

CITY OF SAN JOSE
2020-2024 ADOPTED CAPITAL IMPROVEMENT PROGRAM

SUMMARY OF CAPITAL IMPROVEMENT PROGRAM
REVENUES

The 2020-2024 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 2019-2023 Adopted CIP.

<u>Source</u>	<u>2019-2023 CIP</u> <u>(\$ millions)</u>	<u>2020-2024 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 402.1	\$ 463.4	\$ 61.3
Financing Proceeds	769.2	1,305.7	536.5
Revenue from Other Agencies	810.1	789.4	(20.7)
Taxes, Fees and Charges	508.8	522.7	13.9
General Fund	62.2	81.2	19.0
Contributions, Loans and Transfers from Other Funds	689.5	731.8	42.3
Interest Income	53.0	60.8	7.8
Miscellaneous Revenue	18.9	12.5	(6.4)
TOTAL	\$ 3,313.8	\$ 3,967.5	\$ 653.7

BEGINNING FUND BALANCES

The Beginning Fund Balances in the 2020-2024 CIP total \$463.4 million, representing 30.5% of the 2019-2020 Adopted Capital Budget and 11.6% of the 2020-2024 CIP. The Parks and Community Facilities Development Capital Program has a Beginning Fund Balance totaling \$142.0 million, accounting for 30.7% of the total Beginning Fund Balances. A majority of the funds are reserved pending determination of final scope of projects and locations or availability of future funding within the nexus of a facility. The Traffic Capital Program accounts for 24.9% (\$115.2 million) of the Beginning Fund Balances, representing a significant amount of carryover project costs that will be spent over the next five years. The other programs with significant Beginning Fund Balances include Airport (\$42.4 million) and Sanitary Sewer (\$15.5 million) Programs.

FINANCING PROCEEDS

The 2020-2024 Adopted CIP includes revenues of \$1.3 billion from the issuance of debt. The Water Pollution Control Capital Program accounts for \$725.0 million from both revenue notes (\$340.0 million) and bond proceeds (\$385.0 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 (\$258.0 million), Public Safety (\$175.0 million), Municipal Improvements (\$62.0 million), Storm Sewer (\$60.0 million), and Parks (\$13.0 million) capital programs incorporate the Measure T bond proceeds totaling \$568.0 million to be issued throughout the CIP five-year period. The Library (\$5.9 million) and Public Safety (\$3.3 million) capital programs incorporate the final bond issuances for their respective General Obligation Bond programs. Finally, the Parks and Community Facilities Development capital program accounts for \$3.5 million in commercial paper to address remediation projects related to the 2017 flood event.

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REVENUE FROM OTHER AGENCIES

The Revenue from Other Agencies category totals \$789.4 million and is comprised of contributions from other agencies that use the Water Pollution Control Plant (WPCP) (\$314.8 million) and the Sanitary Sewer System (\$8.9 million); Federal (\$192.5 million) and State (\$143.2 million) grants and allocations; and Revenue from Local Agencies (\$130.0 million) mostly allocated from the Valley Transportation Authority to fund pavement maintenance (\$127.0 million).

Funding from the federal government (\$192.5 million) is allocated to several programs including: the Airport Capital Program (\$120.9 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 (\$57.2 million) primarily for grants related to multi-modal, corridor, and pedestrian safety transportation projects (\$42.4 million) and pavement maintenance (\$16.8 million); and the Parks and Community Facilities Development Capital Program (\$11.8 million) primarily for the 2017 Flood FEMA reimbursements (\$10.6 million). Funding from the State in the amount of \$143.2 million is mainly allocated to the Traffic Capital Program (\$138.3 million), of which \$132.5 million is for pavement maintenance activities from gas tax revenues.

TAXES, FEES AND CHARGES

The 2020-2024 Adopted CIP includes an estimate of \$522.7 million in the Taxes, Fees and Charges category, a 2.7% increase when compared to the estimated level (\$508.8 million) in the 2019-2023 Adopted CIP. Most of this revenue category is comprised of Construction and Conveyance Tax (\$180.0 million), Airport Passenger Facility Charge proceeds (\$159.9 million), Construction Excise Tax (\$100.0 million), and Building and Structure Construction Tax (\$75.0 million). The chart on the following page compares the components of the 2020-2024 Taxes, Fees and Charges estimates with those included in the 2019-2023 Adopted CIP, followed by a discussion of the estimates for the four largest revenues within the Taxes, Fees and Charges category.

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TAXES, FEES AND CHARGES

<u>Source</u>	<u>2019-2023 CIP</u>	<u>2020-2024 CIP</u>	<u>Difference</u>
Construction and Conveyance Tax	\$ 182,000,000	\$ 180,000,000	(\$ 2,000,000)
Construction Excise Tax	101,000,000	100,000,000	(1,000,000)
Airport Passenger Facility Charge	141,800,000	159,900,000	18,100,000
Building and Structure Construction Tax	76,000,000	75,000,000	(1,000,000)
Sanitary Sewer Connection Fees	3,500,000	3,500,000	0
Residential Construction Tax	1,000,000	1,000,000	0
Water Utility Fees	375,000	375,000	0
Storm Drainage Fees	1,000,000	1,000,000	0
Other Taxes, Fees and Charges	2,090,000	1,923,000	(167,000)
TOTAL	\$ 508,765,000	\$ 522,698,000	\$ 13,933,000

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 five-year projection for Construction and Conveyance Tax revenue totals \$180 million, which is slightly lower than the estimate of \$182 million used to develop the 2019-2023 Adopted CIP. 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. However, collections have rebounded in recent years with revenues expected to end 2018-2019 at \$42.0 million. This collection level is 13% below the actual receipts received in 2017-2018 (\$48.1 million), but is higher than the \$38 million estimated in the 2019-2023 Adopted CIP. Based on recent downward collection trends and real estate activity, collections in this extremely volatile revenue

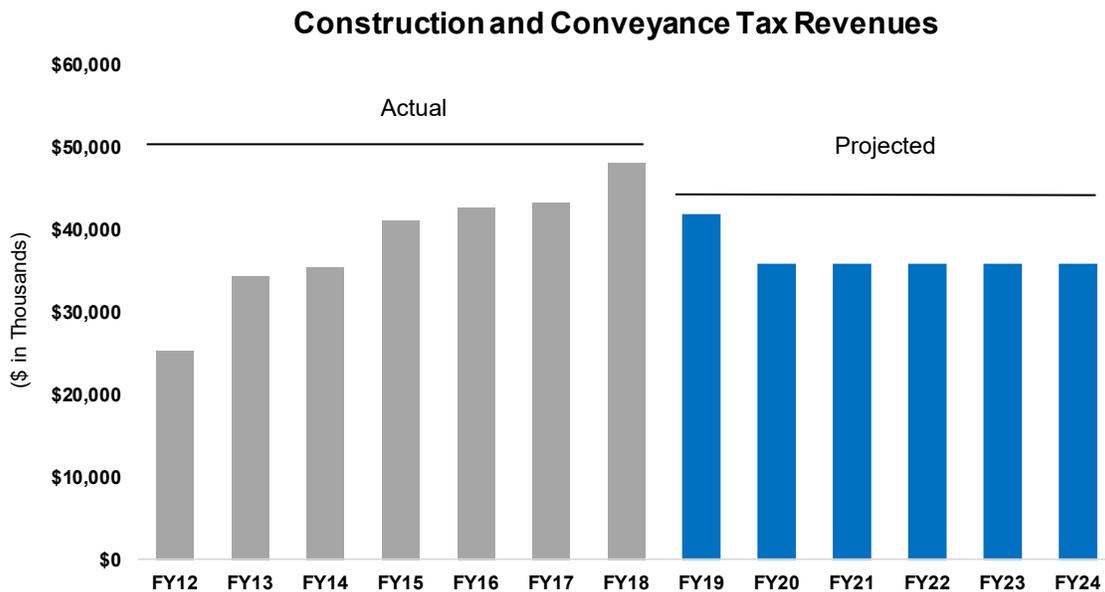
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TAXES, FEES AND CHARGES

Construction and Conveyance Tax (continued)

category are forecasted to drop to \$36 million in 2019-2020 and remain at that level through the remainder of the forecast period. Estimated revenues in the 2020-2024 Adopted CIP are projected to generate \$180.0 million, \$2 million or 1% lower than the estimate of \$182.0 million in the 2019-2023 Adopted CIP. The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 13-year period.



Based on the City Council-approved distribution formula, C&C funds allocated in 2018-2019 and in the 2020-2024 CIP are displayed in the following table.

Construction and Conveyance Tax Distribution

Program	Distribution	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	5 Year Total
Parks	64.00%	\$ 26,880,000	\$ 23,040,000	\$ 23,040,000	\$ 23,040,000	\$ 23,040,000	\$ 23,040,000	\$ 115,200,000
Park Yards	1.20%	504,000	432,000	432,000	432,000	432,000	432,000	2,160,000
Fire	8.40%	3,528,000	3,024,000	3,024,000	3,024,000	3,024,000	3,024,000	15,120,000
Library	14.22%	5,972,000	5,119,000	5,119,000	5,119,000	5,119,000	5,119,000	25,595,000
Service Yards	8.78%	3,688,000	3,161,000	3,161,000	3,161,000	3,161,000	3,161,000	15,805,000
Communications	3.40%	1,428,000	1,224,000	1,224,000	1,224,000	1,224,000	1,224,000	6,120,000
Total		\$ 42,000,000	\$ 36,000,000	\$ 36,000,000	\$ 36,000,000	\$ 36,000,000	\$ 36,000,000	\$ 180,000,000

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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 million, aligned with the current budgeted estimate. 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 \$100 million over the five-year CIP period, with proceeds estimated at \$20 million in 2019-2020 through 2023-2024. This collection level represents a slight decrease of \$1 million (1%) from the 2019-2023 Adopted CIP. A comparison of the five-year forecast with actual collections in previous years for the Construction Excise Tax is shown in the chart that follows.

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.

Building and Structure Construction Tax receipts are anticipated to end 2018-2019 at \$16 million, which is aligned with the budgeted estimate. Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections totals \$75 million, slightly below the estimate included in the 2019-2023 Adopted CIP. It is projected that collections will drop from the 2018-2019 estimate of \$16 million to \$15 million in 2019-2020 through the remainder of the forecast period as projects are completed and activity levels slightly decrease. 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.

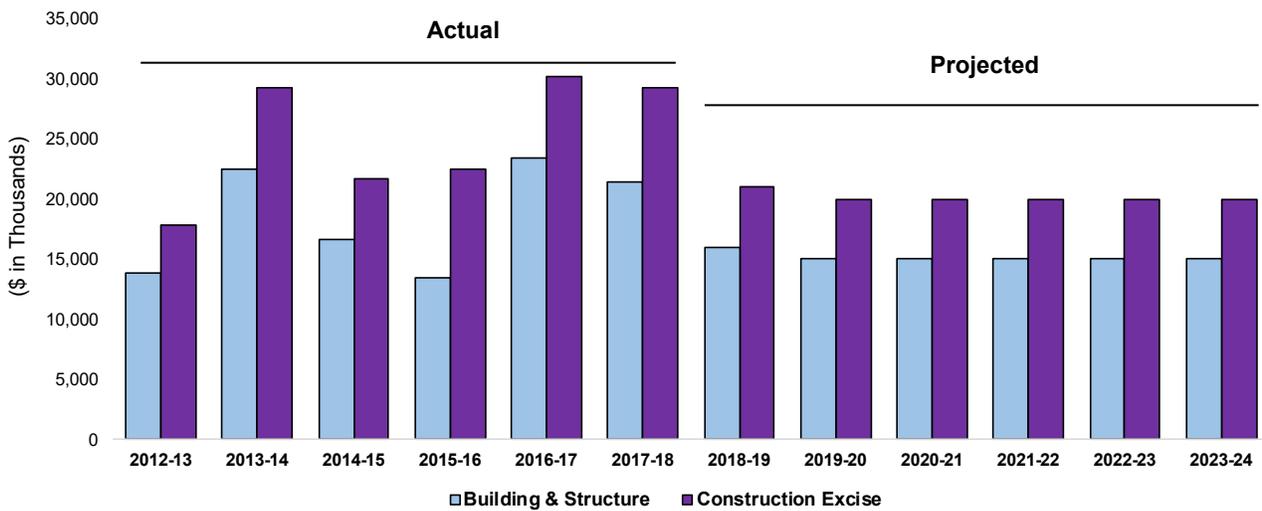
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Building and Structure Construction Tax (continued)

MAJOR CONSTRUCTION-RELATED TAX REVENUES



Passenger Facility Charge

The Passenger Facility Charge is a fee charged to every enplaned passenger at Norman Y. Mineta International Airport. 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 \$30.5 million in 2019-2020 and \$159.9 million over the five-year CIP based on an average of 3% annual passenger growth.

GENERAL FUND

General Fund contributions to capital projects included in the CIP total \$81.2 million, up \$19.0 million from the last CIP.

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

- Public Safety (\$21.3 million) – Fire apparatus replacement continues to be a priority for the City, with a total allocation of \$21.3 million in the General Fund and \$5.1 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.

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- Municipal Improvements (\$37.4 million) – This category includes an annual allocation of \$1.6 million in 2019-2020 and \$1.3 million annually thereafter to address a variety of unanticipated and emergency capital repairs across a wide range of municipal facilities (\$6.6 million over five years). Other annual ongoing allocations include \$350,000 annually for Closed Landfill Compliance (\$1.8 million), \$422,000 in 2019-2020 and \$200,000 annually thereafter for City Hall and Police Communications Uninterrupted Power Supply Capital Maintenance (\$1.2 million), \$300,000 in 2019-2020 and \$100,000 annually thereafter for Arena Repairs (\$700,000), and \$30,000 annually for Fuel Tank Monitoring (\$150,000).

One-time investments, including rebudgets, for improvements at various City facilities total \$16.5 million, primarily for the City Hall Network Operations Center Electrical Switch Replacement (\$4.4 million), Local Sales Tax - Police Administration Building/Police and Communications Building Phase I Elevator Modernization (\$3.5 million) to modernize five elevators to meet code requirements at the police buildings, and the City Hall HVAC Control System Replacement (\$2.4 million). Other projects include City Hall security, lighting, elevator, fire alarm, antenna, and audio/visual upgrades (\$3.3 million); Animal Care Services improvements (\$550,000); Municipal Stadium Paving (\$300,000); and the Fire Training Center Environmental Monitoring (\$300,000).

The Municipal Improvements program allocates a total of \$10.0 million for the rehabilitation of various cultural facilities, including The Tech Museum Controls Module Improvements project (\$4.0 million), which will replace an old HVAC control module; the Tech Museum Tile Wall Evaluation and Repairs project (\$1.4 million), to evaluate and repair tile walls; and the Children's Discovery Museum Air Handler Replacement Unit project (\$1.0 million); and investments for the San José Stage Company (\$1.0 million). Additional cultural facilities investments include funding for Hammer Theatre Center (\$1.1 million); San José Museum of Art (\$394,000); History San José (\$283,000); African American Community Services Agency (\$252,000) and the Mexican Heritage Plaza (\$182,000).

- Communications (\$6.0 million) – Due to insufficient Communications C&C Tax Fund revenues, General Fund transfers are required to fully fund contributions to the Silicon Valley Regional Interoperability Authority (SVRIA).
- Service Yards (\$3.3 million) – Due to insufficient Service Yards C&C Tax Fund revenues, General Fund transfers are required to supplement funding for the Debt Service on Phase I Bonds issued to finance the Central Service Yard expansion.
- Parks and Community Facilities Development (\$11.8 million) – General Fund investments in this program include a portion of the proceeds from the sale of the Coleman property in 2018-2019 are allocated to parks projects (\$10.5 million), targeted allocations for critical park improvements, and a partial liquidation of the Artificial Turf Replacement Reserve for turf replacement at Smythe

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Sports Field (\$200,000) are included within this program. The capital projects funded by the sale of the Coleman property primarily focus on infrastructure backlog needs, including sports field turf replacements (\$5.7 million), playground and/or tot lot replacements throughout the City (\$1.65 million), re-use facility improvements (\$1.0 million), park improvements (\$1.1 million), re-use facilities improvements (\$1.0 million), and the Parks Rehabilitation Strike and Capital Infrastructure Team (\$350,000).

For more information regarding the allocation of Coleman property sale proceeds, please refer to the Parks and Community Facilities Development Capital Program overview in Section V of this document.

CONTRIBUTIONS, LOANS AND TRANSFERS FROM OTHER FUNDS

Funding in this category totals \$731.8 million which is \$42.3 million above the amount included in the 2019-2023 Adopted CIP. The largest transfers of funds are from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$252.3 million) and to the Sanitary Sewer System Capital Program (\$160.0 million), from the Airport Surplus Revenue Fund to the Airport Capital Program (\$112.0 million), and from the General Purpose Parking Fund to the General Purpose Parking Capital Fund (\$39.7 million). The elevated transfer amount is primarily associated with an increase from the Sewer Service and Use Charge Fund to pay for capital projects at the Water Pollution Control Plant (\$39.7 million).

INTEREST INCOME

The 2020-2024 Adopted CIP includes \$60.8 million from interest income. These estimates are up \$7.8 million from those included in the 2019-2023 Adopted CIP. The range for the interest rates in the 2020-2024 Adopted CIP is 1.78% to 3.07% compared to a range of 1.31% to 2.85% used in the 2019-2023 Adopted CIP.

MISCELLANEOUS REVENUE

The Miscellaneous Revenue category totals \$12.5 million, a decrease of \$6.4 million from the amounts included in the 2019-2023 CIP. The most significant decrease is due to lower insurance reimbursements (\$1.6 million) related to the 2017 Flood Event remediation projects.