



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Hans F. Larsen
Harry Freitas
Kim Walesh
Jennifer A. Maguire

SUBJECT: NORTH SAN JOSE
TRANSPORTATION FUNDING
STRATEGY

DATE: May 16, 2014

Approved

Date

5/16/14

RECOMMENDATION

Approval of the following actions to address an estimated \$50 million funding shortfall for North San José Area Development Policy Phase I transportation improvements.

- 1) As the most preferred funding source, direct staff to continue to pursue outside funding sources for North San José transportation improvements including regional sources (federal, state, and county), development in neighboring jurisdictions, and other local development projects (including the \$2.6 million from the Century Court development as identified in the Mayor's March Budget Message).
- 2) In the event that the sources identified above do not provide sufficient resources to complete Phase I transportation improvements, direct staff to set aside reserve funding from the sources identified below and allocate toward future North San José transportation improvements:
 - a) From the Downtown and North San José Transportation Improvements Reserve, as included in the 2014-2015 Proposed Capital Budget and 2015-2019 Capital Improvement Program as part of the Traffic Capital Program, allocate at least \$8.0 million of the \$16 million reserve for North San José;
 - b) Dedicate future Building and Structure Construction Tax revenues generated from new development in North San José (estimated to exceed \$32 million) to be held in reserve for North San José transportation projects; and
 - c) Dedicate future Business Cooperation Program revenues generated from new development in North San José (estimated to be approximately \$7 million) to be held in reserve for North San José transportation projects.

BACKGROUND

In 2005, the City Council adopted the North San José Area Development Policy, allowing for the construction of 26.7 million square feet of new industrial development. In order to balance land uses and to manage traffic impacts associated with the North San José plan, the policy specified the construction of 32,000 housing units and the implementation of transportation improvements that, at the time, was valued at \$570 million. The current escalated value of the improvements is approximately \$800 million. Implementation of the plan was segmented into four phases that required a balanced development of jobs, housing and transportation. The Phase 1 transportation plan has a current cost of approximately \$200 million. Funding for the Phase 1 transportation plan was originally envisioned to be generated through a combination of revenues from a North San José Traffic Impact Fee (\$160 million), the San Jose Redevelopment Agency (\$15 million) and regional transportation grants (\$25 million).

In 2012 and 2013, the City Council amended the North San José policy to promote near-term industrial development by reducing the traffic impact fee to be paid by developers for up to 4 million square feet of industrial development, with the City to fund the balance of the traffic impact fee. The fee reduction actions, in combination with the loss of redevelopment revenues, have created an estimated \$50 million funding shortfall for implementing the Phase 1 transportation plan for North San José. At the City Council meeting on April 8, 2014, staff presented a conceptual funding strategy for addressing the \$50 million funding shortfall. The purpose of this Manager’s Budget Addendum is to highlight how the Proposed Budget in part addresses transportation funding needs for North San José and to recommend a strategy to fully fund the North San José Phase 1 transportation plan.

ANALYSIS

As discussed at the April 8, 2014 City Council meeting, the current implementation status of the North San José Phase 1 transportation plan is summarized in the table below:

	Amount	Notes
Completed Projects	\$42 million	- Montague Expressway, Guadalupe River Trail, Couplet Conversions, miscellaneous intersections -Funding sources: Regional (\$17 M); City (\$12 M); RDA (\$8 M); Impact Fees (\$3 M); Other (\$2 M)
Impact Fees Collected (not spent)	\$32 million	-Includes fees that will be recommended to be recognized as part of fiscal year-end clean up actions (\$5.2 M), projects scheduled for 2014-2015 (\$15.1 M), and the remaining North San José Traffic Impact Fee Reserve (\$12.0 M)
Impact Fees – Future	\$76 million	-Includes discounted fees under the current City Council-approved incentive program and assumes that other remaining development capacity pays the full fee amount
Funding Shortfall	\$50 million	-This shortfall would increase if the City Council enacts additional traffic impact fee reductions
Total	\$200 million	

Staff intends to pursue various sources of regional and outside funding to close as much of the \$50 million funding shortfall as possible.

- Regional Funding – While current transportation funding opportunities appear to be limited at State and Federal levels, in the past, programs have existed that would be able to fund many of the projects included in the North San José plan. The Proposed Traffic CIP includes investments for project planning and design so that key projects can be “ready and competitive” for regional funding when opportunities develop. These projects include Route 101/Zanker Overcrossing, Route 880/Charcot Overcrossing, Route 880/Montague Expressway Interchange Upgrade, and Route 101/Trimble Interchange Upgrade. Staff will continue to pursue opportunities to secure regional funding for North San Jose projects with a Phase 1 funding target of \$50 million. Examples of the City’s past success in obtaining regional funding for upgrading freeway interchanges include: 101/Tully, 101/Capitol/Yerba Buena, 880/Stevens Creek, 880/Brokaw, 880/Coleman, 101/Bailey, 87/Taylor, and 87/Skyport. Collectively, these projects have a value in excess of \$300 million and were obtained over the past two decades. While current regional funding opportunities have been limited due to the recent recession, policy discussions are currently active at the federal, state and county levels regarding increased transportation infrastructure investment for both maintenance of existing infrastructure as well as improvement to support future economic growth.
- Century Court Development Contribution – The Mayor’s Budget Message identified reallocating a \$2.6 million development contribution from Schmidt CS Seufferlein et al, associated with the Century Court high-rise residential development, from affordable housing, as originally intended, toward unfunded transportation improvements. To change this allocation, a separate City Council action would be required to amend the ordinance adopting the Century Court development agreement.
- Development in Neighboring Jurisdictions – The North San José plan includes funding to develop transportation improvements in neighboring jurisdictions. Similarly, neighboring jurisdictions are likely to have future development projects that can contribute toward implementing the North San José transportation plan. Already two projects in the City of Santa Clara have development conditions that will contribute \$0.5 million toward transportation improvements in North San José. Staff will continue to identify additional opportunities as they arise.

Though staff will pursue the above sources, it is unlikely that they will provide sufficient funding to bridge the shortfall. As previously discussed with the City Council, there are several other methods to address the funding shortfall for the North San José transportation plan. Staff recommends that the funds generated from the sources described below be dedicated to a reserve that can be allocated for future North San José transportation plan projects. In combination, these can fully cover the \$50 million funding gap if necessary.

- Traffic Capital Improvement Program Reserve – The Proposed Traffic Capital Improvement Program contains a line item called “Reserve for Downtown and North San Jose Transportation Improvements” with a funding amount of \$16 million from the Building and Structure Construction Tax fund, of which \$3.0 million was provided by the Irvine Company through an agreement regarding the residential development at North First Street and River Oaks Place. These funds can be used flexibly to meet priority transportation needs that serve the economic development goals for either North San José or Downtown. In concept, \$8 million is allocated for completion of the Autumn Parkway project (north of Santa Clara Street) in Downtown in the event a new baseball stadium is approved. The other \$8 million is allocated for North San José.
- Future Building and Structure Construction Tax Generation from North San José – The City Council could dedicate the Building and Structure Construction Tax revenue generated from construction of future North San José developments toward transportation improvements in North San José. Based on the construction valuation of about 7.6 million square feet of remaining industrial development capacity in Phase 1, a residential housing project in the approval pipeline of approximately 1,000 units, and commercial development anticipated in the future (including residential retail and hotels), the estimated amount of Building and Structure Construction Tax revenue from remaining Phase 1 development opportunities is estimated to exceed \$32 million. As the Building and Structure Construction tax is already required to be used for transportation purposes, it is recommended that future Building and Structure Construction taxes generated from Phase 1 development in North San José be dedicated toward transportation improvements in North San José.
- Business Cooperation Program – The Office of Economic Development has estimated that implementation of the Business Cooperation Program for the construction of new development in North San José can generate approximately \$7 million in new sales tax revenues. The estimate is based on the construction value associated with 7.6 million square feet of new industrial development. It is important to note that these would be one-time sales tax revenues associated with construction costs, not the ongoing sales tax proceeds from any businesses that permanently occupies a particular site. The Business Cooperation Program was extended by the City Council at its meeting on April 29, 2014; staff will strongly encourage North San José developers and their contractors to participate in the program. It is recommended that these funds generated through North San José construction activity be dedicated toward addressing unfunded transportation needs in North San José.

If these actions are approved, staff will recognize and track the revenues identified above, along with a corresponding reserve, as part of future budgets.

COORDINATION

This memorandum was prepared in coordination with the City Attorney's Office and the City Manager's Budget Office.

/s/
HANS F. LARSEN
Director of
Transportation

/s/
HARRY FREITAS
Director of Planning,
Building and Code
Enforcement

/s/
KIM WALES
Director of Economic Development
Chief Strategist



JENNIFER A. MAGUIRE
Deputy City Manager/Budget Director