

CITY OF SAN JOSE
2016-2020 ADOPTED CAPITAL IMPROVEMENT PROGRAM

SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES

The 2016-2020 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 2015-2019 Adopted CIP.

<u>Source</u>	<u>2015-2019 CIP</u> <u>(\$ millions)</u>	<u>2016-2020 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 579.8	\$ 589.6	\$ 9.8
Sale of Bonds & Commercial Paper Proceeds	457.4	530.0	72.6
Revenue from Other Agencies	316.8	356.5	39.7
Taxes, Fees and Charges	354.2	325.6	(28.6)
General Fund	60.5	83.4	22.9
Contributions, Loans and Transfers from Other Funds	515.4	530.8	15.4
Interest Income	13.2	26.4	13.2
Miscellaneous Revenue	128.9	132.2	3.3
TOTAL	\$ 2,426.2	\$ 2,574.5	\$ 148.3

BEGINNING FUND BALANCES

The Beginning Fund Balances in the 2016-2020 CIP total \$589.6 million, which is an increase of approximately \$9.8 million (1.7%) from levels budgeted in the 2015-2019 CIP. Beginning Fund Balances primarily reflect planned carryover funding for projects expected to be initiated or completed in the next five years. The Parks and Community Facilities Development Capital Program has Beginning Fund Balances totaling \$139.3 million, accounting for 23.6% 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 Water Pollution Control Capital Program accounts for 21.5% (\$126.6 million) of the Beginning Fund Balances, representing a significant amount of project costs that will be spent over the next five years. The other programs with significant Beginning Fund Balances include Traffic (\$104.1 million), Airport (\$92.4 million), and Sanitary Sewer System (\$69.2 million). All three programs include a large number of projects whose delivery will result in much lower Ending Fund Balances by the end of the CIP.

SALE OF BONDS AND COMMERCIAL PAPER PROCEEDS

The 2016-2020 Adopted CIP includes revenues of \$530.0 million from the sale of bonds (\$305.2 million) and commercial paper proceeds (\$224.8 million). The Water Pollution Control Capital Program accounts for \$517.3 million, consisting of \$296.0 million from bonds and \$221.3 million from commercial paper 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 Water Utility Capital Program includes \$3.5 million from commercial paper that will be used for the replacement of water meters, which will increase water conservation across the City. The Library (\$5.9 million) and Public Safety (\$3.3 million) Capital Programs incorporate the final bond issuances for these two General

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SALE OF BONDS AND COMMERCIAL PAPER PROCEEDS

Obligation Bond programs. It was previously anticipated that these bonds would be issued in 2014-2015 based on project schedules; however, these bonds are now scheduled to be issued in 2015-2016.

REVENUE FROM OTHER AGENCIES

The Revenue from Other Agencies category totals \$356.5 million and is comprised of contributions from other agencies that use the Water Pollution Control Plant (WPCP) (\$203.4 million) and the Sanitary Sewer System (\$800,000); federal (\$84.3 million) and State (\$31.4 million) grants; Valley Transportation Authority funding that is mostly from Measure B for pavement maintenance project management services (\$27.0 million) and for the design review, encroachment permits, and construction inspection services for the Bay Area Rapid Transit (BART) extension to Berryessa (\$1.3 million); West Valley Sanitation District reimbursements for joint-use sanitary sewer projects constructed by the City (\$7.7 million); and other agency (\$557,000) contributions. Overall, estimated revenues from these sources reflect an increase of \$39.7 million (12.5%) from the 2015-2019 Adopted CIP, mainly due to the revisions in the approach to finance expansion and rehabilitation projects at the WPCP that resulted in higher contribution amounts from WPCP User Agencies.

Funding from the federal government (\$84.3 million) is allocated to several programs including: the Airport Capital Program (\$43.6 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 (\$39.5 million) primarily for grants related to a suite of multi-modal and pedestrian safety transportation projects (\$25.5 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 \$31.4 million is mainly allocated to the Traffic Capital Program (\$25.5 million), of which \$19.4 million is for pavement maintenance activities from Gas Tax.

TAXES, FEES AND CHARGES

The 2016-2020 Adopted CIP includes an estimate of \$325.6 million in the Taxes, Fees and Charges category, a decrease of \$28.6 million from the estimated level in the 2015-2019 Adopted CIP. This decrease is primarily the result of a lower estimate for Construction and Conveyance Tax revenues (\$20.0 million) and revenue from construction taxes levied on private development activity (\$8.0 million); both are discussed in detail below. The chart on the following page compares the components of the 2016-2020 Taxes, Fees and Charges estimates with those included in the 2015-2019 Adopted CIP, followed by a discussion of the revenue estimates for the three largest sources within the Taxes, Fees and Charges category.

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TAXES, FEES AND CHARGES

<u>Source</u>	<u>2015-2019 CIP (\$ millions)</u>	<u>2016-2020 CIP (\$ millions)</u>	<u>Difference (\$ millions)</u>
Construction and Conveyance Tax	\$ 195.0	\$ 175.0	\$ (20.0)
Construction Excise Tax	87.0	83.0	(4.0)
Building and Structure Construction Tax	66.0	62.0	(4.0)
Sanitary Sewer Connection Fees	3.7	3.4	(0.3)
Residential Construction Tax	0.9	0.9	0.0
Water Utility Fees	0.8	0.5	(0.3)
Storm Drainage Fees	0.8	0.8	0.0
TOTAL	\$ 354.2	\$ 325.6	(\$ 28.6)

Construction and Conveyance Tax

The Construction Tax portion of the Construction and Conveyance (C&C) Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from \$75 per unit located in a building containing at least 20 dwelling units to \$150 for a single-family residence. The commercial and industrial rate is eight cents per square foot of floor area constructed. The Construction Tax accounts for approximately 1% of the total C&C Taxes collected. The Conveyance Tax portion of the C&C Tax category is levied upon each transfer of real property, where the value of the property exceeds \$100. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately 99% of the total C&C 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 real estate market. After reaching a record high of \$49.0 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, remaining low through 2010-2011 (\$21.2 million). Collections have since rebounded, reaching totals of \$34.4 million in 2012-2013 and \$35.5 million in 2013-2014. Though local real estate prices continue to rise, due to the historically low number of property transactions, revenues are anticipated to remain essentially flat at \$35.0 million in 2014-2015 and in each year of the CIP. This collection level reflects what is believed to be a sustainable level of ongoing housing resale activity, though actual tax receipts may vary substantially depending on local economic conditions.

The five-year projection for C&C Tax revenues totals \$175.0 million, a 10.3% decrease from the 2015-2019 CIP, primarily attributable to a lower number of property transactions than previously assumed. The 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.

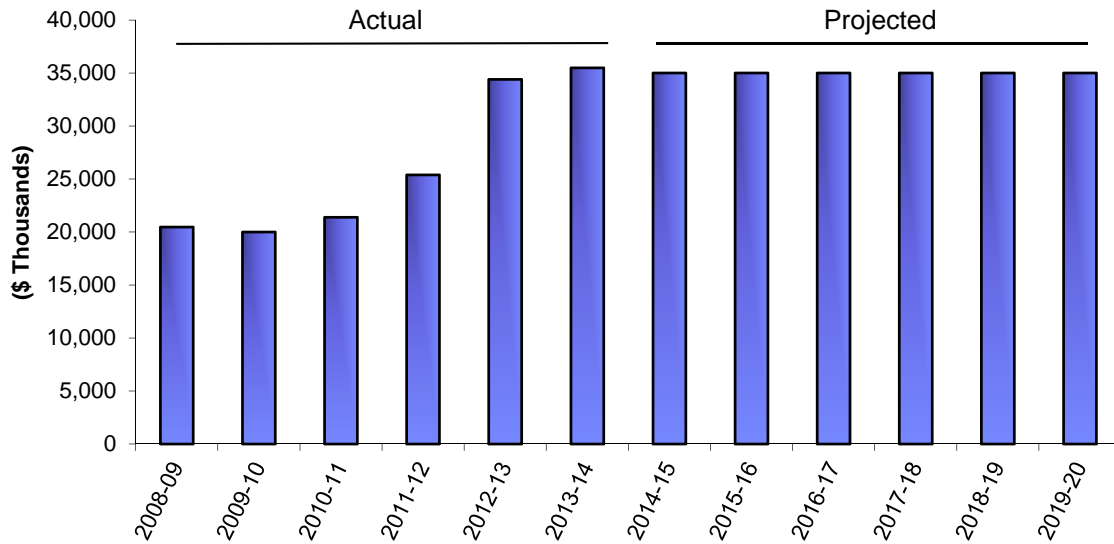
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TAXES, FEES AND CHARGES

Construction and Conveyance Tax (Cont'd.)

Construction and Conveyance Tax Revenues



Based on the City Council-approved distribution formula, C&C funds allocated in the 2016-2020 CIP are displayed in the following table.

Construction and Conveyance Tax Distribution

Program	Dist.	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Parks	64.00%	22,400,000	22,400,000	22,400,000	22,400,000	22,400,000
Park Yards	1.20%	420,000	420,000	420,000	420,000	420,000
Fire	8.40%	2,940,000	2,940,000	2,940,000	2,940,000	2,940,000
Library	14.22%	4,977,000	4,977,000	4,977,000	4,977,000	4,977,000
Service Yards	8.78%	3,073,000	3,073,000	3,073,000	3,073,000	3,073,000
Communications	3.40%	1,190,000	1,190,000	1,190,000	1,190,000	1,190,000
Total	100.00%	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000

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TAXES, FEES AND CHARGES

Construction Excise Tax

The Construction Excise Tax (also known as the Commercial, Residential, Mobile Home Park Tax) is levied upon construction, alteration, repair, or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. The tax may be used for any “usual current expense” of the City; however, the City Council has historically used the majority of these funds for traffic improvements, including street maintenance and resurfacing, streetlights, and bicycle and pedestrian facilities.

The 2014-2015 estimate for Construction Excise tax collections used in the development of the 2016-2020 Adopted CIP is \$22.0 million, up slightly from the \$21.0 million budgeted estimate included at the beginning of the year. This estimate reflects the continued strength of residential and commercial construction activity, though down from last year’s surge of \$29.3 million. Based upon the construction valuation projections provided by the Planning, Building and Code Enforcement Department and an analysis of historical and current collection patterns, the revenue estimates included in the 2016-2020 Adopted CIP total \$83.0 million. The Adopted CIP represents a decrease of \$4.0 million from the total amount estimated in the 2015-2019 Adopted CIP, which is one year removed from the peak levels for commercial development achieved in 2014-2015.

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.

The 2014-2015 estimate for Building and Structure Construction tax collections used in the development of the 2016-2020 Adopted CIP remains at the \$17.0 million used as the original budgeted estimate included at the beginning of the year. Similar to the Construction Excise Tax, this estimate reflects the continued strength of private development activity, though down from last year’s peak of \$22.5 million. Based on construction valuation forecasts supplied by the Planning, Building and Code Enforcement Department and an analysis of actual collection patterns, the five-year projection for this tax totals \$62.0 million. The Adopted CIP represents a decrease of \$4.0 million from the estimates included in the 2015-2019 Adopted CIP, reflecting revised expectations for development activity.

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.

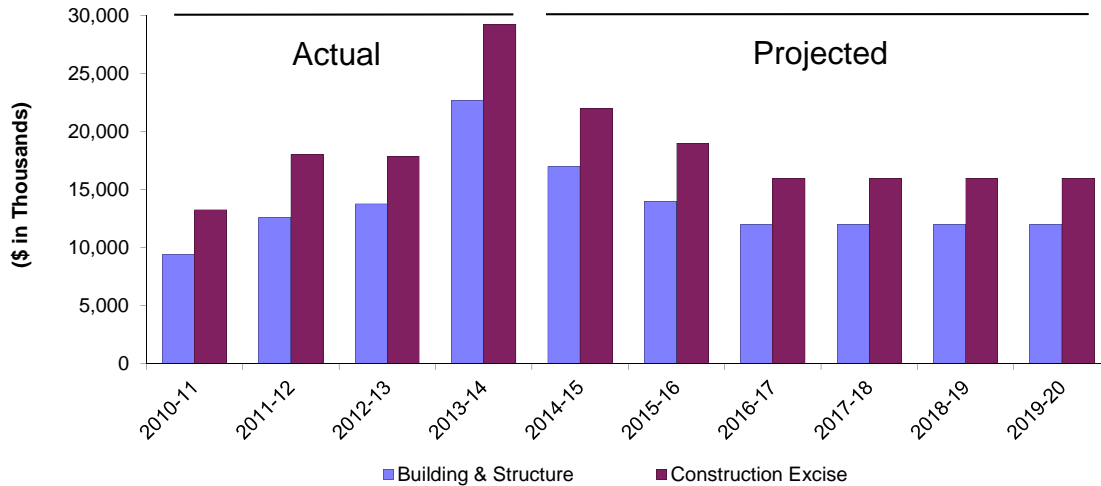
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TAXES, FEES AND CHARGES

Building and Structure Construction Tax (Cont'd.)

Major Construction-Related Tax Revenues



GENERAL FUND

General Fund contributions to capital projects included in the CIP total \$83.4 million. This reflects an increase of \$22.9 million from the last CIP.

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

- Municipal Improvements (\$37.1 million) – The two largest General Fund investments in this category are the United States Patent and Trademark Office (USPTO) – Tenant Improvements project (\$6.4 million) that will construct improvements in the City Hall Wing to accommodate new USPTO staff (cost will be fully reimbursed by the Federal government) and the Airport West Property Caltrain Connection (\$6.0 million) that will construct a pedestrian tunnel connection between the Airport West property and the Santa Clara Caltrain station. This program also invests \$1.5 million of General Fund dollars to rehabilitate cultural facilities from Transient Occupancy Tax revenues above the 2013-2014 actual collections set aside per City Council direction for this purpose, including improvements at the Children’s Discovery Museum (\$350,000), Mexican Heritage Plaza (\$300,000), The Tech Museum (\$230,000), Plaza de Cesar Chavez Stage Canopy (\$210,000), History San José (\$205,000), and San José Museum of Art (\$200,000). Other investments address critical infrastructure rehabilitation and repair needs at the Police Administration Building/Police Communications Center (\$9.7 million), City Hall (\$2.2 million), the Animal Care and Services building (\$1.0 million), and the Children’s Discovery Museum (\$920,000). One construction project

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GENERAL FUND

at City Hall is the Permit Center Breakroom and Restrooms (\$570,000) which will design and construct a men's and women's employee restroom and small employee break room within space occupied by City employees on the first floor of the Tower. Funding allocated for critical management systems or building assessments include the Police Fleet Management System (\$400,000), City-wide Building Assessment (\$400,000), and Arc Flash Hazard Analysis (\$350,000). Ongoing projects include Unanticipated/Emergency Maintenance (\$3.8 million), Closed Landfill Compliance (\$1.8 million), City Hall and Police Communications Uninterrupted Power Supply Maintenance (\$1.0 million), Arena Repairs (\$850,000), and Fuel Tank Monitoring (\$250,000).

- Public Safety (\$32.4 million) – Fire apparatus replacement continues to be a priority for the City, with a total allocation of \$31.9 million in the General Fund and \$3.5 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 in order to maintain sufficient funding for emergency Fire Apparatus replacement through the five-year CIP. An additional \$500,000 is included for fire facilities remediation and improvements and equipment needs for the South San José Police Substation.
- Traffic (\$8.0 million) – The Mayor's June Budget Message for Fiscal Year 2015-2016, as approved by the City Council, allocated one-time funding of \$8.0 million to address pavement maintenance needs.
- Communications (\$3.1 million) – Due to insufficient Communication C&C Tax Fund revenues, General Fund transfers are required in order to primarily fund contributions to the Silicon Valley Regional Interoperability Authority (SVRIA).
- Service Yards (\$2.3 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.

CONTRIBUTIONS, LOANS AND TRANSFERS FROM OTHER FUNDS

Funding in this category totals \$530.8 million which is \$15.4 million above the amount included in the 2015-2019 Adopted CIP. The significant increases include: an increased transfer of \$37.0 million from the Sewer Service and Use Charge Fund to the Sewer Service and Use Charge Capital Improvement Fund to help address the backlog of deferred pipeline rehabilitation projects; an increased transfer of \$10.1 million from the General Purpose Parking Fund to the Parking Capital Fund, primarily to fund Downtown multi-modal improvement projects; and an increased contribution of \$8.3 million from the Library Parcel Tax Fund into the Library Capital Program to reflect the continuation of the parcel tax beyond its previous sunset date.

Significant decreases include: a decreased transfer of \$23.0 million from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program to align with revised timing and financing of the capital improvement projects recommended in the Plant Master Plan; a reduction of \$13.5 million

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CONTRIBUTIONS, LOANS AND TRANSFERS FROM OTHER FUNDS

from the Central C&C Tax Fund to the Council Districts and City-Wide C&C Funds as a result of decreased C&C Tax revenues; and by a reduction of \$11.9 million from the Storm Sewer Operating Fund to the Storm Sewer Capital Fund, reflecting the reduced need for capital expenditures until completion of the Storm Sewer System Master Plan identifies a revised capital improvement program to address future capacity upgrades and rehabilitation projects (described in more detail in the Storm Sewer System Capital Program Overview, Section V of this document).

The largest transfers of funds in this CIP are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$193.4 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: Parks and Community Facilities Development Capital Program (\$52.8 million) from Central C&C Tax Fund to the ten Council Districts and Parks City-Wide C&C Tax Funds; Storm Sewer System Capital Program (\$28.0 million from the Storm Sewer Operating Fund); Airport Capital Program (\$23.3 million from the Airport Revenue Surplus Fund); and the Water Utility System Capital Program (\$22.9 million from the Water Utility Fund).

INTEREST INCOME

The 2016-2020 Adopted CIP includes \$26.4 million from interest income. This is an increase of \$13.2 million from the estimate included in the 2015-2019 Adopted CIP, primarily as a result of higher fund balances and interest rates assumed in this CIP. The range for the interest rates in the 2015-2019 CIP is 0.74% to 2.50% compared to a range of 0.35% to 0.80% used in the 2015-2019 Adopted CIP.

MISCELLANEOUS REVENUE

The Miscellaneous Revenue category totals \$132.2 million, an increase of \$3.3 million from the 2015-2019 Adopted CIP. Revenue in this category is generated mainly through Airport passenger facility charges (\$102.5 million), which constitutes approximately 77.6% of the total revenue. The remaining revenues in this category primarily include an estimate for the sale of the Main Service Yard in Japantown (\$17.5 million) and parking and lease revenue related to Lake Cunningham Park (\$4.4 million). In the Water Pollution Control Capital Program, a total of \$1.9 million is estimated for revenue from the Calpine Metcalf Energy Center for facilities repayment and the Santa Clara Valley Water District.

The Miscellaneous Revenue category also includes developer contributions of \$5.1 million, which is \$500,000 less than the 2015-2019 Adopted CIP estimate. The Developer Assisted Projects Capital Program includes \$4.0 million to support underground utility activities and the Traffic Capital Program includes \$1.1 million of fiber optics fee reimbursements from developers.