

**CITY OF SAN JOSE**  
**2005-2009 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

The 2005-2009 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 2004-2008 Adopted CIP.

<u>Source</u>	<u>2004-2008 CIP</u> <u>(\$ millions)</u>	<u>2005-2009 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 645.0	\$ 630.3	\$ (14.7)
Sale of Bonds	428.5	431.7	3.2
Other Agencies/Grants	136.5	106.8	(29.7)
Fees and Charges	194.0	202.6	8.6
Transfers	2,427.6	1,909.3	(518.3)
General Fund	44.4	39.4	(5.0)
Interest Income	35.2	32.6	(2.6)
Other Revenue	<u>138.7</u>	<u>156.4</u>	<u>17.7</u>
<b>TOTAL</b>	<b>\$ 4,049.9</b>	<b>\$ 3,509.1</b>	<b>\$ (540.8)</b>

**Beginning Fund Balances**

Aggregate 2005-2009 Adopted Beginning Fund Balances are within approximately 2% of the 2004-2008 CIP level. Two capital programs generate over half of that 2004-2005 Beginning Fund Balance figure. The funds in the Airport Capital Program, which is the largest program in the CIP, account for over one-third (\$224.5 million) of the Beginning Fund Balance and an additional 18% (\$113.0 million) is associated with the Water Pollution Control Plant capital fund. The significant number of capital improvements programmed over the next five-years in these programs should result in a significant reduction to the fund balance total.

**Sale of Bonds**

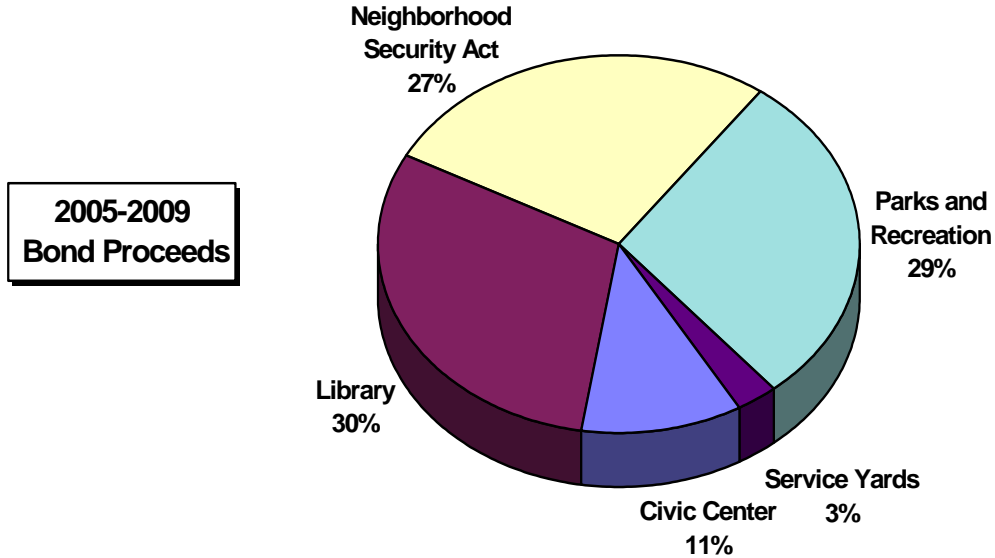
Total bond proceeds expected over the next five-year period are similar to the estimates included in the last CIP. The 2005-2009 CIP includes the scheduled sale of the remaining General Obligation Bonds (\$118.1 million) associated with the Neighborhood Security Act Bond Measure that was approved by voters in March 2002. This bond measure authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund both Police and Fire Department capital improvements. This category also reflects the sale of General Obligation Bond financing for parks and recreation projects (\$124.1 million) and library projects (\$130.7 million), the completion of the new Civic Center (\$46.3 million), and the sale of bonds to fund Phase II of the Central Service Yard (\$12.5 million).

It should be noted, however, that the sizeable amount of bond proceeds associated with the Airport Capital Program are not reflected in this category because they are technically considered a Transfer from the Airport Fiscal Agent Fund to the Airport Revenue Bond Improvement Fund. The graph below displays the anticipated bond sales by capital program area.

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SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)

Sale of Bonds (Cont'd.)



**Other Agencies/Grants**

This category totaling \$106.8 million is comprised of federal (\$28.4 million) and State (\$24.2 million) grants, contributions from other agencies that use the Water Pollution Control Plant (\$40.6 million) and the Sanitary Sewer System (\$5.8 million), the Valley Transportation Authority (\$4.4 million), the Santa Clara Valley Water District (\$2.8 million), the and other agencies (\$0.5 million). On an overall basis, revenues from these sources are expected to drop \$29.7 million (22%) from the 2004-2008 Adopted Budget, due primarily to lower revenues from the federal government.

The majority of the federal grants are related to Airport projects. The estimates for the Airport-related federal funding have dropped from \$46.3 million in the prior CIP to \$25.0 million in the 2005-2009 Adopted CIP. In the State grant category, it is anticipated that \$18.0 million will support traffic projects, \$4.8 million will support parks projects, and \$1.4 million will support Water Pollution Control projects. The contribution from the Santa Clara Valley Water District is allocated to the Water Pollution Control Plant capital program. The contributions from the County of Santa Clara and the Valley Transportation Authority will be used to support traffic projects.

**Fees and Charges**

The 2005-2009 Adopted CIP includes \$202.6 million from Fees and Charges, an increase of \$8.6 million from the level included in the 2004-2008 Adopted CIP. On an overall basis, the revenue estimates have been increased slightly (4.4%) based on actual performance in the individual categories.

The following table compares the components of the 2005-2009 Fees and Charges estimates with those included in the 2004-2008 CIP.

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SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)

Fees and Charges (Cont'd.)

<u>Source</u>	<u>2004-2008 CIP</u> <u>(\$ millions)</u>	<u>2005-2009 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Construction and Conveyance Tax	\$ 80.0	\$ 82.0	\$ 2.0
Construction Excise Tax	59.0	66.1	7.1
Building and Structure Construction Tax	43.7	41.2	(2.5)
Sanitary Sewer Connection Fees	4.3	5.0	0.7
Water Utility Fees	4.1	4.4	0.3
Storm Drainage Fees	1.8	2.3	0.5
Major Water Facilities Fees	0.7	0.7	0.0
Residential Construction Tax	0.4	0.9	0.5
<b>TOTAL</b>	<b>\$ 194.0</b>	<b>\$ 202.6</b>	<b>\$ 8.6</b>

Following is a discussion of the revenue estimates for the three largest sources within the Fees and Charges category.

Construction and Conveyance Tax Revenues

The Construction Tax portion of the Construction and Conveyance 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 twenty 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 3% of the total Construction and Conveyance Taxes collected.

The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed 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 97% of the total Construction and Conveyance Taxes collected.

The five-year projection for Construction and Conveyance Tax revenues totals \$82 million, which is a slight increase from the \$80 million estimated in the 2004-2008 CIP. On an annual basis, collections are projected to fall to \$18 million in 2004-2005 (from the current year revenue estimate of \$24 million) and level off at \$16 million for each of the remaining years of the CIP. This collection level represents a significant decline from the actual peak in 2000-2001 of \$31.6 million and is based on the assumption that further downward corrections will occur in the housing market. The budgeted estimates in the 2005-2009 Adopted CIP reflect what is believed to be a more sustainable level of housing resale activity, bringing collections in line with 1996 levels before the double-digit growth occurred in this category.

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SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)

**Fees and Charges (Cont'd.)**

Construction and Conveyance Tax Revenues (Cont'd.)

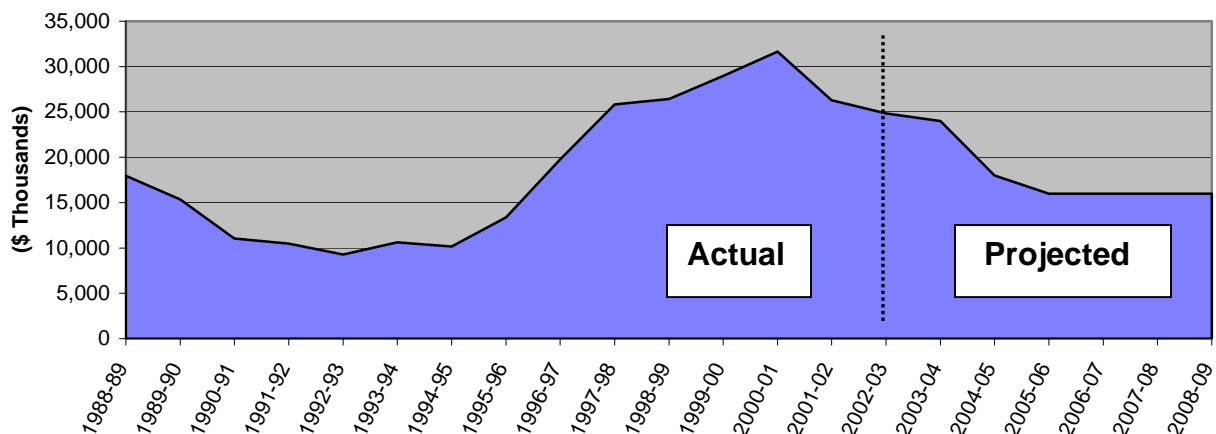
Based on the Council-approved distribution formula, these funds are allocated as follows in the 2005-2009 Adopted CIP.

**Construction and Conveyance Tax Distribution**

Program	Dist.	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	5-Year Total
Parks	64.00%	11,520,000	10,240,000	10,240,000	10,240,000	10,240,000	52,480,000
Park Yards	1.20%	216,000	192,000	192,000	192,000	192,000	984,000
Fire	8.40%	1,512,000	1,344,000	1,344,000	1,344,000	1,344,000	6,888,000
Library	14.22%	2,560,000	2,275,000	2,275,000	2,275,000	2,275,000	11,660,000
Service Yards	8.78%	1,580,000	1,405,000	1,405,000	1,405,000	1,405,000	7,200,000
Communications	3.40%	612,000	544,000	544,000	544,000	544,000	2,788,000
<b>Total</b>	<b>100.00%</b>	<b>18,000,000</b>	<b>16,000,000</b>	<b>16,000,000</b>	<b>16,000,000</b>	<b>16,000,000</b>	<b>82,000,000</b>

A graph of the actual and projected Construction and Conveyance Tax revenues is provided below. It illustrates the tremendous growth experienced during the latter half of the 1990's, followed by a drop-off in the last couple of years, and the anticipated return to a more sustainable level of activity.

**Construction and Conveyance Tax Revenues**



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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**Fees and Charges (Cont'd.)**

Construction Excise Tax

The Construction Excise 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 utilized the majority of these funds for traffic improvements. Based upon the construction projections provided by the Planning, Building and Code Enforcement Department, the revenue estimates included in the 2005-2009 Adopted CIP total \$66.1 million. This represents an increase of \$7.1 million from the total amount estimated in the 2004-2008 Adopted CIP.

While the 2005-2009 revenue estimates for this tax reflect a moderate increase (12%) from the estimates included in the 2004-2008 CIP, collections in this category have, as projected, fallen significantly from the actual collection levels experienced in recent years. For instance, the estimated receipts of \$12.3 million in 2004-2005 reflect a drop of 41% from the peak of \$20.7 million in 2000-2001. Fortunately, the prior two CIPs were built on the assumption that receipts would fall significantly from the extremely high levels experienced over the past few years. Given these conservative estimates, very few programmed projects have subsequently had to be cancelled or deferred to accommodate actual revenue levels.

Building and Structure Construction Tax

The Building and Structure Tax is levied on residential, commercial, and industrial development. The tax is collected based on building valuation. The use of funds is restricted to capital improvements on major arterial and collector streets, including bridges, culverts, and lighting as well as traffic control systems that increase traffic volume.

Based on construction activity forecasts supplied by the Planning, Building and Code Enforcement Department, the five-year projection for the Building and Structure Construction Tax totals \$41.2 million. This is a drop of approximately \$2.5 million (6%) from the estimates included in the 2004-2008 Adopted CIP based on actual performance in this category and the assumption that no significant increase in activity will occur over the five-year period. The revenue estimates, while close to the figures presented last year, reflect collection levels last experienced in 1995-1996 and 1996-1997. To bring context to this drop in actual collections, the 2004-2005 revenue estimate of \$8.2 million is less than half the actual receipts in 2000-2001 of \$17.4 million.

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

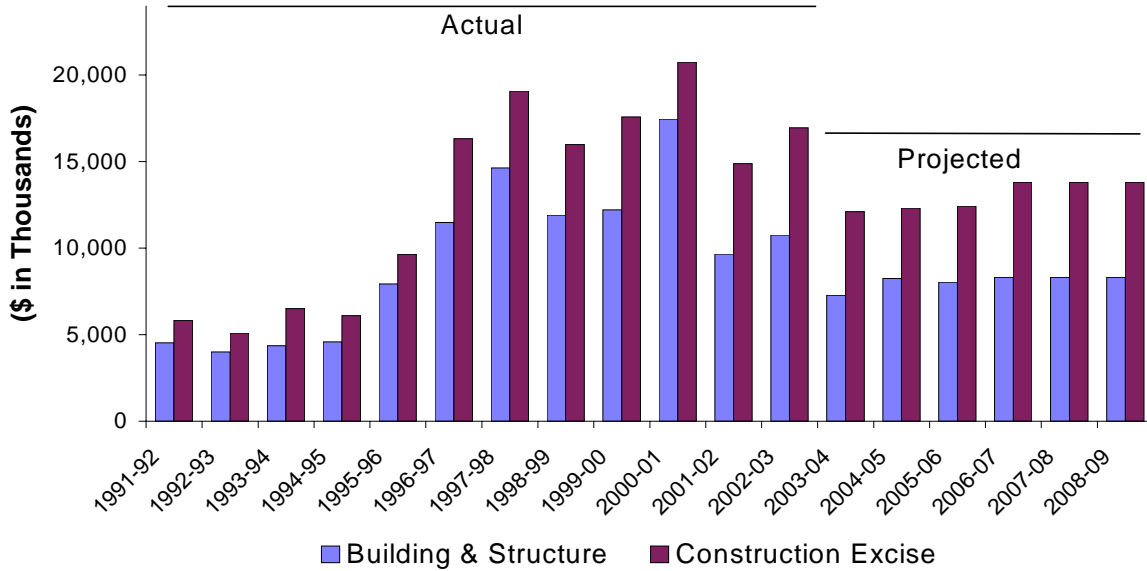
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SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)

Fees and Charges (Cont'd.)

Building and Structure Construction Tax (Cont'd.)

**Major Construction-Related Tax Revenues**



**Transfers**

Transfers totaling \$1.9 billion are the largest source of revenue in the 2005-2009 Adopted CIP due almost entirely to the inclusion of Transfers associated with the Airport Program (\$1.75 billion). Other significant transfers are reflected in the following programs: Sanitary Sewer System (\$72.4 million), Water Pollution Control (\$44.2 million), Park and Community Facilities Development (\$20.9 million), Water Utility System (\$10.3 million), Parking (\$7.1 million), Storm Sewer System (\$5.4 million), and Library (\$3.2 million).

The transfer amount in the 2005-2009 Adopted CIP is significantly lower (\$518.3 million) than the amount included in the 2004-2008 Adopted CIP due almost entirely to a large drop in the Airport-related transfers (\$500 million). As discussed in the Airport Capital Program section of this document, because the timing of the various Master Plan projects has been adjusted based on the expected demand for these facilities, the financing schedules have also been adjusted to occur over a more extended period of years. As discussed above, bond proceeds is the source of funding for these transfers from the Airport Fiscal Agent Fund to the Airport Revenue Bond Improvement Fund to support the majority of the Airport Master Plan projects.

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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**General Fund**

General Fund contributions to capital projects included in the Adopted CIP total \$39.4 million. Reflecting the funding problems facing the General Fund in recent years, this category is down (\$5.0 million or 11%) from the level contained in the 2004-2008 CIP. These funds are used to support the following capital programs: Traffic (\$13.8 million) for rebudgeted projects, sidewalk repairs and Congestion Management Program dues; Communications (\$8.7 million) for equipment replacement; Fire (\$6.7 million) for fire apparatus and rebudgeted projects; Park and Community Facilities Development (\$4.7 million) for rebudgeted parks projects; Municipal Improvements (\$5.4 million) for rebudgeted projects, methane monitoring, HP Pavilion repairs, fuel tank monitoring, and miscellaneous repairs; and Library (\$72,000) for rebudgeted projects.

**Interest Income**

The 2005-2009 Adopted CIP includes \$32.6 million from interest income. This is a drop of approximately 7% from the estimated included in the 2004-2008 Adopted CIP. The overall decrease from the prior year reflects lower interest earning rate assumptions and projections for lower fund balances to be available to generate this income during the coming five-year period.

**Other Revenue**

The Other Revenue category totals \$156.4 million, an increase of \$17.7 million from the Adopted CIP. The majority of this funding (\$110.5 million) is associated with Airport revenues, such as Passenger Facility Charges (PFCs) and tenant improvement payments. The Service Yards Capital Program includes \$16.5 million for the proceeds from the sale of surplus property, an increase of \$12.0 million from the 2004-2008 Adopted CIP.

The Other Revenue category also includes developer contributions, which total \$17.8 million. The Traffic Capital Program includes contributions of \$9.1 million, of which \$5 million is associated with providing improvements at Bailey Avenue and Route 101 in the North Coyote Valley. The Developer Assisted Capital Projects Program includes \$5.8 million to support underground utility activities. The Parks Capital Program also includes Developer Contributions of \$2.5 million associated with the Calpine Open Space agreement.