FINANCING COMMUNITY FACILITIES: A CASE STUDY OF THE PARKS AND RECREATIONAL GENERAL OBLIGATION BOND MEASURE OF SAN JOSE, CALIFORNIA

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Abstract
This study of the City of San Jose's Parks and Recreation General Obligation (GO) Bond Measure seeks to identify the politics-, management-, and planning-related lessons learned by the City as it developed its community facilities using the GO bonds proceeds. The study finds that these lessons include: be conservative in what you promise the residents; be prepared for changes in economic environment by identifying supplementary funding sources should the primary source not yield adequate funds; make sure that the jurisdiction is organizationally capable of handling the increased workload; and prepare detailed project plans *prior* to the bond issuance.
Keywords: Community Infrastructure and Services; Municipal Bonds; Public Finance

1. Introduction

The burden of financing a community's infrastructure and services like roads, parks, libraries, police stations, and fire stations primarily falls upon the local governments. The financing of these infrastructure and services, which are often critical for the survival and development of the community itself, is typically achieved through such broad-based revenue sources like property taxes and sales taxes, or through fees such as library fees, park fees, and development impact fees. However, wide spread public opposition to property tax increases exemplified by the limitations put on property tax rates in California, and the stiff inter-jurisdictional competition for sales tax revenues has led many jurisdictions to seek additional sources of revenue to finance these infrastructure and services. Bonds are one such revenue source.

Bonds issued by a municipal government are called municipal bonds. The municipal bonds are primarily of two major types – the revenue bonds and the general obligation (GO) bonds. The revenue

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bonds can be issued to finance revenue generating infrastructure or services like a toll road, water supply system, and sewer system. The GO bonds are typically issued to finance infrastructure and services that either do not generate any revenue, or generate very little revenue compared to the expenditure involved. Examples include police and fire protection services, parks and libraries.

General Obligation (GO) bond is one of the principal financing mechanisms through which the local and state governments fund capital improvements in the United States. It accounts for approximately 30% of all state and local government bond issuances (U.S. Census Bureau, 1998). GO bond's tax-exempt status and low risk, due to the fact that they are backed by the full faith and credit of the issuer, makes them very appealing to investors.

The use of public funds to retire the GO bonds makes it the responsibility of the issuing entity to ensure that first, the financing and transaction costs associated with the bond issuance are minimized; and second, the borrowed funds are used in the most efficient manner possible. The existing literature has primarily focused on the first responsibility while neglecting the second.

On November 7, 2000 the voters of the City of San Jose, California authorized the issuance of $228 million Neighborhood Parks and Recreation GO Bonds (Parks bonds in short). $132.715 million worth of Parks bonds were issued by the year 2005. They were issued as part of the Series 2001, 2002, and 2004 GO bonds. The City is using the bond proceeds to actively undertake several improvement projects, and intends to complete all the projects in a 10-year period (2001-2010).

This paper, using case study method, aims to fill this significant research gap by evaluating the usage of funds obtained from the issuance of the City of San Jose Neighborhood Parks bonds. The specific research question this study aims to answer is: What politics-, management-, and planning-related lessons can be learned from the difficulties faced by the City of San Jose as it developed capital facilities through Parks bonds proceeds?

The research involved review of the city council memos, documents prepared by the City Parks, Recreation and Neighborhood Services (PRNS) Department, Finance Department, and the City Manager's Office, and the interviews with the City staff. The study finds that a jurisdiction has to consider several politics-, management- and planning-related factors before issuing a GO bond. These include: be conservative in what you promise the residents; be prepared for changes in economic environment by identifying supplementary funding sources should the primary source not yield adequate funds; make sure that the jurisdiction is organizationally capable of handling the increased workload; and prepare detailed project plans *prior* to the bond issuance.

Apart from the introduction, this paper is divided into eight sections. The first section reviews the existing literature. The second section provides an overview of the City of San Jose, focusing on the circumstances that led to the issuance of the GO bond. The third section reviews the financing options considered by the City prior to issuing the GO bond. The fourth section provides an overview of the bond issuance process. The fifth section describes how the bond proceeds are being used. The sixth section describes the status of the projects funded by the Parks bonds. The seventh section identifies the lessons learned, and the last section provides conclusions.

2. Literature review

The use of public funds to retire the GO bonds makes it the responsibility of the issuing entity to ensure that first, the financing and transaction costs associated with the bond issuance are minimized; and second, the borrowed funds are used in the most efficient manner possible. The existing literature has primarily focused on the first responsibility while neglecting the second.

The existing literature has examined several factors influencing the financing and transaction costs associated with bond issuance. These include the impact of geographic size of the issuing municipality on the borrowing cost (Rivers and Yates, 1997); the cost of bond insurance (Denison, 2003; Nanda and Singh, 2004); the usefulness of obtaining bond ratings (Peng, 2002; Hsueh and Kidwell, 1988; Johnson and Kriz, 2002); the financial impact of the method of sale (Robbins, Simonsen and Rocco, 2004; Robbins, 2002; Peng and Brucato, 2003; Peng and Brucato, 2001); the impact of investors' risk-averse behavior (Kriz, 2004); the maturity structure and timing of bond refund (Robbins, Simonsen and Jump, 2000; Kalotay and May, 1998); and the role of key players like the financial advisors (Kittredge, 2003).

River and Yates (1997) found no impact of city size on the net interest costs paid by the issuing cities. The authors found that the small cities were able to substitute other information for ratings, thereby keeping the net interest costs down.

A large proportion of GO bonds are insured. Bonds are insured to make them more attractive to the buyers, thereby reducing the cost of debt financing. Denison (2003) found that bond quality, volume of bond issuance, and geographic distribution of risk were among the major factors affecting the probability of bond insurance. Further, Nanda & Singh (2004) found that the net benefit of bond insurance increases with bond maturity.

The bond issuers often obtain bond credit rating. The bond rating lets the potential bond buyers know the quality of the bond. Three credit ratings agencies - Standard and Poor's, Moody's Investor Services, and Fitch IBCA – commonly rate bonds. However for the bond issuer there is a financial cost

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involved with seeking bond ratings. Hence existing literature has tried to empirically estimate the benefit of bond rating. Peng (2002) found that obtaining Standard and Poor's bond ratings decreased the borrowing cost by four basis points. Hsueh & Kidwell (1998) estimating the benefit of obtaining more than one credit rating found that seeking additional credit ratings did indeed lower borrowing cost.

The form of bond sale – competitive bidding or negotiated sale – can also impact the net cost of debt by impacting the interest rate payable on the bond, and the transaction cost of bond issuance. Robbins (2002) found no distinctive advantage of one method over other in the case of tax-exempt municipal bonds issued by municipalities in New Jersey. Peng and Brucato (2003) using a sample of 1,745 bonds issued in 1998 reached a similar conclusion after comparing the borrowing costs of bonds issued using the competitive and negotiated sale methods.

The bond issuer promises to pay the buyer a certain interest rate. However cheaper access to credit at a later date may prompt the bond issuer to refund the bond. The timing of the refund should result in maximum savings. Kalotay and May (1998) argue for the adoption of rigorous analytical techniques like option-based valuation approach over the frequently used rule of thumb approach for deciding the timing of the refund.

The above literature review highlights the emphasis put by the existing literature on minimizing the cost of borrowing funds, while paying little attention to the actual use of bond proceeds. Research on the actual use of bond proceeds is important for political, managerial and planning reasons. Municipalities are obligated to use their full taxing power to repay the bonds. From a political viewpoint the municipal government is answerable to its citizens for the manner in which the bond proceeds are spent. From the managerial perspective a municipality has to ensure that it has the requisite organizational structure and delivery system to make the needed capital improvements. From the planning perspective, it is important that detailed project plans are prepared *prior* to the issuance of bonds. Preparation of the detailed plans is also critical to ensure that the cost estimates on which the final bond issuance amount is based are as accurate as possible.

3. Overview: The city of San Jose

The City of San Jose, California - heart of the world famous Silicon Valley - has grown significantly in the last five decades. The population grew ten-fold - from 90,000 in 1950 to 920,000 in 2000. The City is projected to add 129,300 more people by the year 2020[1] - primarily through in-fill development and densification. Its land area during the same time period expanded from 44 square kilometers to 464

[1] Source: Association of Bay Area Governments (ABAG)

square kilometers – largely through annexation of the surrounding agricultural land (City of San Jose, 2004).

While the City has grown multiple times in size and population, its infrastructure and services have failed to keep pace. Parks, libraries, fire, police and transportation related departments, through their master or strategic plans and other needs assessment studies, have estimated their unfunded capital needs to be approximately \$1.9 billion (City of San Jose, 2000a)[2]. San Jose is the single largest provider of housing in the region. However, the new residential development is unable to generate enough revenue to finance these needs. There are several reasons for the revenue shortfall. One, the ability of the local governments in California to raise property tax revenue is restricted by Proposition 13. Proposition 13 caps the property tax rate at one percent of the assessed value of all taxable property. Property is only assessed at the time of sale or when major improvements are made. Hence if the property has not been recently sold or major improvements have not been made, a property may be assessed at substantially lower value than a comparable property that is recently sold or improved. Moreover, the annual increase in the property tax is capped at two percent. Second, while the City of San Jose has provided most of the housing, its neighboring cities have attracted most of the new jobs. Thus the City's sales tax revenue has not increased significantly. Third, federal and state funds for the construction of community facilities have become more limited. Fourth, the City's conveyance and construction taxes have proven insufficient. In this rather constrained fiscal scenario the City Council, in the year 2000, started exploring the financing options before the City to cover the \$2 billion capital funding shortfall.

4. Financing options

As per the direction of the Mayor and the City Council, a comprehensive report titled "Capital Facilities Financing Strategy" was prepared and provided to the Council on May 16, 2000. The report compiled a preliminary cost estimate of the capital facility needs for parks and recreational services, library facilities, fire protection services, police protection services, and traffic and street improvements. The total need amounted to \$1.9 billion. Of this \$1.156 billion were needed to provide parks and recreational facilities.

The report, among other things, presented four financing options - GO bonds, special tax bonds, special assessment bonds, and a community facilities district - that the City may use to meet its unfunded infrastructure and services needs. Each financing option's technical, financial, political and

[2] The following strategic or master plans were prepared - Parks and Community Facilities Strategic Plan, Library Branch Facilities Master Plan and Fire Strategic Plan. Need assessment studies were conducted for – traffic and street improvements; police facilities; cultural facilities capital rehabilitation; public safety driver training facility; and police and fire CAD system

administrative feasibility is discussed below. The analysis is followed by Table 1 that summarizes the financing options.

GO Bonds

For the City of San Jose the advantages of financing long-term debt through GO bonds were: a) GO bonds did not require a reserve fund or funded interest (i.e. capitalized interest) during acquisition or construction of the project. This made the GO bond smaller in size, and the debt lower, than any other long-term debt financing mechanism; b) as the bonds were backed by the full faith and credit of the city, the interest rate (coupon rate) payable on GO bonds was lower than on other kinds of municipal bonds; and c) the issuance of GO bonds allowed the City to take advantage of the significant increases in the property valuations in the redevelopment areas. The City of San Jose Redevelopment Agency is the largest redevelopment agency in California. Over decades, due to the efforts of the redevelopment agency and the normal economic growth, the property values within the redevelopment areas had grown significantly[3]. Properties were sold multiple times, thereby increasing their assessed value. The high assessed values ensured that a small increase in property tax rate would yield funds sufficient to retire the GO bonds.

Challenges of issuing GO bonds were: a) the City had not issued GO bonds in last three decades and hence would need to learn the details of the bond issuance process; b) the issuance of GO bonds would create inequities among the property owners in the City. The long-term property owners would pay substantially lower taxes than the recent property-owners because, due to Proposition 13, the assessed value of property owned by the former would be substantially lower than the assessed value of a similar property owned by the latter; c) the issuance of GO bonds would require approval by two-third of the voters. In a state that pioneered property tax revolt it may not be easy to get such support from the voters; and d) the GO bonds would not fund any operations and maintenance needs.

Special Tax Bonds

Special Tax bonds can be financed through several means including a parcel tax, or increases to such General Fund taxes as the Transient Occupancy Tax (TOT)[4] and Utility Users Tax (UUT)[5].

The advantage of the parcel tax was that the actual amount levied would have been reflective of the benefit derived from the improvement or service. This is in contrast to the GO bond, where the

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3 The redevelopment areas constitute over a quarter of the City's area
4 Usually levied for occupying lodging in a hotel, motel, inn or tourist home.
5 Can be levied on such utilities as electricity, gas, water, and telephone

assessed value of the property is the only measure of the amount of tax payable by a property owner. A possible barrier to using a parcel tax was the need to gain approval by two-thirds of the voters. Moreover, facilities like parks and libraries have a positive spill over effect. Hence it would have been difficult to accurately put a monetary value on the benefit an individual parcel might have derived from the provision of such facilities.

Use of other General Fund taxes had the advantage of restricted impact. For example, the Business Tax would only have impacted businesses, and the TOT would have only impacted visitors. However the UTT would have impacted all residents. Like the issuance of GO bond and the imposition of parcel tax, the General Fund taxes would have also needed two-third voter approval.

Special Assessment Bonds

Special assessments on the parcels within a special assessment district can finance special assessment bonds. The assessment per parcel must be directly related to the benefit the parcel derives from the public improvements.

Advantages of using special assessments were: a) the assessments would have been in proportion to the benefit derived; and b) voter approval would have required a simple majority of property owners based on the amount of assessment. However, special assessment financing is predominantly used in the case of new land development where allocation of benefit is relatively easy. A majority of the improvements in San Jose would be in the already developed areas of the city. Moreover, special assessment bonds had the same drawback as the parcel tax bonds when it came to financing facilities like parks and libraries that have a positive spill over effect.

Community Facility Districts

The City could have created separate public agencies known as the community facilities districts to finance certain public facilities and services. The public facilities however must directly serve the district. The community facility district can levy a special tax to finance capital and operating costs. The tax should be based on the benefit derived by the parcels, or on the cost of making the facilities or services available, or on any other reasonable basis. The tax cannot be ad valorem or related to the value of the property. The challenges in using this financing mechanism were: a) it required two-third voter approval; b) the methodology of levying the tax might have been politically complicated; and c) several districts would need to be created - which could have been organizationally and politically complicated.

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The City Council opted for the issuance of GO bonds

After reviewing the available financing options, the City Council decided to use GO bonds to fund its infrastructure and service needs. Several factors helped the City decide to issue the GO bonds. In the year 2000, the economy of Silicon Valley was at its peak. The City had a budget surplus and the residents were upbeat about the future. Year 2000 was arguably the best time for the City to seek voter approval for the issuance of GO bonds. A public opinion poll conducted by the San Jose Library Foundation showed that 71% of the voters would support a $185 million library bond measure. The poll also showed support for parks and recreational facilities, public transport, and public safety (Desmond, 2006). It was opined that a GO bond measure that could “bundle” some of the unfunded needs from various master and strategic plans could present the first phase of a longer-term capital financing strategy (City of San Jose, 2000a).

TABLE 1 FINANCING OPTIONS

Financing Options	General Obligation Bonds	Special Tax Bonds / Lease Obligations	Special Assessment Bonds	Community Facilities District
Eligible Projects	Property Acquisition and Construction Improvements. No maintenance or equipment.	Property Acquisition and Construction Improvements and Equipment. No maintenance.	Infrastructure Improvements Assignable to Particular Property Owners. Limited Equipment. No maintenance.	Property Acquisition, Construction of Improvements, Equipment and maintenance within a localized area.
Revenue Source	Property Tax	Parcel Tax, TOT, Utility Tax, Construction Taxes	Special Assessment on Property	Special Tax
Voter Approval	2/3	2/3	Simple Majority of property owners based on amount of assessment	2/3*

* Requires 2/3 of votes if there are more than 12 registered voters or 2/3 of property owners if there are less than 12 registered owners.

Source: Capital Facilities Financing Strategy. 2000. San Jose, CA: Office of City Manager.

5. Parks bonds: The issuance process

The Parks bond measure, in part, was a result of a year-long planning process that began in January 1999 when the city initiated an interdepartmental strategic planning process “to identify future needs for parks, community facilities, and recreation programs and neighborhood services” (City of San Jose, 2000a). The result of the strategic planning process is the *Greenprint* – a 20-year strategic plan for the provision of parks and other recreational services.

According to the *Greenprint*, a community needs assessment conducted during the first phase of the strategic planning process found that[6]:

- The population of the City doubled between 1970 and 1998 without a commensurate increase in parks, community facilities and programs.
- By the year 2010 the City will no longer have a White majority. It will be ethnically diverse with 39% Hispanic, 33% White and 24% Asian population. The parks and allied services would need to cater to this diverse population.
- In the next five years, the number of residents above the age of 40, and between 10 and 19 years will significantly increase. This would mean increased emphasis on the youth and elderly population in the provision of parks and recreational services.
- San Jose will continue to be a city of homeowners with only 1/3 renter population. This means that parks would continue to be important to building community in residential neighborhoods (City of San Jose, 2000b).

A facility analysis conducted as part of the needs assessment study found that:

- The City of San Jose has the lowest acreage per 1000 population of the neighborhood/community parks compared to five West Coast cities similar to San Jose in population[7]. The park acreage is also substantially lower than the National Parks and Recreation Association standards. The facility analysis documents need for an additional 931 acres of neighborhood/community parks by the year 2020.
- The City of San Jose currently provides 31 square meters of community facility space per 1000 population. This figure again is the lowest among the comparison cities.
- The City owns 26 community centers of which 22 require modernization, renovation or replacement.
- Additionally there is demand for more recreational facilities in city-wide/regional parks; additional sports fields in the existing neighborhood and community parks; more city-wide sports complexes; gymnasiums in future community centers and youth centers; renovation of existing restrooms and provision of additional restrooms; skate parks for youth; community gardens; dog parks; and expanding the trail system (City of San Jose, 2000b)

The *Greenprint* identified a total need of approximately $1.2 billion to fund the City's parks and recreational needs for the next 20 years. The funding was grouped in three phases. $192 million of capital improvements were recommended during Phase I (2000-2005), $257 million during phase II

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6 The second phase was Strategy Development and the third, Action Plan Development

7 The selected cities were Portland, Seattle, San Diego, Sacramento and Phoenix

(2005-2010), and $704 million during Phase III (2010-2020). Detailed breakdown of the funding need is provided in Table 2.

TABLE 2 STRATEGIC PLAN CAPITAL INVESTMENT BY FACILITY TYPE

Facility Type	Investment Phase 2000-2005	2005-2010	2010-2020	Total	%
Park Acquisition and Development	$13,060,000	$51,100,000	$459,280,000	$523,440,000	45.4%
Neighborhood Parks Improvements	$49,060,000	$14,240,000	$34,940,000	$98,240,000	8.5%
School Recreational Facility Improvements	$3,020,000	$16,700,000	$35,060,000	$54,780,000	4.7%
Sports Facility Improvements	$12,816,662	$6,150,000	$31,704,338	$50,671,000	4.4%
Regional Parks Improvements	$41,177,000	$25,997,000	$17,180,000	$84,354,000	7.3%
Community Gardens	$310,000	$450,000	$560,000	$1,320,000	0.1%
Trails Improvements	$9,870,000	$30,530,000	$28,300,000	$68,700,000	6.0%
Other Recreational Facility Improvements	$27,140,000	$12,850,000	$20,925,000	$60,915,000	5.3%
Community Centers Improvements	$35,590,000	$99,060,000	$76,580,000	$211,230,000	18.3%
TOTAL INVESTMENT REQUIRED	$192,000,000	$257,100,000	$704,500,000	$1,153,700,000	100.0%
% OF TOTAL	17%	22%	61%	100%	

Note: All cost estimates are in 2000 dollars.
Source: Chapter 7, Greenprint for Parks and Community Facilities and Programs: A Twenty-Year Strategic Plan. 2000. City of San Jose, CA.

In total, the *Greenprint* identified need for $450 million for capital improvements in Phase I and II (2000-2010). The plan also identified the specific capital improvements needed during this time period.

From the list of capital projects identified in the *Greenprint*, the City identified a shorter list of projects for GO bond funding. "The projects to be funded from the issuance of Parks bonds include renovation of 90 play areas; construction of 28 restrooms; construction of nine community centers and senior centers; construction of a lighted soccer complex; enhancements to Almaden Lake Park, Emma Prusch Memorial Park, Happy Hollow Park and Zoo, Kelley Park, and the Municipal Rose Gardens; and development of five trail segments" (City of San Jose, 2006).

The renovation of play areas and the construction/renovation of the restrooms would be part of the 73 neighborhood park projects. The nine community and senior centers would be provided by construction of multi-service centers. The five trail projects include: Coyote Creek Trail – Los Lagos Golf Course to Kelley Park, Guadalupe River Trail – Highway 280 to Willow Park, Los Alamitos Creek Trail, Los Gatos Creek Trail – Lincoln Avenue to Auzerais Avenue, and San Tomas Aquino-Saratoga Creek Trail – Bollinger Avenue to Prospect Road.

For the Parks bond measure the pre-origination phase included the above described strategic planning process, a city-wide election for voter approval of the bond measure, and the selection of projects to be funded through the bond proceeds. Apart from these activities, the pre-origination phase also included highly specific procedural steps required to get ready for bond issuance. These steps included ensuring that the all legal requirements were met, a financing team was put in place, and the method and process of bond sale were clearly laid out.

6. Usage of Bond Proceeds

On November 7, 2000 the voters authorized the issuance of $228 million Neighborhood Parks and Recreation bonds, and the $212 million Neighborhood Libraries GO bonds. On March 5, 2002, the voters authorized $159 million Neighborhood Security Act GO bonds to fund the capital improvement needs of the police and fire departments. Since then GO bonds have been issued four times – in 2001, 2002, 2004 and 2005. The 2001 Series totaled $71 million - $40 million for parks and $30 million for libraries. The 2002 Series totaled $116.09 million - $46.715 million for parks, $30 million for libraries, and $39.375 million for public safety. The 2004 series totaled $118.7 million - $46.0 million for parks, $58.3 million for libraries, and $14.4 million for public safety. The 2005 series totaled $46.3 million - $21.3 million for libraries, and $25.0 million for public safety (Persselin, 2006). Thus till date, bonds worth $132.715 million of the total authorized $228 million have been issued for parks. The projected tax burden of the Neighborhood Parks and Recreation Bond was $19.60 per $100,000 of assessed value (Borgsdorf, 2000). Table 3 summarizes all the bond issuances up until now.

TABLE 3 TOTAL BOND ISSUANCES

Series	Parks	Libraries	Public Safety	Total
2001	$40 million	$31 million	-	$71 million
2002	$46.715 million	$30 million	$39.375 million	$116.09 million
2004	$46 million	$58.3 million	14.4 million	$118.7 million
2005	-	$21.3 million	$25 million	$46.3 million
Total	$132.715 million	$140.6 million	$78.775 million	$352.09 million

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As indicated in Table 3, $132.715 million worth of Parks bonds have been issued to date. They were issued as part of the Series 2001, 2002, and 2004 GO bonds. The City is using the bond proceeds to actively undertake several improvement projects and intends to complete all the projects in a 10-year period (2001-2010). To monitor the progress of the bond projects "On April 10, 2001, the City Council designated the Parks and Recreation Commission as a Committee of the Whole (Committee) to conduct the citizen's oversight review responsibilities associated with Measure P [Neighborhood Parks and Recreation Bond Measure]. … The Citizen Oversight Committee provides the public with opportunities to understand, review, and address any significant and relevant issues related to the implementation of the parks and recreation bond projects" (City of San Jose, 2002). The Citizen Oversight Committee annually prepares a report to track the implementation of the Parks bonds measure and "informs the [City] Council and the public of the appropriateness of bond expenditures, the progress of the various projects, and the results of the annual audit" (City of San Jose, 2003).

7. Status of Bond Projects

All the neighborhood parks projects are complete. These projects involved renovation of play areas, and/or construction/renovation of restrooms. Although minor, these are high-impact projects and have helped garner public and political support for the parks projects. Additionally, three of the nine community center projects are complete. Enhancements to the Municipal Rose Garden have been made. However, several major projects like enhancements to four regional parks, development of five trail segments, and construction of two sports complexes have either been delayed or rescheduled. The primary reasons for moving the larger projects towards the back-end of the 10-year period are identified below.

Lack of detailed project planning

The *Greenprint* does a good job of identifying the community needs. However, it does not include detailed project plans. Neither were such plans prepared prior to the bond issuance. Hence in many instances the City had to reduce the size of the proposed projects to keep them within budget. In other instances site selection and acquisition has proven more difficult than anticipated.

City's budgetary situation

The Parks bond measure got voter approval in the year 2000 – a time of economic prosperity for the City. However, the ensuing five years saw the dot com bust and economic recession affect the City's fiscal health. Since last four years, the City has been struggling to bridge its operating budget deficit.

Hence the City has decided to "accelerate projects with minimal operations and maintenance costs and to defer those with additional significant operational and maintenance impacts" (City of San Jose, 2003). The development of community centers and sports complexes, and enhancements to regional parks have thus been delayed. As mentioned earlier, project details were not worked out prior to the issuance of bonds. Hence for several major projects, the magnitude of the operations and maintenance costs were not known at the time of bond issuance.

8. Lessons Learned

During the interviews conducted as part of the research for this paper, the city officials identified several lessons, which they feel will: a) help them plan better in the future; and b) help other jurisdictions who may issue similar bonds in the future. The lessons identified can be broadly classified into three groups – planning-, politics- and management- related lessons.

8.1. Planning

Prepare detailed plans

Development of detailed project plans would have helped the City to better estimate the projects' capital as well as the operations and maintenance needs. Furthermore, in the absence of detailed project designs, the City, in many instances, promised more than it could later deliver. For example, in a few cases the community centers had to be resized from 5,600 square meters to 1,850-3,700 square meters. The need for detailed plans is highlighted by the fact that the City, in the preceding several years, had not developed community centers or sports complexes of the size proposed in the bond measure and thus had no working model to assess the exact design, fiscal, staff, and other programmatic requirements to develop and maintain such facilities. The bond measure was driven primarily by the public officials. In the pre-origination phase it would have benefited from more extensive input from the city departments, especially the PRNS, Public Works and the Planning departments.

8.2. Political

Be conservative in what you promise

As mentioned above, in a few cases the City had to resize its projects, or postpone them. Hence to avoid disappointing the residents it is advisable to be conservative in what you promise them.

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8.3. Managerial

Be prepared for changes in the economic environment

Between the approval of the Parks bond measure and present, the City's economic environment has dramatically changed. The City is experiencing operating budget deficits. The cost of construction has seen double-digit increases. The escalation of construction costs has also led the City to revisit the scope and size of several projects. It is feared that as major capital projects (with their higher operations and maintenance costs) are deferred, it will get more difficult to develop them in the scope and size promised to the city residents. One way in which the City could have been prepared for changes in the economic environment was by identifying other funding sources that could have supplemented bond funds.

Make sure that the jurisdiction is organizationally capable of handling the increased workload

The Parks bond measure significantly increased the workload of various city departments. The work included development of detailed project plans, construction management, and coordination among city departments like the PRNS, Public Works and Finance. Hence it is important to ensure that the city is organizationally ready to absorb the increased workloads that such a bond measure can bring.

9. Conclusions

The City of San Jose's Parks bonds have been instrumental in addressing decades-long park infrastructure needs of the City (Mark, 2006). They have provided the opportunity to undertake improvements that had been deferred for 30-50 years, to bring several existing facilities up to code, and to develop several new ones.

This paper first describes the circumstances that led the City of San Jose to issues the Parks bonds. The paper then identifies several lessons learned by the City as it developed the bond projects. These include: prepare detailed project plans *prior* to the issuance of bond; be conservative in what you promise the residents; be prepared for changes in economic environment by identifying supplementary funding sources should the primary source not yield adequate funds; and make sure that the jurisdiction is organizationally capable of handling the increased workload.

While the existing literature has primarily focused on ways to decrease the borrowing cost of money, it has not paid attention to the actual use of the bond proceeds. This paper, by focusing on the latter, strives to fills this significant research gap. The examination of the City of San Jose Parks Bonds shows that while the City did a fine job of ensuring that the borrowing costs were kept low (for example by getting three bond ratings, using the appropriate sale method, and employing sound financial advisors), it did not plan the use of the bond proceeds with as much detail. This detailed planning should have been done prior to the bond issuance, and could have resulted from close coordination and cooperation between several government departments such as the Office of the City Manager, the Finance Department, Public Works Department, PRNS, and the Planning Department. However before further criticizing bond issuing cities like San Jose on this account, it should be noted that these cities do not have a readily available model of a governmental structure required for detailed planning prior to the bond issuance, and for ensuring that the bond proceeds are used as per the plan. Future research could focus on developing such models.

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