

CITY OF SAN JOSE
2022-2026 ADOPTED CAPITAL IMPROVEMENT PROGRAM

SUMMARY OF CAPITAL IMPROVEMENT PROGRAM
REVENUES

The 2022-2026 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 2021-2025 Adopted CIP.

<u>Source</u>	<u>2021-2025 CIP</u> <u>(\$ millions)</u>	<u>2022-2026 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$800.1	\$669.4	(\$130.7)
Financing Proceeds	939.5	1,078.7	139.2
Revenue from Other Agencies	766.0	763.5	(2.5)
Taxes, Fees and Charges	375.7	487.2	111.5
General Fund	87.3	123.3	36.0
Contributions, Loans and Transfers from Other Funds	604.6	651.1	46.5
Interest Income	63.8	54.8	(9.0)
Miscellaneous Revenue	17.6	11.4	(6.2)
TOTAL	\$3,654.6	\$3,839.4	\$184.8

BEGINNING FUND BALANCES

The Beginning Fund Balances in the 2022-2026 Adopted CIP total \$669.4 million, representing 42.6% of the 2021-2022 Adopted Capital Budget and 17.4% of the 2022-2026 CIP. The Traffic Capital Program has a Beginning Fund Balance totaling \$200.8 million, accounting for 30.0% of the total Beginning Fund Balances and representing a significant amount of carryover project costs that will be spent over the next five years. The Parks and Community Facilities Development Capital Program accounts for 22.3% (\$149.0 million) of the Beginning Fund Balances with a majority of the funds reserved pending determination of final scope of projects and locations or availability of future funding within the nexus of a facility.

FINANCING PROCEEDS

The 2022-2026 Adopted CIP includes revenues of \$1.1 billion from Financing Proceeds. The Water Pollution Control Capital Program accounts for \$659.8 million from bond proceeds (\$450.8 million) and revenue notes (\$209.0 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 Traffic (\$235.1 million), Public Safety (\$93.0 million), Storm Sewer (\$50.6 million), Parks (\$12.5 million), and Municipal Improvements (\$11.9 million) capital programs incorporate the Measure T bond proceeds totaling \$403.1 million to be issued throughout the CIP five-year period. The Parks and Community Facilities Development capital program accounts for \$8.3 million in commercial paper to address remediation projects related to the 2017 flood event. Finally, the Service Yards capital program includes \$7.6 million from bond proceeds for various facility improvement projects at the Central Service Yard.

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REVENUE FROM OTHER AGENCIES

Revenue from Other Agencies category totals \$763.5 million and is comprised mainly of contributions from other agencies that use the Water Pollution Control Plant (\$266.4 million); State (\$180.3 million) and federal (\$173.2 million) grants and allocations; and revenue from the County of Santa Clara (\$2.0 million) and other agencies (\$141.7 million), which derives most of its funding from the Valley Transportation Authority to fund pavement maintenance (\$124.5 million).

Funding from the federal government (\$173.2 million) is allocated to several programs including: the Airport Capital Program (\$123.1 million) from the Transportation Security Administration and the Federal Aviation Administration (FAA) for Airport Improvement Program (AIP) grants administered by the FAA; the Traffic Capital Program (\$41.6 million) primarily for grants related to multi-modal, corridor, and pedestrian safety transportation projects (\$30.0 million), as well as pavement maintenance (\$9.0 million); and the Parks and Community Facilities Development Capital Program (\$8.5 million) primarily for the 2017 Flood FEMA reimbursements (\$7.6 million).

Funding from the State in the amount of \$180.3 million is mainly allocated to the Traffic Capital Program (\$174.8 million), of which \$134.6 million is for pavement maintenance activities from gas tax revenues.

TAXES, FEES AND CHARGES

The 2022-2026 Adopted CIP includes an estimate of \$487.2 million in the Taxes, Fees and Charges category, a major increase when compared to the estimated level of \$375.7 million in the 2021-2025 Adopted CIP but still well below the 2020-2024 Adopted CIP estimate of \$522.7 million from the pre-COVID-19 pandemic era. Most of this revenue category is comprised of the Construction and Conveyance Tax (\$184.0 million), Airport Passenger Facility Charge proceeds (\$114.9 million), Building and Structure Construction Tax (\$96.0 million), and Construction Excise Tax (\$86.0 million). These four major revenue sources collectively represent 98.7% of the overall amount in this revenue category and account for almost all of the increases when compared to the 2021-2025 Adopted CIP estimates.

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TAXES, FEES AND CHARGES

<u>Source</u>	<u>2021-2025 CIP</u> <u>(\$ millions)</u>	<u>2022-2026 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Construction and Conveyance Tax	\$158.0	\$184.0	\$26.0
Airport Passenger Facility Charge	54.2	114.9	60.7
Building and Structure Construction Tax	79.0	96.0	17.0
Construction Excise Tax	78.0	86.0	8.0
Sanitary Sewer Connection Fees	2.5	2.5	0
Residential Construction Tax	1.0	1.0	0
Storm Drainage Fees	1.0	1.0	0
Water Utility Fees	0.4	0.4	0
Other Taxes, Fees, and Charges	1.6	1.4	(0.2)
TOTAL	\$375.7	\$487.2	\$111.5

Construction and Conveyance Tax

The Construction Tax portion of the Construction and Conveyance Tax (C&C) category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from \$75 per unit located in a building containing at least 20 dwelling units to \$150 for a single-family residence. The commercial and industrial rate is eight cents per square foot of floor area constructed. The Construction Tax accounts for a very small portion (approximately 1%) of the total Construction and Conveyance Taxes collected. The Conveyance Tax portion of this category is imposed upon each transfer of real property where the value of the property exceeds one hundred dollars. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately 99% of the total Construction and Conveyance Taxes collected.

The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market. Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high of \$49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to \$20.5 million in 2008-2009. Collections began rebounding again in 2009-2010 and reached peak levels of \$48.1 million in 2017-2018 and \$47.2 million in 2018-2019, before decreasing to \$40.9 million in 2019-2020.

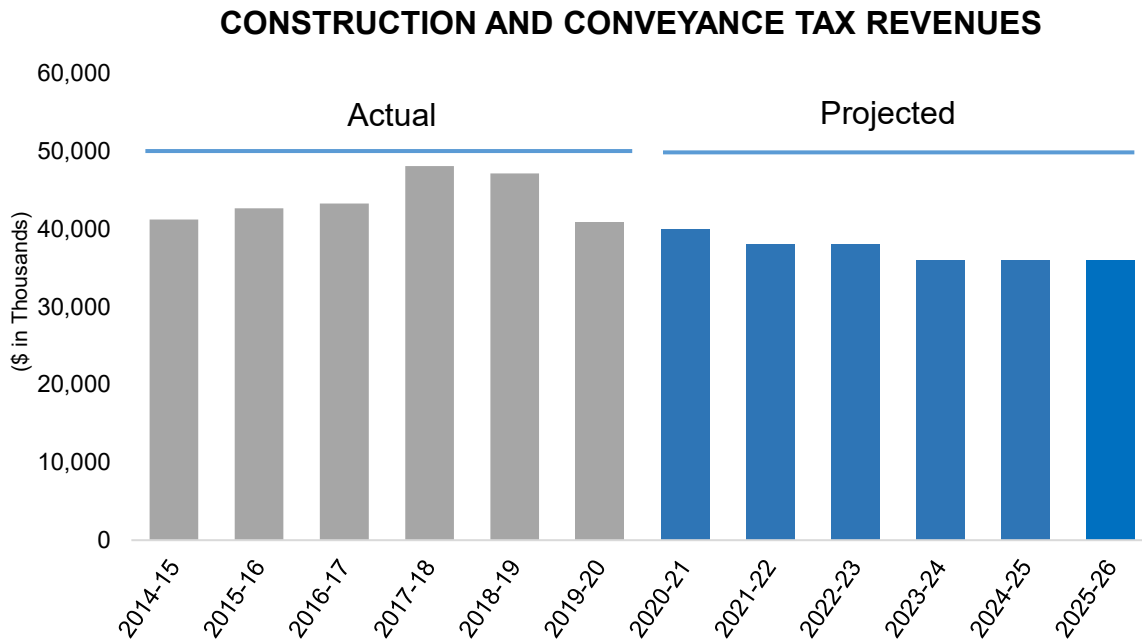
Real estate activity was initially anticipated to be sluggish in 2020-2021 due to higher unemployment rates coupled with lower consumer confidence. However, the local real estate market remained strong in for the majority of 2020-2021, and the overall C&C collections are projected to exceed the actual receipts in 2019-2020 (\$40.9 million), which is reflective of the

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strong housing market in the region despite the pandemic. The 2022-2026 CIP is built on the assumption that the local housing market will remain robust but also show some signs of slowing down in the out years, with 2021-2022 and 2022-2023 C&C revenue totaling \$38.0 million each year and dropping slightly by \$2.0 million (5.3%) to \$36.0 million for the remaining three years of the CIP.

The five-year projection for Construction and Conveyance Tax revenue totals \$184.0 million, which is 16.5% higher than the estimate of \$158.0 million used to develop the 2021-2025 Adopted CIP. The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 12-year period.



Based on the City Council-approved distribution formula, C&C funds allocated in 2020-2021 and in the 2022-2026 CIP are displayed in the following table.

CONSTRUCTION AND CONVEYANCE TAX DISTRIBUTION

PROGRAM	Distribution	2020-2021 Budget	2020-2021 Estimate	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	5-Year Total
Communication	3.40%	1,020,000	1,360,000	1,292,000	1,292,000	1,224,000	1,224,000	1,224,000	6,256,000
Fire	8.40%	2,520,000	3,360,000	3,192,000	3,192,000	3,024,000	3,024,000	3,024,000	15,456,000
Library	14.22%	4,266,000	5,688,000	5,403,600	5,403,600	5,119,200	5,119,200	5,119,200	26,164,800
Parks	64.00%	19,200,000	25,600,000	24,320,000	24,320,000	23,040,000	23,040,000	23,040,000	117,760,000
Park Yards	1.20%	360,000	480,000	456,000	456,000	432,000	432,000	432,000	2,208,000
Service Yards	8.78%	2,634,000	3,512,000	3,336,400	3,336,400	3,160,800	3,160,800	3,160,800	16,155,200
TOTAL		30,000,000	40,000,000	38,000,000	38,000,000	36,000,000	36,000,000	36,000,000	184,000,000

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TAXES, FEES AND CHARGES

Construction Excise Tax

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

Tax receipts are anticipated to end the fiscal year at \$21.0 million. This amount was used to develop the 2021-2022 Adopted Capital Budget, representing an increase of \$0.9 million from the \$20.1 million received in 2019-2020. Based upon the construction projections provided by the Planning, Building and Code Enforcement (PBCE) Department and actual collections on this tax, Construction Excise Tax collections are projected to total \$86.0 million over the five-year CIP period. It is projected that collections will drop from the 2020-2021 estimate of \$21.0 million to \$18.0 million in 2021-2022, another 5.6% drop to \$17.0 million for the next four years in the CIP. This collection level represents a \$8.0 million (10.3%) increase from the 2021-2025 Adopted CIP.

Building and Structure Construction Tax

The Building and Structure Construction Tax is imposed upon the construction, repair or improvement of any building or structure where a building permit is required. The proceeds from the Building and Structure Construction Tax are restricted by ordinance for use for traffic capital improvements on major arterials and collectors, 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.

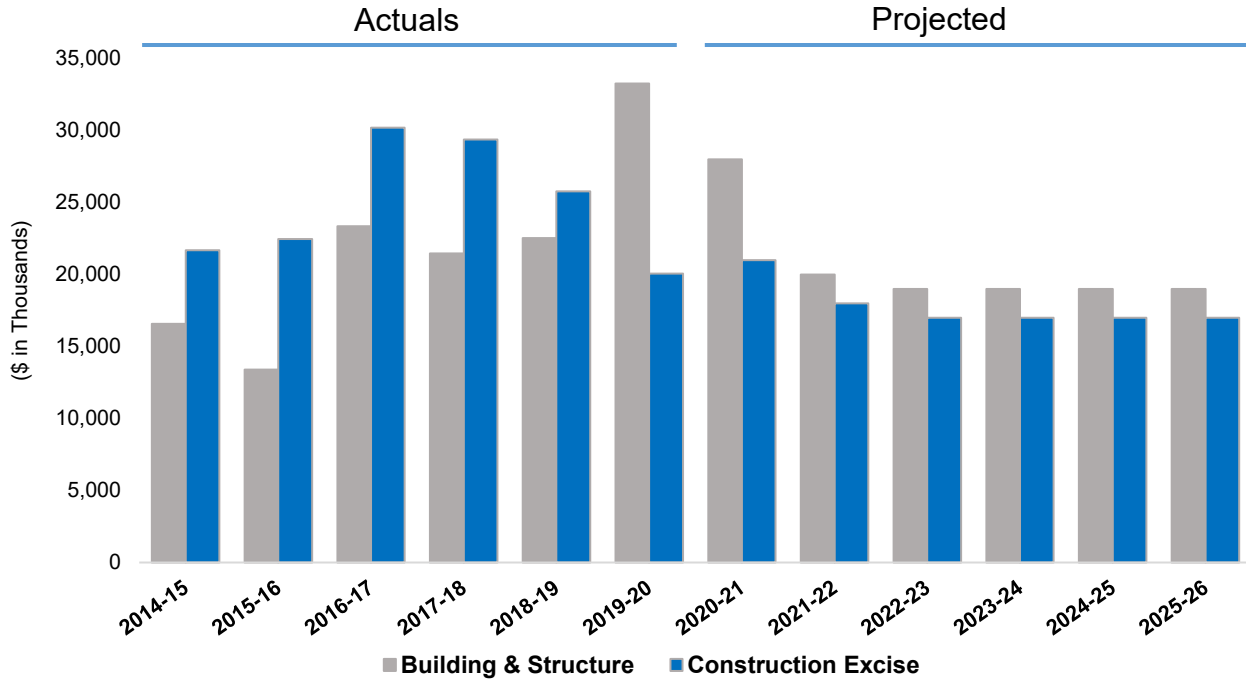
Building and Structure Construction Tax receipts are anticipated to end 2020-2021 at \$28.0 million. This amount was used to develop the 2021-2022 Adopted Capital Budget, which is \$5.3 million lower than the \$33.3 million received in 2019-2020. Based on the construction activity forecasts supplied by the PBCE Department, analysis of actual collection patterns, and estimated impacts from the COVID-19 pandemic, the five-year projection for the Building and Structure Construction Tax collections totals \$96.0 million, \$17.0 million above the estimate of \$79.0 million in the 2021-2025 Adopted CIP. It is projected that collections will drop from the 2020-2021 estimate of \$28.0 million to \$20.0 million in 2021-2022 and drop an additional \$1.0 million to \$19.0 million for the remainder of the forecast period.

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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MAJOR CONSTRUCTION-RELATED TAX REVENUES



Airport Passenger Facility Charge

The Passenger Facility Charge is a fee charged to every enplaned passenger at Norman Y. Mineta San José International Airport (SJC). Proceeds from the fee are used to support eligible debt service or capital renewal and replacement projects at the Airport. Set at \$4.50 per enplaned passenger, estimates included in the CIP total \$15.1 million in 2021-2022 and \$114.9 million over the five-year period. This is substantially higher than \$54.2 million estimated five-year total in the 2021-2025 CIP, which was adopted by the City Council during the early stages of the COVID-19 pandemic when air travel was mostly suspended and the long-term economic impacts from the pandemic were largely uncertain. Prior to the pandemic, SJC was experiencing a robust growth in passenger traffic, breaking its record for most passengers served in 2018-2019 with 14.9 million. The 2022-2026 total of \$114.9 million represents a more refined estimate based on the updated forecast that projects the total annual passenger levels to recover to 12.2 million by 2024-2025 and continues to grow through 2025-2026 and beyond. As more air travel data becomes available, these estimates will be further refined.

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CONTRIBUTIONS, LOANS AND TRANSFERS – GENERAL FUND

General Fund contributions to capital projects included in the CIP total \$123.3 million, up \$36.0 million from the last CIP, with \$93.4 million budgeted in 2021-2022. A listing of all of the capital projects receiving General Fund contributions can be found in the Transfers between the General Fund and Capital Funds table located in section III — Summary Information of this document.

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

- Public Safety (\$58.4 million) – Fire apparatus replacement continues to be a priority for the City, with a total allocation of \$21.2 million in the General Fund and \$7.4 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. Other key contributions include \$28.2 million funding for completion of the Fire Training Center Relocation project, \$6.7 million contribution towards the Emergency Operations Center Relocation project, and a \$2.3 million transfer to the Public Safety and Infrastructure Bond Fund (Measure T) to replenish some of the costs associated with the Fire Station 20 project, which was not originally included in the Measure T Bond Program.
- Municipal Improvements (\$40.2 million) – This category includes an allocation of \$5.3 million over five years for Unanticipated/Emergency Maintenance to address a variety of unanticipated and emergency capital repairs across a wide range of municipal facilities. Other ongoing allocations include \$2.5 million over five years for Closed Landfill Compliance; \$1.0 million over five years for City Hall and Police Communications Uninterrupted Power Supply Capital Maintenance; and \$850,000 over five years for Arena Repairs. For Closed Landfill Compliance, there is \$2.3 million one-time contribution in 2021-2022 for installation of a new landfill gas flare and collection system at the Singleton Landfill facility. In 2021-2022, one-time investments for improvements at various City facilities include \$525,000 for replacement of boiler and chiller at the Police Administration Building and \$80,000 for replacement of water softener at the Animal Care and Services facility.

The Municipal Improvements program allocates \$11.4 million from the General Fund is programmed in 2021-2022 to rehabilitate or support the City's cultural facilities, including the Tech Museum (\$5.1 million), Children's Discovery Museum (\$1.6 million), Hammer Theatre (\$1.6 million), various Cultural Facilities Rehabilitation/Repair projects (\$1.2 million), San José Stage Company (\$1.0 million), History San José (\$428,000), San José Museum of Art (\$240,000), African American Community Services Agency Upgrades (\$100,000), Mexican Heritage Plaza (\$47,000), and Convention Center (\$26,000). A portion of this cost is offset using the Cultural Facilities Capital Maintenance Reserve (\$850,000) set aside for this purpose and included in the 2021-2022 Adopted Operating Budget.

- Communications (\$14.1 million) – Due to insufficient Communications C&C Tax Fund revenues, General Fund transfers are required to fund contributions to the Silicon Valley Regional Interoperability Authority (SVRIA). There is an additional one-time contribution of \$5.3 million in 2021-2022 to supplement funding for replacement of Silicon Valley Regional Communications System radios that will no longer be supported starting in July 2021.

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- Service Yards (\$2.0 million) – Due to insufficient Service Yards C&C Tax Fund revenues, General Fund transfers are required to supplement debt service payment beginning in 2023-2024. Lease Revenue bonds are expected to be issued in fall 2021, which will refinance existing Central Service Yard Phase I and II debts and add new debt for additional CSY improvements and the Fire Department Training Center project (approximately \$2.3 million annually).
- Parks and Community Facilities Development (\$0.8 million) – General Fund investments in this capital program include funding for the Parks Rehabilitation Strike and Capital Infrastructure Team (\$785,000).

CONTRIBUTIONS, LOANS AND TRANSFERS – OTHER FUNDS

Funding in this category totals \$651.1 million. While this total represents \$46.5 million above the amount included in the 2021-2025 Adopted CIP, it is still well below the 2020-2024 Adopted CIP total by \$80.8 million. The largest transfers of funds are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$243.5 million) and to the Sanitary Sewer System Capital Program (\$175.0 million). Examples of other transfers from operating funds to support capital projects in various capital funds include \$132.5 million from the Airport Surplus Revenue Fund to the Airport Renewal and Replacement Fund; \$27.4 million from the Water Utility Fund to the Water Utility Capital Fund; and \$26.5 million from Storm Sewer Operating Fund to Storm Sewer Capital Fund.

One transfer notably excluded in the 2022-2026 Adopted CIP is from the General Purpose Parking Fund to the General Purpose Parking Capital Fund. Capital projects have historically been funded via transfers from the General Purpose Parking Operating Fund through parking meter and facility revenues which exceed the amounts needed for ongoing operations and maintenance. Unfortunately, the adverse impact of COVID-19 on parking revenue has significantly compromised the operating fund's ability to fund the Parking CIP and this transfer will not resume till 2025-2026.

INTEREST INCOME

The 2022-2026 Adopted CIP includes \$54.8 million from interest income. These estimates are down by \$9.0 million from those included in the 2021-2025 Adopted CIP.

MISCELLANEOUS REVENUE

The Miscellaneous Revenue category totals \$11.4 million, a decrease of \$6.3 million from the amounts included in the 2021-2025 Adopted CIP. This includes \$5.5 million in developer contributions; \$2.3 million in 2022-2023 to the Measure T Public Safety and Infrastructure Bond Fund to replenish costs for the Fire Station 20 project; \$1.9 million in repayment for Calpine Metcalf Energy Center Facilities; and \$1.0 million in insurance reimbursement for 2017 flood event projects.