



2014-2015 CAPITAL BUDGET

**2015-2019 CAPITAL
IMPROVEMENT PROGRAM**



**CITY MANAGER'S
2014-2015
BUDGET MESSAGE**

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2014-2015 BUDGET MESSAGE**

April 21, 2014

HONORABLE MAYOR AND CITY COUNCIL:

I am pleased to present the 2014-2015 Proposed Capital Budget and the 2015-2019 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.

This CIP continues the approach of carefully balancing resource investments to improve and rehabilitate existing public infrastructure while still making targeted investments that align with the City's economic development and community livability goals contained within the Envision San José 2040 General Plan (General Plan). More than a decade ago, the voters approved a series of bond measures to expand San José's parks and library systems, public safety facilities, and airport. With these expansions largely complete, attention is now turned toward renewing the backbone of the City's infrastructure, and leveraging these improvements to spur future economic development. Reflecting these themes, this CIP includes large investments to upgrade and revitalize the Water Pollution Control Plant (San José-Santa Clara Regional Wastewater Facility); the set aside of funds to help reduce the deferred infrastructure backlog in the City's parks, trails and community centers; and the allocation of construction tax revenues and grant funding for transportation improvements in Downtown and North San José, while still investing in community livability through pavement maintenance, traffic safety and multimodal improvements. The City's 2014-2015 Proposed Capital Budget totals \$790.1 million and the 2015-2019 Proposed CIP totals \$2.3 billion. The 2014-2015 Proposed Capital Budget reflects a 12.8% decrease from the 2013-2014 Adopted Capital Budget of \$905.3 million; however, once funds to complete existing projects are rebudgeted from 2013-2014 to 2014-2015 as part of the Adopted Budget process, funding in 2014-2015 is expected to be close to the 2013-2014 Adopted Capital Budget level. From a five-year perspective, the 2015-2019 Proposed CIP is 8.7% higher than the 2014-2018 Adopted CIP of \$2.1 billion. This increase is driven primarily by Water Pollution Control Plant upgrades, which includes a \$448.2 million financing effort, in 2015-2016 and 2016-2017 and investments in park and transportation infrastructure generated through higher construction and real estate taxes.

Though the local economic climate has improved, the need to invest in the rehabilitation of critical public infrastructure quickly outpaces the increase in available revenues. Many capital programs continue to leverage grants and revenue from other agencies to help narrow the gap between local City funds and the increasingly critical backlog of unmet/deferred infrastructure needs, particularly for City facilities and the local street network. The Deferred Infrastructure Maintenance Backlog report scheduled to be heard by the Transportation and Environment Committee on May 5, 2014 identifies a backlog of unmet/deferred infrastructure needs that has grown from \$909 million to \$1.05 billion. Faced with this continued funding gap, the Administration continues to pursue

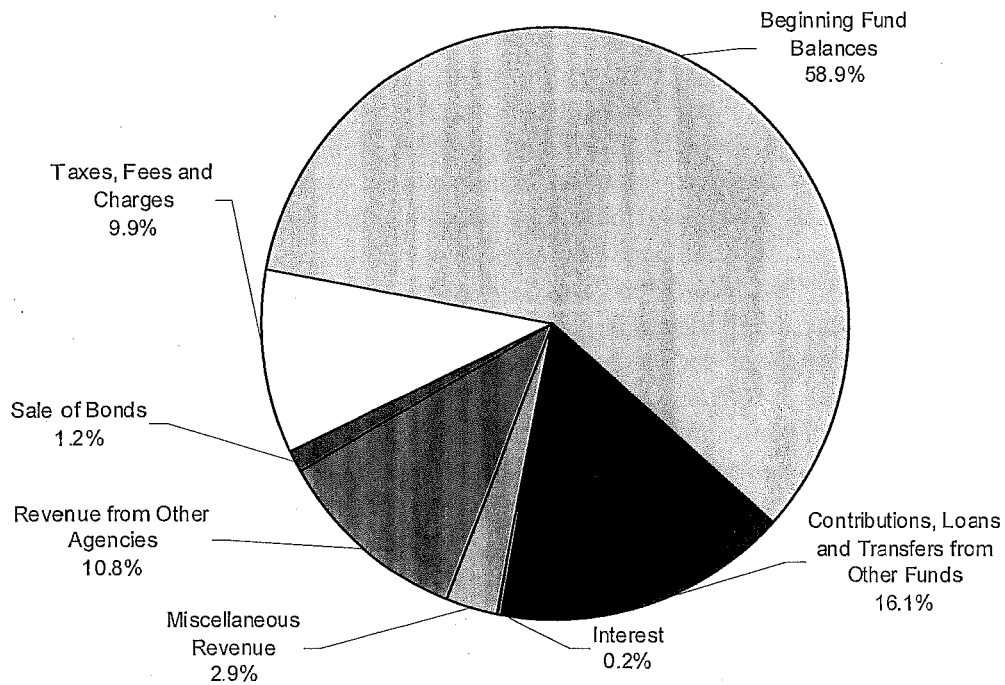
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additional revenue sources from outside agencies and potential local ballot measures, as well as to continue to explore methods to reduce project costs, such as design-build project delivery. Regardless of these challenges, the Administration remains dedicated to a safe, reliable, and efficient public infrastructure that meets the needs of its residents and businesses, now and in the future.

CAPITAL PROGRAM FUNDING SOURCES

The pie chart below depicts the funding sources for the 2014-2015 Proposed Capital Budget, which totals \$790.1 million. The Beginning Fund Balance category accounts for 58.9% of the total Source of Funds due primarily to funds rebudgeted from 2013-2014 to 2014-2015 to complete projects. The next two largest categories are Contributions, Loans, and Transfers from Other Funds (16.1%) and Revenue from Other Agencies categories (10.8%).

**2014-2015 Proposed Capital Budget
Source of Funds (\$790.1 million)**



The 2015-2019 Proposed CIP is supported by a combination of funding sources totaling \$2.3 billion as shown in the chart on the following page. The largest category is Contributions, Loans and Transfers from Other Funds (24.1% or \$549.4 million). This funding stream includes transfers such as the transfer of revenue from storm and sanitary operating funds that are supported by utility user fees (\$353.0 million) and the allocation of Construction and Conveyance taxes to each Parks and Community Facilities Council District Fund (\$66.3 million). The second largest funding source is the Beginning Fund Balances in the various funds, accounting for approximately 20.4% or \$465.0 million of the Proposed CIP funding. Of this amount, the Parks and Community Facilities Development Capital Program has a total of \$122.4 million in the Beginning Fund Balances. A

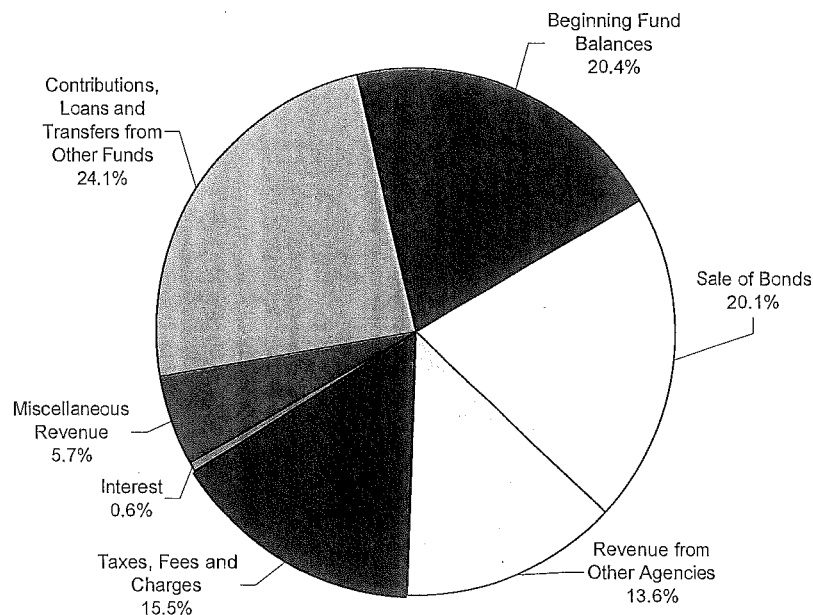
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CAPITAL PROGRAM FUNDING SOURCES

majority of these Parks funds are in reserves pending final scope of projects and locations or pending future funding becoming available within the nexus of a planned facility. The Airport Capital Program comprises \$95.1 million, primarily consisting of unspent terminal improvement bond proceeds. Although both the Water Pollution Control Program and the Sanitary Sewer Capital Program have \$66.1 million and \$59.0 million in their respective Beginning Fund Balances, both programs contain numerous capital projects to rehabilitate or replace aging infrastructure or enhance wastewater capacity. The remaining Beginning Fund Balances in the 2015-2019 Proposed CIP primarily reflect planned carryover funding for projects expected to be initiated or completed in the next five years. As a substantial number of capital projects are scheduled to be completed over the next five years, the Ending Fund Balance in 2018-2019 is estimated to fall to \$55.5 million.

The Sale of Bonds represents the third largest category (20.1% or \$457.4 million), mostly comprised of bond sales from the Water Pollution Control Program (\$448.2 million) due to the large capital improvement program identified by the Water Quality Control Plant Master Plan. Taxes, Fees and Charges category accounts for 15.5% or \$354.2 million of the total funding in the CIP. The three major funding sources in this category are Construction and Conveyance (C&C), Construction Excise, and Building and Structure Construction Taxes, which serve as the major revenue sources for Parks and Traffic Capital projects. The revenue from Other Agencies category, which includes mostly federal, State, and local grants as well as revenue from the Water Pollution Control Plant User Agencies, comprises 13.6% or \$310.3 million of the funding source for 2015-2019. A more detailed discussion of revenues can be found in the Summary Information section of this budget.

**2015-2019 Proposed Capital Improvement Program
Source of Funds (\$2.3 billion)**

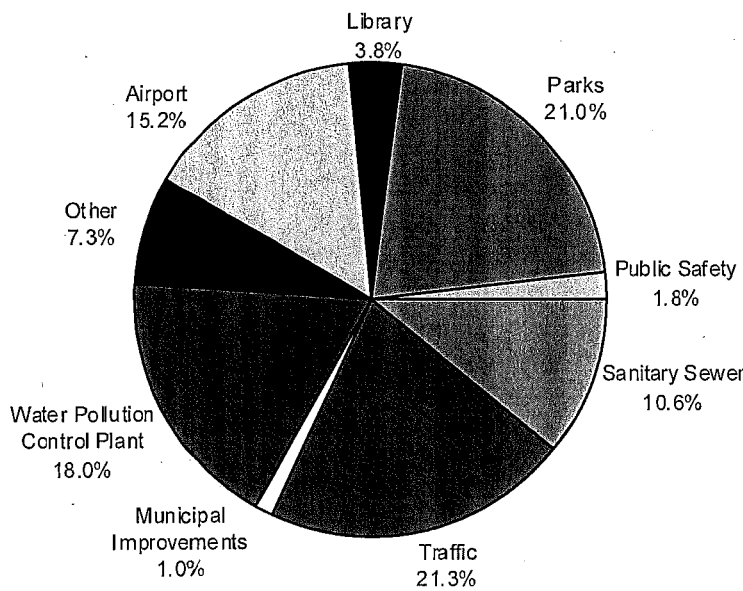


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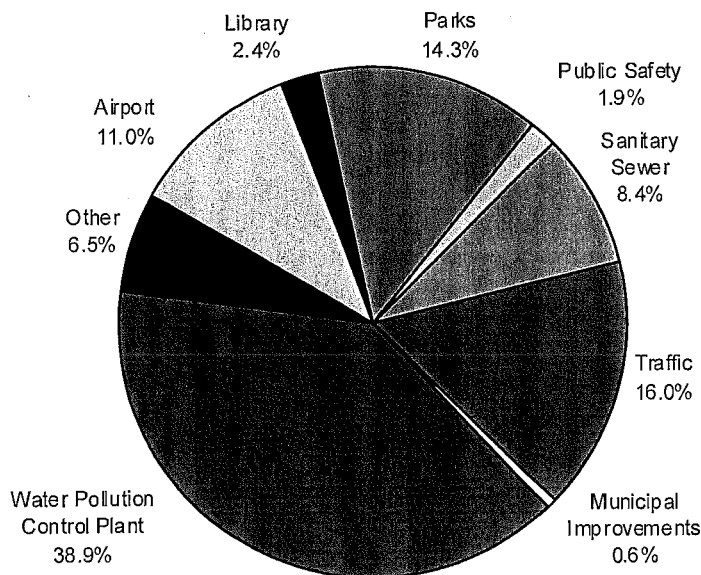
CAPITAL PROGRAM INVESTMENTS

The CIP is composed of 14 capital programs. The following pie charts depict the funding uses by capital programs and percentage of funding for the 2014-2015 Capital Budget and the 2015-2019 Capital Improvement Program. Major projects to be completed over the next five years are highlighted in the sidebar.

**2014-2015 Capital Budget
Use of Funds (\$790.1 million)**



**2015-2019 Capital Improvement Program
Use of Funds (\$2.3 billion)**



Major Projects to be Completed Over the Next Five Years

2014-2015 Projects

- Autumn Street Extension
- Bollinger Road – Blaney Avenue Sanitary Sewer Improvements
- Del Monte Park
- ITS: Transportation Incident Management Center
- Martin Park Expansion
- Montague Expressway Improvements Phase 2
- North San José Improvement – 880/Charcot Pavement Maintenance – Federal (OBAG)
- Police Communications Center Parking Deck and Ramp Restoration
- Rincon Avenue – Virginia Avenue Sanitary Sewer Improvement
- Terminal A Ground Transportation Island Modification
- TRAIL: Penitencia Creek Reach 1B (Noble Avenue to Dorel Drive)
- West Evergreen Park
- Willow Glen – Guadalupe, Phase III

2015-2016 Projects

- Fire Station 21 – Relocation (White Road)
- Fowler Creek Park Improvements
- Lake Cunningham Bike Park
- Large Trash Capture Devices
- North San José Improvement – 101/Zanker
- TRAIL: Coyote Creek (Story Road to Selma Olinder Park)
- Safe Routes to School Program (OBAG)
- Southeast Branch Library
- Southeast Ramp Reconstruction, Phase I
- Trimble Road and Capewood Lane Sanitary Sewer Improvements
- United States Patent and Trademark Office – City Staff Relocation

2016-2017 Projects

- 60" Brick Interceptor, Phase VIA and VIB
- BART Design and Construction
- Cadwallader Reservoir Rehabilitation
- Edenvale Reservoir Rehabilitation
- Plant Electrical Reliability
- Security Exit Doors (Airport)
- Southeast Ramp Reconstruction, Phase II
- The Alameda "Beautiful Way" Phase 2 (OBAG)

2017-2018 Projects

- Energy Generation Improvements (Plant)
- Taxiway H and K Extension

2018-2019 Projects

- Airport Rescue and Fire Fighting Facility
- Digested Sludge Dewatering Facility (Plant)
- Route 101/Blossom Hill Road Interchange
- Route 101/Mabury Road Project Development
- Westmont Avenue and Harriet Avenue Sanitary Sewer Improvement

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Each of the 14 capital programs continue to be aligned to one of the six City Service Areas (CSAs). The chart below compares the 2014-2018 Adopted CIP with the 2015-2019 Proposed CIP for each CSA. As discussed earlier, the 2015-2019 Proposed CIP reflects an increase of 8.7% from the 2014-2018 Adopted CIP primarily due to increased investments in the Water Pollution Control Program (Environmental and Utility Services CSA); programs such as Parks and Community Facilities Development (Neighborhood Services CSA) funded with Construction and Conveyance tax revenues; and projects in the Traffic Capital Program made possible by higher construction tax and grant revenues (Transportation and Aviation Services CSA). These increases are partially offset by reductions in Public Safety primarily due to a lower amount of required General Fund contributions for Fire Apparatus Replacement, and by a net reduction to Strategic Support of primarily one-time funding in 2013-2014 for a suite of urgent deferred maintenance projects at various municipal buildings. However, once funds to complete existing projects are rebudgeted into 2014-2015, funding for Public Safety and Strategic Support is likely to be much closer to the prior CIP.

2014-2018 Adopted CIP and 2015-2019 Proposed CIP Comparison (By City Service Area)

City Service Area	2014-2018 Adopted CIP	2015-2019 Proposed CIP	% Change
Community and Economic Development	\$ 11,884,438	\$ 13,158,297	11%
Environmental and Utility Services	1,010,615,148	1,161,235,457	15%
Neighborhood Services	340,041,781	380,571,504	12%
Public Safety	55,983,929	43,150,582	(23%)
Transportation and Aviation Services	610,550,075	620,105,786	2%
Strategic Support	67,531,889	60,200,900	(11%)
Total	\$ 2,096,607,260	\$ 2,278,422,526	8.7%

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 facilities 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.

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Community and Economic Development CSA

Developer Assisted Projects Capital Program (Cont'd.)

The major undergrounding projects in this CIP include:

- Delmas/Park (San Fernando Street, Cahill Street, Auzerais Avenue)
- Aborn Road (Renfield Way to Thompson Creek)
- Delmas/Park (Delmas, Park, and San Fernando Streets)
- Camden Avenue (Camden Avenue, Bascom Avenue to Leigh Avenue)

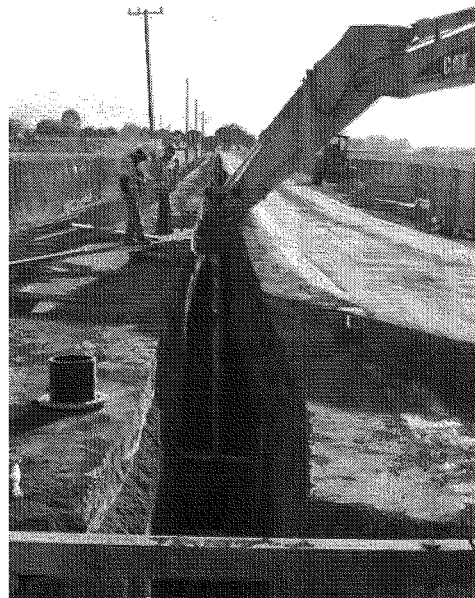
Environmental and Utility Services CSA

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 2,200 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 Water Pollution Control 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.

Although no rate increase is scheduled for 2014-2015, the Proposed CIP does assume annual Sewer Service and Use Charge rate increases ranging from 3% to 5% in 2015-2016 and beyond.



Force Main Installation

The major projects in this CIP include:

- 60-Inch Brick Interceptor Replacement of the Sanitary Sewer System, Phase VIA and VIB
- Immediate Replacement and Diversion Projects
- Rehabilitation of Sanitary Sewer Pump Stations
- Stevens Creek Boulevard Sanitary Sewer Improvements
- Trimble Road and Capewood Lane Sanitary Sewer Improvements

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Environmental and Utility Services CSA

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 this Proposed CIP will not require a Storm Sewer Service Charge rate increase in 2014-2015 and rate increases are not assumed in the out-years; however, this may change in the out-years upon completion of the initial recommendations from the Storm Sewer Master Plan, which is scheduled for completion in late 2016. Once complete, 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.

This Proposed CIP includes funding of \$11.5 million for the design and installation of large trash capture devices throughout the City to meet the Municipal Regional Stormwater Permit Provision C.10 trash reduction requirements, which 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.

The major projects in this CIP include:

- Large Trash Capture Devices
- Storm Sewer Master Plan – City-Wide
- Willow Glen – Guadalupe, Phase III



***Installation of Large Trash Capture Device on
7th Street***

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Environmental and Utility Services CSA

Water Pollution Control Capital Program

The Water Pollution Control Plant (WPCP) is a wastewater treatment facility serving eight tributary sewage collection agencies, including municipalities and sanitary sewer districts. Accounting for 39% of the 2015-2019 Proposed CIP, WPCP is the largest capital program. A total of \$887.0 million will be directed to renovate and upgrade the WPCP infrastructure to ensure capacity and reliability of treatment plant processes. This work is guided by the Plant Master Plan (PMP) and includes a bond issuance in 2015-2016 and 2016-2017, totaling \$448.2 million. The PMP recommends an estimated investment of approximately \$2.0 billion over a 30-year planning period, with over \$1.0 billion to be invested in the near-term (the next ten years), to address future regulatory requirements, capacity needs, and an overhaul of the entire solids treatment process. In September 2013, the City Council approved a consultant agreement to assist and support the Environmental Services Department in developing and implementing such a large capital program. Priorities for the near-term include completing program start-up activities, ensuring the ability to use alternative project delivery methods, securing program financing, and developing program staff.



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

The 2015-2019 Proposed CIP assumes that no rate increase will be needed for the Sewer Service and Use Charge Fund for 2014-2015; however rate increases of 3% to 5% are anticipated in the out years for the CIP and will be reassessed at a later time once a more detailed implementation plan and financing strategy is identified. 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.

The major projects in this CIP include:

- Digested Sludge Dewatering Facility
- Energy Generation Improvements
- Headworks Improvements
- Iron Salt Feed Station



Treated Water Flows to the Bay

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Environmental and Utility Services CSA

Water Utility System Capital Program

The San José Municipal Water System provides water service to 126,000 residents via 26,000 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. Retail water rates are expected to increase by 11.0% in 2014-2015 primarily due to wholesale water costs increases.

The major projects in this CIP include:

- Cadwallader Reservoir Rehabilitation
- Gumdrops Drive Main Replacement
- North San José Well Evaluation and Rehabilitation

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 is almost finished completing 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 over a decade. 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 under-served neighborhoods. The Southeast Branch, the only branch that has not yet been constructed, is scheduled to open in winter 2016.



**Artist's rendering of Southeast Branch
Library**

Aside from the Bond program, the Library CIP receives funding from the Library Construction and Conveyance Tax Fund and the Library Parcel Tax Fund. The Parcel Tax has historically provided 45% of the Acquisition of Materials budget and 75% of the Automation Projects and System Maintenance budget. The Parcel Tax is scheduled to sunset at the end of 2014-2015, and, absent a voter-approved extension, will result in an annual reduction to the Library Capital Budget of approximately \$3 - \$4 million annually. This loss equates to approximately 100,000 library materials no longer being replaced on an annual basis, a reduction to the replacement of public and staff computers, and a negative impact to the replacement and repair of the Library Automated Handling and Self-Check machines.

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Neighborhood Services CSA

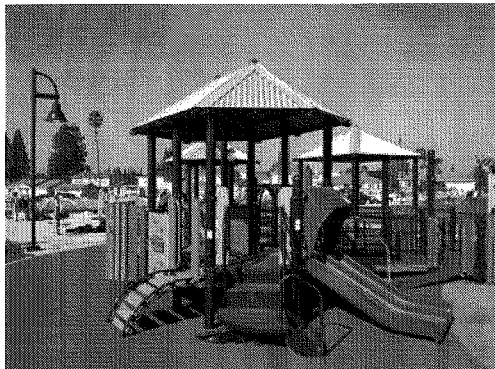
Library Capital Program (Cont'd.)

The major projects in this CIP include:

- Acquisition of Materials
- Automation Projects and System Maintenance
- Materials Handling Technology
- Southeast Branch Library

Parks and Community Facilities Development Capital Program

The Parks and Community Facilities Development 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. 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, and other major feeder streams.



Commodore Park

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 Coleman Soccer Complex currently under construction (anticipated to complete late 2014) and a site for the Softball Complex recently selected, located in the southwest corner of Quimby Road and Capitol Expressway (Arcadia).

With the Bond program completing, the primary sources of support for the Parks and Community Facilities Development Capital Program remain the City's Construction and Conveyance Tax (C&C) revenue and park impact fees. The strong local real estate market continues to improve, increasing available C&C revenue that will allow the City to partially reduce a large backlog of deferred maintenance and infrastructure rehabilitation. This CIP continues several reserves to address the backlog that will be programmed after the Parks and Community Facilities Infrastructure Backlog Study is completed in 2014-2015.

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Neighborhood Services CSA

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

The major projects in this CIP include:

- | | |
|--|--|
| <input type="checkbox"/> Agnews Land Acquisition | <input type="checkbox"/> Lake Cunningham Bike Park |
| <input type="checkbox"/> Calabazas BMX Park Minor Improvements | <input type="checkbox"/> Plata Arroyo Park Improvements, |
| <input type="checkbox"/> Camden Pool Renovation | <input type="checkbox"/> Silver Leaf Park Renovation |
| <input type="checkbox"/> Comanche Park Play Area Renovation | <input type="checkbox"/> Softball Complex Reserve |
| <input type="checkbox"/> Coyote Creek Trail (Story Road to Selma Olinder Park) | <input type="checkbox"/> Willow Glen Community Center Improvements |

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 investments 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. Two Public Safety Bond facilities are remaining: Fire Station 21 (White Road) Relocation and Fire Station 37 (Willow Glen). The construction for Fire Station 21 is anticipated to be completed in 2014-2015; however, due primarily to the unexpectedly high costs of construction during much of the Measure O program, the decision to rebuild instead of remodel Fire Station 2 (which resulted in a net cost increase of approximately \$4.1 million), and the recent uptick in bid prices expected for Fire Station 21, the Administration anticipates that only \$2.7 million of Measure O funds will remain after the completion of Fire Station 21. This amount leaves the Fire Station 37 project approximately \$4.5 million short of the funds needed to complete the project. Given the funding shortfall, an evaluation of Fire Station 37 options, including the costs and operational impact to Fire emergency services, will be brought forward as a Manager’s Budget Addendum shortly after the publication of the 2014-2015 Proposed Capital Budget.

The Proposed CIP includes \$22.6 million for fire apparatus replacement (\$20.0 million from the General Fund and \$2.6 million from the Fire Construction and Conveyance Tax Fund). This investment will replace fire engines, aerial ladder trucks, brush patrols, water tenders, and other emergency response apparatus, and these replacements will improve the reliability of the Fire Department’s fleet and their ability to respond to emergencies in accordance with established response time performance measures.

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Public Safety CSA

Public Safety Capital Program (Cont'd.)

The major projects in this CIP include:

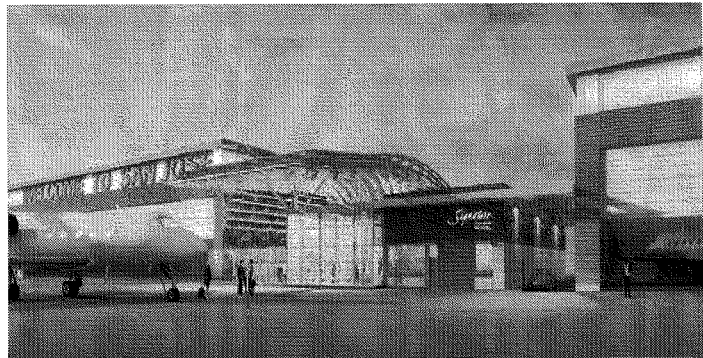
- Fire Station 21 Relocation (White Road)
- Fire Station 37 Reserve (Willow Glen)
- Facilities Remediation
- Fire Apparatus Replacement
- Fire Data System

Transportation and Aviation Services CSA

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

Airport Capital Program

The Airport's Capital Program continues to focus its priorities to deliver a program that meets Airport safety and security mandates and aggressively pursues opportunities to leverage federal grants and other revenue sources.



Rendering of Proposed New Facility on the Airport's Westside

On December 3, 2013, the City Council approved a 50-year ground lease agreement with a fixed base operator, Signature Flight Support, to develop and operate a first-class general aviation facility on approximately 29 acres of the Airport Westside property. In February 2014, Signature Flight Support broke ground and will be home to the service provider's West Coast headquarters. The proposed development, scheduled to be completed in late 2015, is estimated to generate \$82 million in private capital investment and roughly \$3 million annually in new revenues for the Airport. An additional 15 acres north of the FAA air traffic control tower remains available for future development opportunities on the Airport's Westside.

The major projects in this CIP include:

- Airfield Rescue and Fire Fighting Facility
- Southeast Ramp Reconstruction, Phase I and II
- Taxiway H and K Extension

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Transportation and Aviation Services CSA

Parking Capital Program

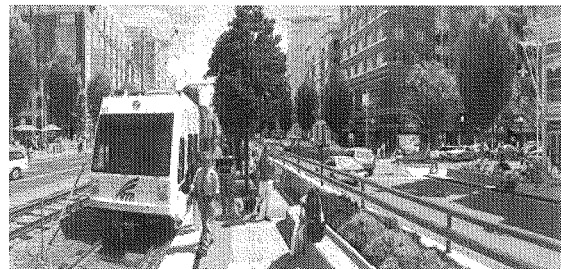
The Parking Capital Program's primary responsibilities include maintaining and improving existing facilities and upgrading and replacing both on-street and off-street parking equipment. The parking meters in the Downtown core were recently upgraded with "smart meters," which accept credit/debit cards and have parking sensors that transmit parking occupancy information. As directed by the Mayor's March Budget Message for 2014-2015 as approved by the City Council, and a previous City Council referral, the Administration will release a Manager's Budget Addendum that will discuss potential meter rate adjustments and the potential use of new revenues.

The major projects in this CIP include:

- Diridon Area Parking and Multi-Modal Improvements
- Revenue Control and Meter Upgrades
- Minor Parking Facility Improvements
- Security Improvements

Traffic Capital Program

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 investments in the CIP include: funding for maintenance and rehabilitation activities, including bridge and pavement maintenance; the local system expansion; safety and efficiency projects; support for the City's contribution to regional system expansion; future transportation improvements in the Downtown and North San José areas; activities that promote community livability, including land management, weed abatement, undergrounding City utilities, and monitoring of environmental mitigation sites; and project and program support.



Rendering of Future Improvements in North San José

The Traffic Capital Program is the second largest program, or 16% of this CIP with a budget of \$364.9 million. Of this amount, approximately \$120.3 million, or 33% of the Traffic Program is directed toward pavement maintenance and rehabilitation activities. In March 2012, the City Council adopted the "Priority Street Network", consisting of 437 miles of critical major streets. Aside from pothole repairs, all pavement maintenance funding was directed to the Priority Street Network, leaving the remaining 1,937 miles unfunded. However, due to an improved economic climate, tax revenue from private development has allowed the City to increase its pavement maintenance allocation by \$16.0 million over the five-year CIP. These funds are programmed for a large project in 2014-2015 aimed at repaving 10 to 13 miles and preventatively sealing another 30 to 45 miles of other major streets outside the Priority Street Network. Yet even with these additional resources, the annual ongoing allocation for pavement maintenance is still short by approximately \$76.0 million. If this funding shortfall continues, the unmet infrastructure needs of the roadway

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CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Transportation and Aviation Services CSA

Traffic Capital Program (Cont'd.)

network could rise from its currently estimated level of \$434.0 million to \$870.0 million by the year 2020. To address the City's continued funding shortfall, the Administration has discussed with the City Council various revenue strategies including a City Sales Tax ballot measure, State funding from an increased vehicle license tax, a potential Sales Tax Measure with the Santa Clara Valley Transportation Authority, and a street repair bond measure.

As directed by the Council-approved Mayor's March Budget Message for 2014-2015, the Traffic Capital Program also sets aside construction tax revenues for future transportation projects in Downtown and North San José (\$16 million) and transportation-related safety improvements (\$9 million). The City is also leveraging significant Federal One Bay Area Grant funding (\$21.2 million) on an array of multimodal street improvements and traffic signal projects to facilitate a shift from automobiles to walking and biking.

The major projects in this CIP include:

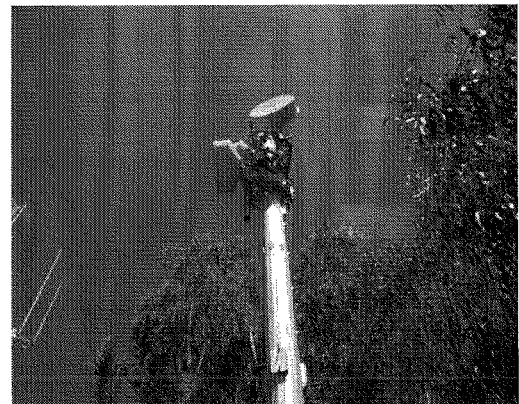
- Autumn Street Extension
- Montague Expressway Improvements Phase 2
- Pavement Maintenance
- Pedestrian Improvements (e.g., enhanced crosswalks with beacons and markings)
- The Alameda "Beautiful Way" Phase 2
- Traffic Signal Modifications/Construction

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, radio and other equipment, and streets and sidewalks adjacent to City communication facilities.



ECOMM Antennae at Eagle Rock

The major projects in this CIP include:

- Communications Equipment Replacement and Upgrade
- Communications Maintenance
- Silicon Valley Regional Interoperability

2014-2015 PROPOSED CAPITAL BUDGET 2015-2019 CAPITAL IMPROVEMENT PROGRAM

CAPITAL PROGRAM OVERVIEW BY CITY SERVICE AREA

Strategic Support CSA

Municipal Improvements Capital Program

The Municipal Improvements Capital Program provides capital improvements for City facilities that are not funded in other capital programs. The CIP includes new one-time funding from the General Fund in the amount of \$7.6 million allocated for the United States Patent and Trademark Office – City Staff Relocation project (\$4.5 million) and key safety and reliability improvements that also address a small portion of the deferred maintenance and infrastructure backlog of municipal buildings.

The major projects in this CIP include:

- Children’s Discovery Museum Portico Reroofing and Chiller Replacements
- Downtown Ice Rink Improvements
- United States Patent and Trademark Office – City Staff Relocation
- City Hall Security Improvements
- Police Administration Building/Police Communications Center Garage and Parking Lot Repairs

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 majority of funding in this capital program is set aside for the payment of debt service on the Central Service Yard Phase I and II improvements. The anticipated proceeds from the sale of the old Main Service Yard in 2015-2016 will be used to pay off the short-term debt for Phase II of the Central Service Yard project.



Fire Truck Maintenance at the Central Service Yard

The major projects in this CIP include:

- Debt Service on Phase I Bonds for the Central Service Yard Expansion
- Mabury Yard Improvements
- West Yard Restroom Retrofit
- Roof Replacement, Painting, and Supplemental Needs
- Sale of the Main Service Yard
- Repayment of Phase II Commercial Paper

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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 recent deep recession and significant budget shortfalls have exacerbated this deficit and increased the backlog of deferred maintenance and infrastructure rehabilitation needs. The figures in this report are updated annually and will be reviewed by the Transportation and Environment Committee on May 5, 2014. In this most recent report, the infrastructure backlog totaled \$1.05 billion across the City. Assuming this one-time backlog could be met, an ongoing annual investment of nearly \$180 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 2014-2015 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. Over the past several years, strategies were implemented to defer or reduce operating and maintenance costs, with a particular focus on the General Fund. These efforts have included deferring the completion date for capital projects, using alternative staffing models, reducing the size of some facilities, developing joint library and community center facilities, 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 formally certified as part of the annual CIP.

Table A 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). For the General Fund, these costs are estimated at \$351,000 in 2015-2016 and are anticipated to increase to \$1.3 million by 2018-2019. These figures do not include the funding needed in 2014-2015 to operate and maintain new facilities as these amounts have been incorporated into the 2014-2015 Proposed Budget. A total of \$204,000 is allocated in 2014-2105 to operate several facilities including the Del Monte Park, Martial-Cottle Community Garden and various transportation-related infrastructure.

**2014-2015 PROPOSED CAPITAL BUDGET
2015-2019 CAPITAL IMPROVEMENT PROGRAM**

OTHER CAPITAL PROGRAM HIGHLIGHTS

Operating Budget Impacts (Cont'd.)

**Table A - Projected Total New Operating and Maintenance Costs
(Cumulative)**

Project Title	2015-2016	2016-2017	2017-2018	2018-2019
Fire Facilities	\$ 11,000	\$ 23,000	\$ 23,000	\$ 23,000
Library Facilities	237,000	736,000	757,000	779,000
Parks Facilities	55,000	157,000	289,000	297,000
Parks Facilities-Other Agencies ¹	0	22,000	23,000	23,000
Traffic Projects	48,000	112,000	120,000	134,000
General Fund Total	\$ 351,000	\$ 1,050,000	\$ 1,212,000	\$ 1,256,000
Water Pollution Control Plant (Special Fund)	0	0	(5,190,000)	9,060,000
All Funds Total	\$ 351,000	\$ 1,050,000	\$ (\$3,978,000)	\$ 10,316,000

The Southeast Branch Library is the only capital project in the CIP that was previously certified by the City Council with net General Fund operating and maintenance costs exceeding \$100,000 annually. By 2018-2019, the annualized impact on the General Fund to operate and maintain this library is projected to be \$779,000. The costs and staffing necessary to operate and maintain the Southeast Branch Library will be reevaluated next year before it opens to the public, and may change as further analysis on the operational needs is conducted as part of the annual budget process. No other projects in this CIP require City Council certification.

It is important to note that the expanded infrastructure investment at the Water Pollution Control Plant will result in significant operating costs in the coming years. While energy generation improvements will reduce operating and maintenance costs by \$5.2 million starting in 2017-2018, annual costs will rise by a net \$9.1 million in 2018-2019 once the new digested sludge dewater facility comes online.

Green Building Implementation

As part of San José's Green Vision to position the City as a leader in sustainable design and set a community standard of environmental, economic, and social stewardship, this CIP includes projects to help achieve the goal of 50 million square feet of green buildings throughout San José by 2022. The City Council adopted revisions to the Municipal Green Building Policy in March 2007 requiring certain new City building projects 10,000 square feet and over to achieve a minimum Leadership in Energy and Environmental Design (LEED) certification level of Silver as designated by the United States Green Building Council (USGBC). LEED certification levels range from Certified, Silver,

¹ Projects being constructed by other agencies, but will be maintained by the City of San José.

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OTHER CAPITAL PROGRAM HIGHLIGHTS

Green Building Implementation (Cont'd.)

Gold, to Platinum. As part of this policy, the City Council also directed staff, wherever possible, to achieve a higher USGBC LEED certification level of Gold or Platinum. Table B below summarizes the projects scheduled to open during the five-year period reflected in the 2015-2019 Proposed CIP with the associated green building certification.

Table B – Capital Improvement Projects Targeting USGBC LEED Certification or Incorporating Green Building Principles

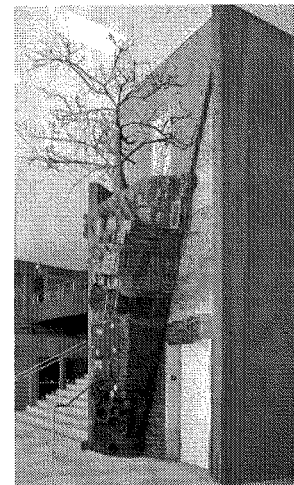
Project	USGBC LEED
Southeast Branch Library	Silver

To date, over 2.1 million square feet of municipal buildings have been certified as green buildings, including the new Police Substation (Silver) and the Calabazas Branch Library (Silver). The newly completed Convention Center Expansion and Renovation and the soon to be completed San José Environmental Innovation Center (Las Plumas) will also be LEED certified facilities in calendar year 2014 and will increase the City’s municipal green building space to over 2.3 million square feet.

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, and includes artistic and public engagement elements as part of storm, municipal water, and wastewater infrastructure. 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 \$3.9 million is programmed for eligible public art projects that span all capital programs in the 2015-2019 Proposed CIP. This figure does not include the \$4.8 million in public art expenditures budgeted for 2013-2014.



**Bascom Library and
Community Center
“Stratigraphy”
by Ron Baron**

CONCLUSION

The City of San José’s 2015-2019 Proposed CIP represents a wide array of capital infrastructure investments that will benefit all neighborhoods, residents, and visitors for decades to come, while preparing the City for future economic development and growth. By 2018-2019, most of the voter-approved bond funded programs will be completed, projects guided by the Water Pollution Control Plant Master Plan to upgrade and expand the facility will be fully underway, and transportation improvement projects within Downtown and North San José will further enrich our community. Additionally, the Storm Sewer System Master Plan is expected to be completed in late 2016 and will

**2014-2015 PROPOSED CAPITAL BUDGET
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CONCLUSION

assist in identifying and prioritizing future capital improvements to maximize the efficiency and capacity of the storm drainage system.

In developing this CIP, the City must still balance the need for ongoing capital investment with the preservation and restoration of various services to the community. Also, until the General Fund is in a more solid budget position, it will continue to be prudent to ensure that operating and maintenance costs for any newly built or expanded facility is supported ongoing without a degradation in basic city services.

As discussed in this message, the City's unmet deferred infrastructure and maintenance backlog stands at \$1.05 billion, with an additional annual investment of nearly \$180 million needed to maintain and prevent further degradation of the infrastructure for which the City is responsible. A significant influx of funding is necessary to address this need. To this end, at the City Council's direction, the Administration continues to explore opportunities to place a local sales tax measure on the November 2014 ballot that would generate revenues to aid in the rehabilitation and repair of street infrastructure, among the restoration of other critical service priorities.

Input from the City Council and community members was incorporated in this budget to ensure that the overall capital improvement program reflects the needs and priorities of our residents, businesses, and visitors within available funding levels. The 2015-2019 Proposed CIP was developed in coordination with all of 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.



Edward K. Shikada
City Manager

