




**2012-2013 CAPITAL BUDGET**

---

**2013-2017 CAPITAL  
IMPROVEMENT PROGRAM**



**SUMMARY  
INFORMATION**

**CITY OF SAN JOSE**  
**2013-2017 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

The 2013-2017 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 with the 2012-2016 Adopted CIP.

<u>Source</u>	<u>2012-2016 CIP</u> <u>(\$ millions)</u>	<u>2013-2017 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 822.1	\$ 616.3	\$ (205.8)
Sale of Bonds	9.2	9.2	0
Revenue from Other Agencies	249.3	243.5	(5.8)
Taxes, Fees and Charges	186.0	229.0	43.0
General Fund	40.8	49.1	8.3
Contributions, Loans and Transfers from Other Funds	465.5	395.8	(69.7)
Interest Income	25.3	18.0	(7.3)
Miscellaneous Revenue	122.1	117.8	(4.3)
<b>TOTAL</b>	<b>\$ 1,920.3</b>	<b>\$ 1,678.7</b>	<b>\$ (241.6)</b>

**BEGINNING FUND BALANCES**

The 2013-2017 Beginning Fund Balances of \$616.3 million are currently estimated below the 2012-2016 CIP level by \$205.8 million (25.0%). Lower revenue sources, coupled with completion of projects, have resulted in significantly lower carryover fund balances estimated to be available as a funding source for capital projects over the next five years. The Airport Capital Program accounts for 29.1% (\$179.1 million) of the Beginning Fund Balances, reflecting the Airport Department's presentation of commercial paper capacity (\$127.8 million in the Airport Revenue Bond Improvement Fund), which is used to fund projects when necessary. The Parks and Community Facilities Development Capital Program has Beginning Fund Balances totaling \$139.0 million accounting for 22.6% of the total Beginning Fund Balances. A majority of the funds are reserved pending final scope of projects and locations being determined or future funding becoming available within the nexus of the facility. Although both the San José/Santa Clara Water Pollution Control Plant (WPCP) and the Sanitary Sewer Capital Programs have \$104.6 million and \$75.1 million in their respective Beginning Fund Balances, there are numerous capital projects to rehabilitate or replace aging infrastructure or enhance sewer capacity. By the end of the CIP, \$8.2 million and \$6.2 million is estimated to remain in the respective Ending Fund Balances. The remaining beginning fund balance primarily reflects planned carryover funding for projects expected to be initiated or completed in the next five years.

**SALE OF BONDS**

For the 2013-2017 Adopted CIP, total bond issuances of \$9.2 million related to the Library (\$5.9 million) and Public Safety (\$3.3 million) Capital Programs are expected to fund project expenditures that will be completed during this CIP. It was previously anticipated that the remaining bond proceeds would be issued in 2011-2012; however, based on the current financial market conditions, the City's timing of needs for this funding, and cost/savings benefits of issuing multiple bond sales



**CITY OF SAN JOSE**  
**2013-2017 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

---

**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

**SALE OF BONDS**

together, the Finance Department has determined that issuing the bonds in 2012-2013 would be more appropriate.

**REVENUE FROM OTHER AGENCIES**

This category totaling \$243.5 million is comprised of federal (\$89.1 million) and State (\$44.0 million) grants, contributions from other agencies that use the WPCP (\$73.4 million) and the Sanitary Sewer System (\$4.9 million), County of Santa Clara funding from Measure B for pavement maintenance (\$25.0 million), Valley Transportation Authority funding for project management services and design review, encroachment permits, and construction inspection services for the BART extension to Berryessa (\$4.4 million), Santa Clara Valley Water District (\$1.9 million) and other agency (\$0.8 million) proceeds. Overall, estimated revenues from these sources reflect a decrease of \$5.8 million (2.3%) from the 2012-2016 Adopted CIP mainly due to a decrease of funds from the WPCP User Agencies as a result of aligning projects to the City Council approved preferred alternative of the Plant's Master Plan, as described in the Water Pollution Control Capital Program Overview (Section V of this document).

Funding from the federal government is allocated to the Airport Capital Program (\$45.8 million) from the Transportation Security Administration and the Federal Aviation Administration for AIP grants administered by the FAA, which are eligible but have not yet been secured; to the Traffic Capital Program (\$40.0 million) primarily for pavement maintenance activities from the Federal Transportation Bill (\$17.3 million) and State Route relinquishment (\$12.4 million); and to the Water Pollution Control Capital Program (\$3.4 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 \$44.0 million is mainly allocated to the Traffic Capital Program (\$42.4 million), of which \$37.5 million is for pavement maintenance activities from Gas Tax.

**TAXES, FEES AND CHARGES**

The 2013-2017 CIP includes an estimate of \$229.0 million in the Taxes, Fees and Charges category, an increase of \$43.0 million from the estimated level in the 2012-2016 Adopted CIP. Over this period, the revenue estimates in this category are projected at current year estimated levels with growth expected in the construction-related taxes to reflect an anticipated stabilization in property resale and construction activity. For these property resale and construction-related revenues, the chart on the following page compares the components of the 2013-2017 Taxes, Fees and Charges estimates with those included in the 2012-2016 Adopted CIP, followed by a discussion of the revenue estimates for the three largest sources within the Taxes, Fees and Charges category.

**CITY OF SAN JOSE**  
**2013-2017 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

**TAXES, FEES AND CHARGES**

<u>Source</u>	<u>2012-2016 CIP</u> <u>(\$ millions)</u>	<u>2013-2017 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Construction and Conveyance Tax	\$ 109.0	\$ 109.0	\$ 0
Construction Excise Tax	41.5	65.0	23.5
Building and Structure Construction Tax	31.5	50.0	18.5
Sanitary Sewer Connection Fees	2.7	3.0	0.3
Water Utility Fees	0.6	0.7	0.1
Storm Drainage Fees	0.5	0.8	0.3
Residential Construction Tax	0.2	0.5	0.3
<b>TOTAL</b>	<b>\$ 186.0</b>	<b>\$ 229.0</b>	<b>\$ 43.0</b>

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 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. Collections declined to \$41.8 million in 2006-2007, \$26.8 million in 2007-2008, and \$20.5 million in 2008-2009. Collections then rose slightly in 2009-2010 with revenues totaling \$22.5 million, but then decreased slightly to \$21.4 million in 2010-2011. Currently, the Construction and Conveyance Tax revenue collections are expected to meet or slightly exceed budgeted estimates of \$21 million for 2011-2012.

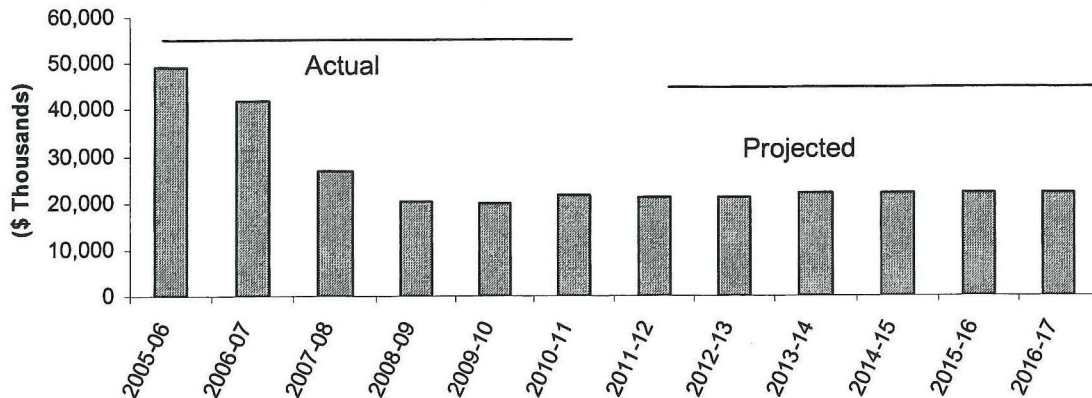


**CITY OF SAN JOSE**  
**2013-2017 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

**TAXES, FEES AND CHARGES**

**Construction and Conveyance Tax Revenues**



The five-year projection for C&C Tax revenues totals \$109.0 million and remains flat from the estimate in the 2012-2016 Adopted CIP. 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) projections of the strength of the San José real estate market.

In this CIP, collections are estimated at \$21.0 million in 2012-2013 and then are projected to experience modest growth thereafter with collection levels at \$22.0 million for the remaining years of the CIP, as shown in the table above. This collection level reflects what is believed to be a more sustainable level of ongoing housing resale activity.

Based on the City Council-approved distribution formula, C&C funds allocated in the 2013-2017 CIP are displayed in the following table.

**Construction and Conveyance Tax Distribution**

Program	Dist.	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	5-Year Total
Parks	64.00%	13,440,000	14,080,000	14,080,000	14,080,000	14,080,000	69,760,000
Park Yards	1.20%	252,000	264,000	264,000	264,000	264,000	1,308,000
Fire	8.40%	1,764,000	1,848,000	1,848,000	1,848,000	1,848,000	9,156,000
Library	14.22%	2,986,000	3,128,000	3,128,000	3,128,000	3,128,000	15,498,000
Service Yards	8.78%	1,844,000	1,932,000	1,932,000	1,932,000	1,932,000	9,572,000
Communications	3.40%	714,000	748,000	748,000	748,000	748,000	3,706,000
<b>Total</b>	<b>100.00%</b>	<b>21,000,000</b>	<b>22,000,000</b>	<b>22,000,000</b>	<b>22,000,000</b>	<b>22,000,000</b>	<b>109,000,000</b>

**CITY OF SAN JOSE**  
**2013-2017 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

---

**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

**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. As of June, collections for the year were expected to total \$15 million, well above the 2011-2012 budgeted estimate of \$12.0 million. This significant increase is due to new residential construction activity in the North San José area. Based upon the construction projections provided by the Planning, Building and Code Enforcement Department and historical collection patterns, the revenue estimates included in the 2013-2017 Adopted CIP total \$65.0 million, with \$13.0 million estimated annually in each of the five years of the CIP. The Adopted CIP represents a large increase of \$23.5 million from the total amount estimated in the 2012-2016 Adopted CIP. This collection level reflects what is believed to be a sustainable level of ongoing residential and commercial construction activity.

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.

As of June 2012, collections for these revenues are expected to total \$10.5 million, exceeding the 2011-2012 budgeted estimate of \$9.0 million. Similar to the spike in the Construction Excise Tax, the significant increase is due to new residential construction activity in the North San José area. Based on construction activity 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 \$50.0 million, with annual proceeds of \$10.0 million for each year of the CIP. This is an increase of approximately \$18.5 million from the estimates included in the 2012-2016 Adopted CIP, reflecting revised expectations for residential and commercial activity.

The graph below compares the actual and projected revenues for both the Building and Structure Construction and the Construction Excise Taxes, by year.

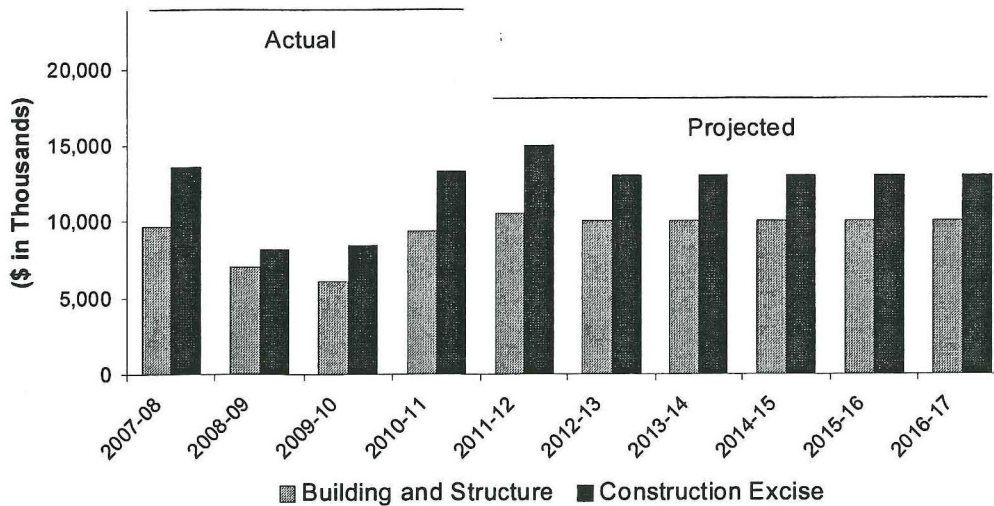


**CITY OF SAN JOSE**  
**2013-2017 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

**TAXES, FEES AND CHARGES**

**Major Construction-Related Tax Revenues**



**GENERAL FUND**

General Fund contributions to capital projects included in the Adopted CIP total \$49.1 million. This reflects a \$8.3 million increase compared to the last CIP, due primarily to the increases in the Municipal Improvements Capital Program for immediate infrastructure repairs and replacements and in the Communications Capital Program for communications projects as described below.

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

- Public Safety (\$29.0 million) – Fire apparatus replacement continues to be a priority for the City, with a total allocation of \$27.5 million in the General Fund and \$985,000 in the Fire C&C Tax Fund. This level of funding is based on a 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. Should some additional funds be available in the Fire C&C Tax to replace fire apparatus in the near future, it may not be necessary for the General Fund to subsidize the fire apparatus replacement at the current projected level.
- Municipal Improvements (\$10.0 million) – Funds included in this CIP will support Police Communications Emergency Uninterrupted Power Supply (\$3.8 million), Closed Landfill Compliance (\$2.0 million), Unanticipated/Emergency Maintenance (\$1.5 million), Arena Repairs (\$831,000), City Hall and Police Communications Uninterrupted Power Supply Capital Maintenance (\$750,000), Police Administration Building (PAB)/Emergency Communications Center Backup Generator Replacements (\$500,000), PAB Critical Repairs (\$300,000), Fuel Tank Monitoring (\$250,000), and the San José Municipal Stadium (\$85,000).

**CITY OF SAN JOSE**  
**2013-2017 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

---

**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

**GENERAL FUND**

- Service Yards (\$8.0 million) – This allocation funds the majority of the Central Service Yard Phase I debt service payments with \$378,000 allocated in the Service Yards C&C Tax Fund for 2012-2013. Unless it is determined that the Service Yards C&C Tax Fund has available funding in the future to pay a portion of the debt service payment, it is assumed that the General Fund will be responsible for the entire debt service payment in the amount of \$1.7 million, starting with 2013-2014.
- Communications (\$1.6 million) – Due to insufficient Communication C&C Tax Fund revenues anticipated to be available to fund critical communications projects, a planned transfer from the General Fund of \$375,000 per year for the four out years of the CIP has been included (\$1.5 million). In addition, a portion of Comcast revenues that are deposited in the General Fund are transferred to the Communications C&C Tax Fund to repay a part of the costs associated with the Civic Center Television Broadcast Equipment (\$112,500).

**CONTRIBUTIONS, LOANS AND TRANSFERS FROM OTHER FUNDS**

Funding totaling \$395.8 million in this category is the second largest source of revenue in the 2013-2017 Adopted CIP due to the inclusion of transfers from Special Funds and Capital Funds. Funding in this category is \$69.7 million below the amount included in the 2012-2016 Adopted CIP. This lower level is due primarily to a decreased Transfer from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$72.8 million) due to a reprioritization of projects and a change in strategy for the implementation of Plant Master Plan recommendations, as described in more detail in the Water Pollution Control 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 (\$134.2 million) and the Sanitary Sewer System Capital Program (\$125.0 million) for costs related to the construction and maintenance of the City's sewage collection system and the Water Pollution Control Plant.

Other significant transfers are reflected in the following programs: Storm Sewer System Capital Program (\$34.6 million from the Storm Sewer Operating Fund), Airport Capital Program (\$25.7 million from the Airport Revenue Surplus Fund), Parks and Community Facilities Development Capital Program (\$21.1 million from Central C&C Tax Fund to the ten Council Districts and City-Wide C&C Tax Funds), and the Water Utility System Capital Program (\$14.7 million from the Water Utility Fund).



**CITY OF SAN JOSE**  
**2013-2017 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

---

**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

**INTEREST INCOME**

The 2013-2017 Adopted CIP includes \$18.0 million from interest income. This is a decrease of \$7.3 million from the estimate included in the Adopted CIP primarily as a result of lower fund balances and lower interest rates assumed in this CIP when compared to the Adopted CIP. The range for the interest rates in the 2013-2017 Adopted CIP is 0.33% to 2.01% compared to a range of 0.22% to 2.78% used in the 2012-2016 Adopted CIP.

**MISCELLANEOUS REVENUE**

The Miscellaneous Revenue category totals \$117.8 million, a minor decrease of \$4.3 million from the 2012-2016 Adopted CIP. Revenue in this category is generated mainly through Airport passenger facility charges (\$87.2 million), which constitutes approximately 74% of the total revenue. The remaining revenues in this category primarily include the sale of the Main Service Yard in Japantown (\$14.0 million); parking and lease revenue related to Lake Cunningham Park (\$3.4 million); and sale of the land on Bascom Avenue (\$2.0 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 \$8.0 million, which is slightly lower than the 2012-2016 Adopted CIP of \$8.8 million. The Developer Assisted Projects Capital Program includes \$4.3 million to support underground utility activities; the Parks and Community Facilities Development Capital Program includes \$ 2.7 million from anticipated park impact fees; and the Traffic Capital Program includes \$1.0 million of fiber optics fee reimbursements from developers.