

CITY OF SAN JOSE
2010-2014 ADOPTED CAPITAL IMPROVEMENT PROGRAM

SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES

The 2010-2014 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 2009-2013 Adopted CIP.

<u>Source</u>	<u>2009-2013 CIP</u> <u>(\$ millions)</u>	<u>2010-2014 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 840.7	\$ 748.6	\$ (92.1)
Sale of Bonds	37.0	12.6	(24.4)
Other Agencies/Grants	305.2	286.3	(18.9)
Taxes, Fees and Charges	276.0	217.7	(58.3)
General Fund	51.7	48.6	(3.1)
Transfers from Other Funds	662.7	462.5	(200.2)
Interest Income	66.0	31.8	(34.2)
Other Revenue	<u>160.8</u>	<u>133.0</u>	<u>(27.8)</u>
TOTAL	\$ 2,400.1	\$ 1,941.1	\$ (459.0)

Beginning Fund Balances

The 2010-2014 Beginning Fund Balances of \$748.6 million are currently estimated below the 2009-2013 CIP level by \$92.1 million (11%). The two largest capital programs in the 2010-2014 Adopted CIP account for 69% of the Beginning Fund Balances. The Airport Capital Program accounts for 46% (\$345.7 million) of the Beginning Fund Balances reflecting the continuation of the Airport Master Plan build-out. The Parks and Community Facilities Development Capital Program have Beginning Fund Balances totaling \$169.4 million accounting for 23% of the Beginning Fund Balances. As a significant number of capital projects are scheduled for completion over the next five years in these programs, a significant reduction should occur to the beginning fund balance total.

Sale of Bonds

Total bond proceeds expected over the next five-year period of \$12.6 million reflect a \$24.4 million (66%) decrease compared to the estimates included in the last CIP. Decreases in this category resulted entirely from the timing of capital projects. Decreases were attributed to the timing of bond issuances for capital project expenditures that were anticipated to occur in 2008-2009 in the Airport Capital Program (\$12.5 million), Public Safety Capital Program (\$9.0 million), and Municipal Improvements Capital Program (\$2.9 million). Bond proceeds are issued at the time when projects are expected to commence construction. For the 2010-2014 Adopted CIP, total bond issuances related to the Library (\$5.9 million), Public Safety (\$3.3 million), and Municipal Improvements (\$3.4 million) Capital Programs are expected to fund project expenditures that will be completed during the Adopted CIP.

It should be noted, however, that the majority 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. For the 2010-2014 Adopted CIP, this amount (\$29.5 million) is represented in the Transfers from Other Funds category.

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Other Agencies/Grants

This category totaling \$286.3 million is comprised of federal (\$111.2 million) and State (\$83.5 million) grants, contributions from other agencies that use the Water Pollution Control Plant (\$86.6 million) and the Sanitary Sewer System (\$2.0 million), Redevelopment Agency (\$2.3 million), Valley Transportation Authority (\$100,000) and other agency (\$620,000) proceeds. On an overall basis, estimated revenues from these sources reflect a decrease of \$18.9 million (6%) from the 2009-2013 Adopted CIP.

Almost all of the funding from the federal government is allocated to the Airport Capital Program (\$84.7 million) and the Traffic Capital Program (\$26.0 million) to support eligible projects in those areas. In the State grant category, it is anticipated that \$82.6 million will support traffic projects, primarily due to the revenue expected as a result of the recent passage of Propositions 1B and 42 and the inclusion of American Recovery and Reinvestment Act of 2009 (Recovery Act) funding anticipated to be received through the State Metropolitan Transportation Commission. In addition, \$890,000 of State grant funding will support parks projects.

Taxes, Fees and Charges

The 2010-2014 Adopted CIP includes an estimate of \$217.7 million from the Taxes, Fees and Charges category, a decrease of \$58.3 million from the level included in the 2009-2013 Adopted CIP. On an overall basis, the revenue estimates in this category assume a decrease (21%) due to significant declines in median home prices driving down Construction and Conveyance Tax collections and the slow overall development environment resulting from the national recession and tight credit markets. It should be noted that anticipated revenue collections for Building and Structure Construction and Construction Excise Taxes, though down from 2009-2013, reflect additional revenue generation from an approved update to the San José Municipal Code (Municipal Code) to reflect a change in the valuation tables used to determine the value of construction that these taxes are charged upon. This change is discussed in further detail later in this document. The table below compares the components of the 2010-2014 Adopted Taxes, Fees and Charges estimates with those included in the 2009-2013 Adopted CIP.

Source	2009-2013 CIP (\$ millions)	2010-2014 CIP (\$ millions)	Difference (\$ millions)
Construction and Conveyance Tax	\$ 121.0	\$ 106.0	\$ (15.0)
Construction Excise Tax	70.0	50.5	(19.5)
Building and Structure Construction Tax	48.4	47.0	(1.4)
North San José Traffic Impact Fee	23.3	4.0	(19.3)
Sanitary Sewer Connection Fees	5.6	3.8	(1.8)
Water Utility Fees	4.3	4.2	(0.1)
Storm Drainage Fees	1.9	1.1	(0.8)
Residential Construction Tax	1.0	0.6	(0.4)
Major Water Facilities Fees	0.5	0.5	0.0
TOTAL	\$ 276.0	\$ 217.7	\$ (58.3)

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Taxes, Fees and Charges (Cont'd.)

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

Construction and Conveyance Tax

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 2% 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 98% of the total Construction and Conveyance Taxes collected.

The five-year projection for Construction and Conveyance Tax revenues totals \$106.0 million, which is a \$15.0 million (12.4%) decrease from the \$121.0 million estimated in the 2009-2013 Adopted CIP. The Construction and Conveyance (C&C) 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. On an annual basis, collections are projected to increase slightly to \$20.0 million in 2009-2010 (from the current year revenue estimate of \$19.0 million) and increase modestly to \$22.0 million in the third year of the CIP.

As correctly projected in the prior CIP, the extreme distress in both the national and local real estate markets has seen collections of the Construction and Conveyance Tax plummet from the peak levels three years ago. The fall off in the median home sale price, tight lending, and the national recession continues to negatively impact C&C Tax collections. As of June 2009, C&C collections experienced declines in 35 out of the last 38 months, when compared to the same months in the prior year. This budget assumes that the housing market slowdown will bottom by the end of this fiscal year and grow only very modestly over the first two years of the five-year CIP. C&C Tax receipt projections for the last three years of the program reflect a presumption of the return of a more sustainable level of ongoing housing resale activity, beginning those increases in the third year of the five-year CIP.

Based on the City Council-approved distribution formula, C&C funds allocated in the 2010-2014 Adopted CIP are displayed in the table on the following page.

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

Taxes, Fees and Charges (Cont'd.)

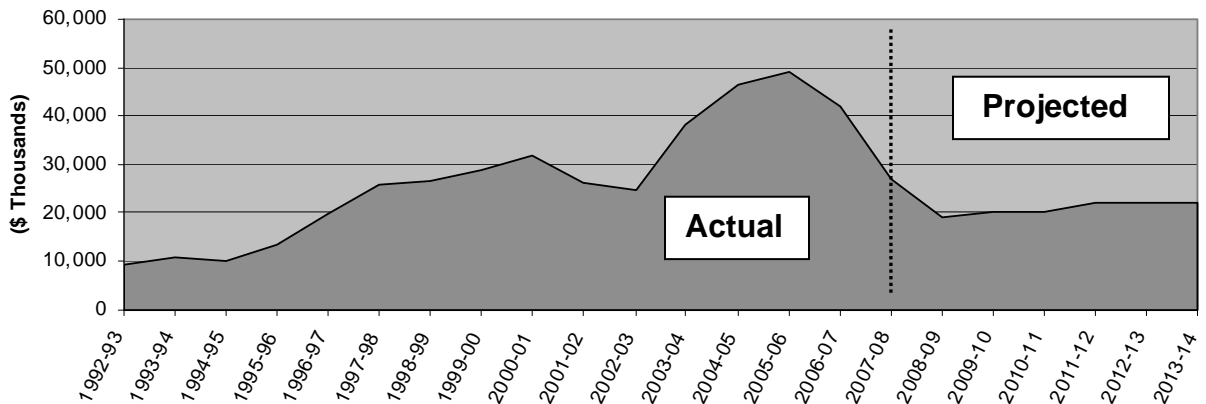
Construction and Conveyance Tax (Cont'd.)

Construction and Conveyance Tax Distribution

Program	Dist.	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	5-Year Total
Parks	64.00%	12,800,000	12,800,000	14,080,000	14,080,000	14,080,000	67,840,000
Park Yards	1.20%	240,000	240,000	264,000	264,000	264,000	1,272,000
Fire	8.40%	1,680,000	1,680,000	1,848,000	1,848,000	1,848,000	8,904,000
Library	14.22%	2,844,000	2,844,000	3,128,400	3,128,400	3,128,400	15,073,200
Service Yards	8.78%	1,756,000	1,756,000	1,931,600	1,931,600	1,931,600	9,306,800
Communications	3.40%	680,000	680,000	748,000	748,000	748,000	3,604,000
Total	100.00%	20,000,000	20,000,000	22,000,000	22,000,000	22,000,000	106,000,000

A graph of the actual and projected C&C Tax revenues is provided below. It illustrates the tremendous growth of the prior three years in this category, and the anticipated return this year and in subsequent years of this CIP to a more sustainable level of activity.

Construction and Conveyance Tax Revenues



Construction Excise Tax

The Construction Excise Tax (also known as the *Commercial, Residential, Mobile Home Park 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 and historical collection patterns, the revenue estimates included in the 2010-2014 Adopted CIP total \$50.5 million, with \$8.0 million forecasted for 2009-2010. The 2010-2014 Adopted CIP represents a decrease of \$19.5 million (27.9%) from the total amount estimated in the 2009-2013 Adopted CIP. This decrease reflects the assumption that the

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

Taxes, Fees and Charges (Cont'd.)

Construction Excise Tax (Cont'd.)

national recession and the tight credit market will continue to weigh on these revenues, however, these revenues are expected to grow moderately during the forecast period.

It should also be noted that with the Construction Excise Tax projections, the City Council approved a minor amendment to the Municipal Code to more accurately describe the reference tables for construction valuation. Prior to this change, the Municipal Code referenced “published valuation tables in the latest edition of the Building Standards magazine published by the International Conference of Building Officials.” The International Conference of Building Officials (ICBO) has merged into the International Code Conference (ICC) which now publishes the construction valuation tables. The update to the Municipal Code changes the referenced tables to the current ICC table (last published in 2009) or its successor’s building valuation table. It should be noted that this is not a change in the tax rate or the methodology for calculating the amount of tax. It is simply a correction of a reference in the Municipal Code that had become outdated. The most recent tables under which taxes were calculated were the 2002 ICBO tables. Because the Planning, Building and Code Enforcement Department had not been using the most recent tables, the tax had been undercalculated and undercollected, up to 36% on average when comparing 2009 valuation to the 2002 table. This change is projected to recover \$1.5 million annually in these taxes, and is reflected in the \$8.0 million tax proceeds estimated for 2009-2010.

Building and Structure Construction Tax

The Building and Structure Construction 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 and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax totals \$47.0 million, with annual proceeds ranging from \$8.0 million to \$10.0 million. This is a decrease of approximately \$1.4 million from the estimates included in the 2009-2013 Adopted CIP. While collections are expected to improve over the five-year period, the projected activity levels are still well below the peak. For instance, the 2009-2010 revenue estimate of \$8.0 million is a drop of 54% from the actual receipts in 2000-2001 of \$17.4 million.

As described in the Construction Excise Tax section above, the City Council approved an update to the Municipal Code to reflect current valuation tables used to determine the amount of Building and Structure Construction Taxes. This change would align the valuation tables used to calculate these taxes as defined in the Municipal Code with State and industry standards. This change is projected to recover \$1.5 million annually in these taxes, and is reflected in the \$8.0 million tax proceeds estimated for 2009-2010.

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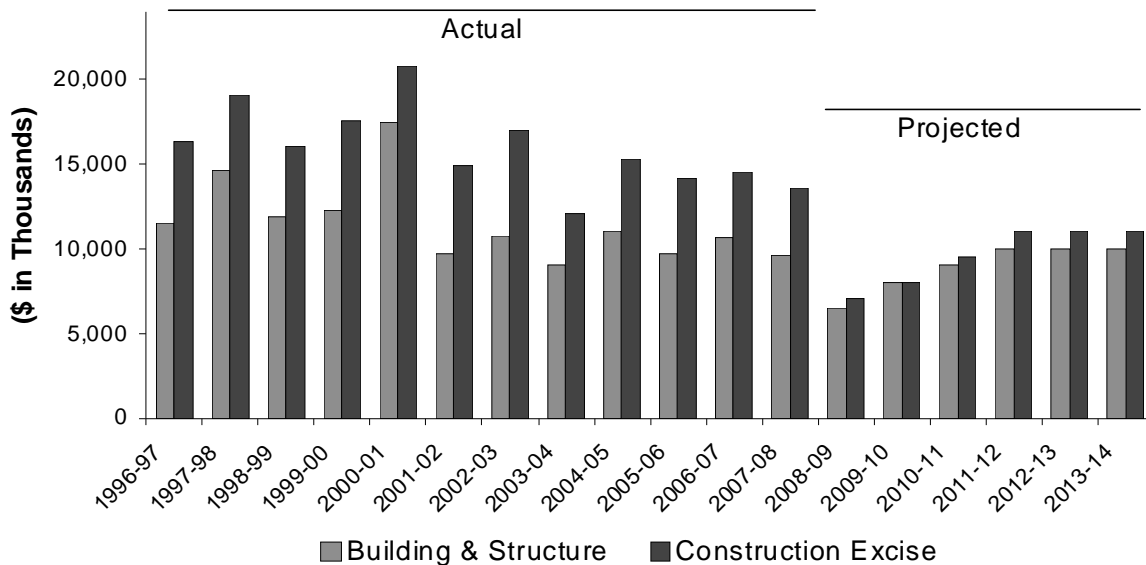
SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)

Taxes, Fees and Charges (Cont'd.)

Building and Structure Construction Tax (Cont'd.)

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

Major Construction-Related Tax Revenues



General Fund

General Fund contributions to capital projects included in the Adopted CIP total \$48.6 million. These funds are used to support the following capital programs:

- Municipal Improvements (\$18.4 million) – Includes Recovery Act funding anticipated for Energy Efficiency and Conservation Block Grants (\$8.8 million), one-time funding for various capital projects including facilities maintenance backlogs and the Martin Park landfill, and funds methane monitoring, HP Pavilion emergency repairs, fuel tank monitoring, and miscellaneous repairs.
- Public Safety (\$17.4 million) – Funds fire apparatus replacement and supplements Public Safety bond projects;
- Service Yards (\$7.5 million) – Funds Service Yards Phase I debt service payments;
- Parks and Community Facilities Development (\$3.4 million) – Funds Watson Park site cleanup costs and other parks facilities; and
- Traffic (\$1.9 million) – Includes funding for maintenance backlog and other capital projects.

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Transfers from Other Funds

Transfers totaling \$462.5 million are the largest source of revenue in the 2010-2014 Adopted CIP due to the inclusion of Transfers between funds associated with the Water Pollution Control Capital Program (\$225.4 million).

Other significant transfers are reflected in the following programs: Sanitary Sewer System (\$75.1 million), Airport Program (\$74.5 million), Parks and Community Facilities Development (\$25.8 million), Library (\$13.7 million), Water Utility System (\$16.0 million), Storm Sewer System (\$18.4 million), Parking (\$9.5 million) and Municipal Improvements (\$4.1 million).

The transfer amount in the 2010-2014 Adopted CIP is below (\$200.2 million) the amount included in the 2009-2013 Adopted CIP due in large part to the timing and substantial completion of Airport projects (\$248.0 million decrease). As discussed earlier, bond proceeds are 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 which have achieved significant completion. The decrease in this category is offset by an increase in the transfer from the Sewer Service and Use Charge Fund to support the Water Pollution Control Capital Program (\$55.8 million increase) to fund the capital projects recommended over the next five years.

Interest Income

The 2010-2014 Adopted CIP includes \$31.8 million from interest income. This is a decrease of \$34.2 million (52%) from the estimate included in the 2009-2013 Adopted CIP. The overall decrease resulted from lower cash balances and interest rates assumed compared to the 2009-2013 Adopted CIP.

Other Revenue

The Other Revenue category totals \$133.0 million, a decrease of \$27.8 million (17%) from the 2009-2013 Adopted CIP. Revenue in this category is generated mainly through Airport revenues (\$95.0 million), such as Passenger Facility Charges (PFCs) and tenant improvement payments. In addition, the Service Yards Capital Program (\$14.0 million), Public Safety Capital Program (\$1.3 million), and Library Capital Program (\$2.0 million) include proceeds from the sale of surplus land. Lastly, revenues in this category include parking revenue related to Lake Cunningham Park (\$3.7 million) and lease revenue related to Emma Prusch Park (\$400,000) in the Parks and Community Facilities Development Capital Program.

The Other Revenue category also includes developer contributions of \$14.6 million, which is slightly lower than the 2009-2013 Adopted CIP total of \$17.5 million. The Traffic Capital Program includes developer contributions of \$7.5 million, primarily associated with providing improvements at Bailey Avenue and Route 101 in the North Coyote Valley. The Developer Assisted Projects Capital Program includes \$5.6 million to support underground utility activities and the Parks and Community Facilities Development Capital Program includes \$1.5 million for the Calpine Open Space Agreement.