projects are completed and activity levels decrease. While below 2016-2017 receipts, this collection level represents an increase of \$13 million (20%) from the estimate included in the 2017-2021 CIP. 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 2017-2018 at an amount of \$23.1 million and 2% annual growth through 2021-2022 for a five-year total of \$120.4 million.

GENERAL FUND

General Fund contributions to capital projects included in the CIP total \$71.1 million, down \$26.6 million from the last CIP.

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

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- Public Safety (\$27.8 million) – Fire apparatus replacement continues to be a priority for the City, with a total allocation of \$26.0 million in the General Fund and \$4.3 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. To consolidate funding for the Fire Station 37 (Construction) Reserve, the existing Fire Station 37 Earmarked Reserve in the General Fund of \$960,000 is liquidated and transferred to the Public Safety Capital Program. Other contributions include \$850,000 for Emergency Vehicle Preemption Service and \$51,000 for activation of the South San José Police Substation.
- Municipal Improvements (\$33.4 million) – This category includes an ongoing average annual allocation of \$928,000 to address a variety of unanticipated and emergency capital repairs across a wide range of municipal facilities (\$4.6 million over five years). Other annual ongoing allocations include \$350,000 annually for Closed Landfill Compliance (\$1.8 million), \$200,000 for City Hall and Police Communications Uninterrupted Power Supply Capital Maintenance, \$100,000 for Arena Repairs (total allocation of \$740,000 includes a rebudget of \$240,000 of unexpended funds from 2016-2017 to 2017-2018), and \$50,000 for Fuel Tank Monitoring (\$250,000).

One-time investments for improvements at City Hall total \$7.6 million and include City Hall HVAC Control System Replacement (\$4.9 million); City Hall Waterproofing (\$990,000); City Hall Audio/Visual Upgrade (\$617,000); City Hall Network Operations Center Main Switchboard Replacement (\$500,000); and other City Hall projects (\$651,000).

One-time investments for capital improvements related to Police Department buildings and operations total \$7.6 million and include Police Communications Emergency Uninterrupted Power Supply (\$3.2 million); Police Communications Fire Protection System Upgrade (\$1.9 million); Police Communications Center Elevator Retrofit (\$595,000); Police Administration Building Boiler and Chiller Replacement (\$400,000); Police Fleet Management System (\$400,000); Police Communications Center Electrical Upgrade (\$340,000); Police Administration Building Roof Replacement (\$250,000); Police Administration Building Fencing (\$220,000); and other Police Department-related projects (\$348,000).

One-time investments at other City facilities or related to delivery of community services include Silicon Valley Regional Communications System – Infrastructure Payment (\$2.5 million); East Side Union High School District Community Wireless Network Project (\$800,000); Animal Care and Services Improvements (\$644,000); Arc Flash Hazard Analysis (\$450,000); African American Community Services Center Improvements (\$350,000); San Jose Municipal Stadium Light Pole Refurbishing, Repainting and Improvements (\$140,000); Downtown Ice Rink Improvements

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(\$100,000 – offset by a transfer from the General Purpose Parking Fund); City-wide Building Assessment (\$53,000); and Family-Friendly City Facilities (\$40,000).

The Municipal Improvements program also invests a total of \$2.4 million from the Cultural Facilities Capital Maintenance Reserve (reserve funded from Transient Occupancy Tax revenues above the 2013-2014 actual collections set aside per City Council direction, this set aside was discontinued in 2017-2018). These Cultural Facilities investments include allocations for San José Stage Company (\$1,000,000); Hammer Theatre Center (\$799,000); History San José (\$502,000); San José Museum of Art (\$502,000); Mexican Heritage Plaza (\$400,000); Tech Museum of Innovation (\$320,000); and the Children’s Discovery Museum (\$70,000); as well as needs identified in the Mayor’s June Budget Message for 2017-2018, as approved by City Council, including Camera 3 Theatre (\$500,000), Children Discovery Museum – Bill’s Backyard (\$400,000), and History San José Indoor Programming (\$25,000).

- Communications (\$6.7 million) – Due to insufficient Communication C&C Tax Fund revenues, General Fund transfers are required to fully fund contributions to the Silicon Valley Regional Interoperability Authority (SVRIA) and to purchase dispatch consoles for use at the Police and Fire Communications Center and at the South San José Police Substation.
- Service Yards (\$1.7 million) – Due to insufficient Service Yards C&C Tax Fund revenues, General Fund transfers are required to supplement funding for the Debt Service on Phase I Bonds issued to finance the Central Services Yard expansion.
- Traffic (\$1.2 million) – The Pavement Maintenance Program receives \$1.0 million and \$160,000 is allocated for LED streetlights on Sebastian Borello Drive.
- Parks and Community Facilities Development (\$276,000) – Two allocations in this program include \$230,000 for the Vietnamese-American Community Center Planning and Fundraising Project and \$46,000 for Shirakawa Community Center Improvements.

CONTRIBUTIONS, LOANS AND TRANSFERS FROM OTHER FUNDS

Funding in this category totals \$596.7 million which is \$34.0 million above the amount included in the 2017-2021 Adopted CIP. The significant increases include: an increased transfer of \$27.3 million from the Airport Surplus Revenue Fund to the Airport Capital Program for increased capital investment in projects such as the Airfield Geometric Implementation and Terminal B Ramp Rehabilitation; and an increased transfer from the General Purpose Parking Fund of \$16.3 million to the Parking Capital Program for the inclusion of new projects related to parking development, with a focus on Diridon Station and SAP Center.

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CONTRIBUTIONS, LOANS AND TRANSFERS FROM OTHER FUNDS

The largest decreases include a \$5.1 million reduction in the transfers from the Convention Center Facilities District Revenue Fund and Convention and Cultural Affairs Fund to reflect the planned expenditures in the Municipal Improvements Capital Program and a \$1.2 million reduction from the Library C&C Tax Fund and Library Parcel Tax Fund to the Library Capital Program that reflects planned expenditures and the continued payback of ineligible expenditures to the Branch Libraries Bond Fund being almost fulfilled.

The largest transfers of funds in this CIP are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (WPCP) (\$220.0 million) and the Sanitary Sewer System Capital Program (\$160.0 million) for costs related to the construction and maintenance of the WPCP and the City's sanitary sewer collection system.

Other significant transfers are reflected in the following programs: Airport Capital Program (\$52.4 million from the Airport Revenue Surplus Fund); Parks and Community Facilities Development Capital Program (\$47.7 million from Central C&C Tax Fund to the ten Council Districts and Parks City-Wide C&C Tax Funds); Parking Capital Program (\$34.7 million from the General Purpose Parking Fund); Storm Sewer System Capital Program (\$26.0 million from the Storm Sewer Operating Fund); and the Water Utility System Capital Program (\$23.7 million from the Water Utility Fund).

INTEREST INCOME

The 2018-2022 Adopted CIP includes \$36.3 million from interest income. These estimates are up \$7.8 million from those included in the 2017-2021 Adopted CIP. The range for the interest rates in the 2018-2022 Adopted CIP is 1.20% to 2.15% compared to a range of 0.94% to 2.36% used in the 2017-2021 Adopted CIP.

MISCELLANEOUS REVENUE

The Miscellaneous Revenue category totals \$9.3 million, a decrease of \$130.7 million. This decrease is almost entirely due to moving the Airport Passenger Facility Charges from Miscellaneous Revenue to Taxes, Fees and Charges (\$120.4 million). The bulk of the remaining amount is attributable to Developer Contributions within the Developer Assisted Projects Capital Program to support underground utility activities (\$4.5 million) and the Traffic Capital Program for fiber optics fee reimbursements from developers (\$1.0 million); and Other Revenue of \$1.9 million within the Water Pollution Control Capital Program for the Calpine Metcalf Energy Center Facilities Repayment.