

# CAPITAL REVENUE FORECAST

## MAJOR CAPITAL REVENUES

---

### Overview

The major revenues that support the City of San José’s capital programs are financing proceeds, revenue from other agencies, transfers between funds, and a number of taxes and fees levied on construction and property resale (conveyance) activity. This document provides a five-year forecast for the following taxes and fees: Construction and Conveyance Tax; Building and Structure Construction Tax; Construction Excise Tax; various Municipal Water System Fees; Residential Construction Tax; Sanitary Sewer Connection Fee; and Storm Drainage Connection Fee.

Construction and property resale-related Capital Program revenues are generally tracking at or below the modified expectations for 2023-2024 and are anticipated to end the year approximately 9.6% below the estimates included in the 2024-2028 Adopted CIP. Property resale-related performance is expected to meaningfully improve in future years, whereas construction activity in the following five years is expected to remain at or near current levels. Overall revenue estimates of \$423.2 million are 6.7% higher than the estimates used to develop the 2024-2028 Adopted CIP (\$396.6 million), due to anticipated future improvement in the local real estate market.

### Capital Revenue Forecast Comparison Summary (\$ in thousands)

|  | 2024-2028<br>Adopted | 2025-2029<br>Forecast | Difference      | %<br>Change |
|--|----------------------|-----------------------|-----------------|-------------|
| <b>Construction and Conveyance Tax</b>         | \$215,000            | \$240,000             | \$25,000        | 11.6%       |
| <b>Building and Structure Construction Tax</b> | 95,000               | 94,000                | (1,000)         | (1.1%)      |
| <b>Construction Excise Tax</b>                 | 82,000               | 85,000                | 3,000           | 3.7%        |
| <b>Municipal Water System Fees</b>             | 175                  | 225                   | 50              | 28.6%       |
| <b>Residential Construction Tax</b>            | 1,000                | 1,000                 | 0               | 0%          |
| <b>Sanitary Sewer Connection Fee</b>           | 2,500                | 2,500                 | 0               | 0%          |
| <b>Storm Drainage Connection Fee</b>           | 875                  | 500                   | (375)           | (42.9%)     |
| <b>TOTAL</b>                                   | <b>\$396,550</b>     | <b>\$423,225</b>      | <b>\$26,675</b> | <b>6.7%</b> |

A discussion of major construction activity trends and anticipated performance in each of the revenue categories is included in more detail on the following pages.

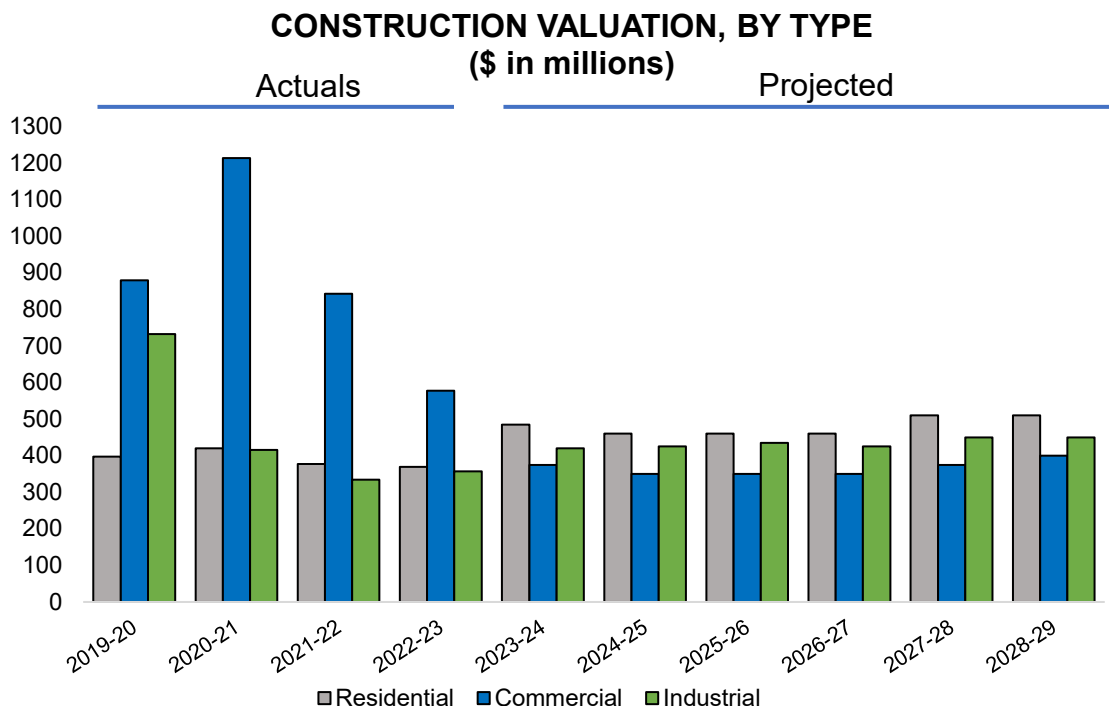
# CAPITAL REVENUE FORECAST

## CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax Fund, the capital revenues described in this forecast are construction-related taxes and fees. Revenue projections are derived from actual revenue collection patterns and construction activity estimates provided by the Planning, Building and Code Enforcement (PBCE) Department. Each year, PBCE provides construction activity projections in residential, commercial, and industrial development categories. The valuation figures have been adjusted to 2023 dollars per Bureau of Labor Statistics Consumer Price Index, San Francisco-Oakland-Hayward all items index. A more complete discussion of these estimates is provided in a technical report prepared by PBCE entitled *Development Activity Trends and Five-Year Forecast (2025-2029)*, which is included in Appendix D.

Based on projections provided by PBCE, construction activity valuation is anticipated to be lower than the prior year at \$1.28 billion in 2023-2024, a 2% decrease compared to \$1.30 billion in 2022-2023. Construction valuation is projected to increase at a slower rate than the 2024-2028 Five-Year Forecast, with slight increases throughout the five-year forecast period, going from \$1.24 billion in 2024-2025 to \$1.36 billion in 2028-2029. As described in Appendix D, for the second fiscal year in a row, the City experienced a decline in the valuation of new construction permits, specifically in both commercial and industrial sectors in 2022-2023, which was most likely due to increased construction costs, sustained high-interest rates, and a more cautious approach toward capital investment decisions due to uncertainty about future workspace needs. However, construction valuation for additions and alterations in 2022-2023 decreased from the prior year, yet remained higher than in fiscal years 2019-2020 and 2020-2021. There are various reasons behind the elevated additions and alterations activities. For commercial and industrial properties, the property owners are repositioning their properties to retain tenants and to fill vacant spaces for new tenants.

The following graph illustrates the level of projected construction activity by type.



# CAPITAL REVENUE FORECAST

## CONSTRUCTION ACTIVITY PROJECTIONS

---

A summary of PBCE construction activity projections and the corresponding revenue estimates are provided below. It should be noted that due to the highly volatile nature of the construction market, the reliability of the estimates can be expected to change over the period of the forecast. As new information becomes available, these estimates will be refined.

### A. Residential Construction Activity

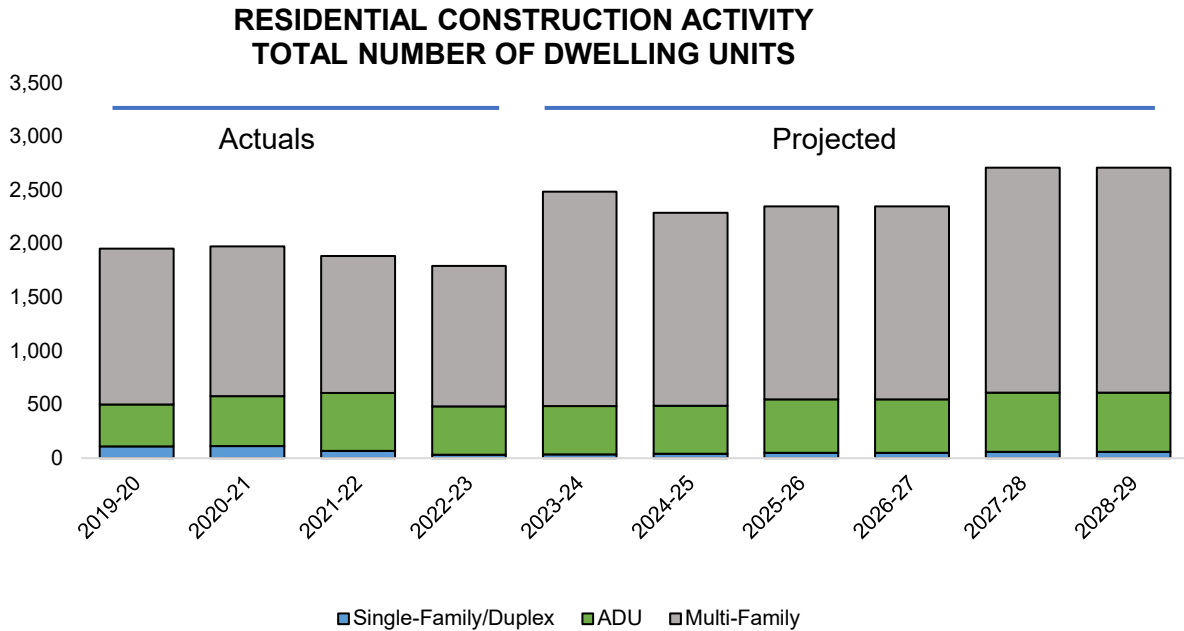
A significant portion of development-related revenue in San José has traditionally been generated by residential construction. New construction activity peaked in 2013-2014 in this sector with a total of 4,724 multi-family and single-family dwelling units, and then decreased the next two years and dropped to 1,692 dwelling units in 2015-2016, rebounded to 3,241 new dwelling units in 2017-2018, and then continued to drop for the next two years, ending with 1,954 new dwelling units in 2019-2020. Residential construction activity rose slightly in 2020-2021 to 1,975 but then continued the previous trend and dropped to 1,887 units in 2021-2022 and 1,792 units in 2022-2023. It is anticipated to increase to 2,485 in 2023-2024, an increase of 37% from the prior year total.

The total value of residential construction activity projected in this forecast is \$2.4 billion, which is an increase of \$300 million from the projected valuation included in the 2024-2028 Forecast. New residential construction slowed down due to the impacts from the COVID-19 pandemic, but is expected over time to grow moderately as the economic outlook becomes clearer. PBCE expects residential construction activity to generate an estimated 2,290 new units in 2024-2025, and steadily increase to 2,710 new units in 2028-2029. This represents an average of 2,482 units per year or 12,410 units over the forecast period. The activity level represents a 2% increase compared to the 12,200 units included in the 2024-2028 Forecast.

This forecast expects a total of 9,600 multi-family dwelling units or approximately 77% of all dwelling units (single-family/duplex, accessory dwelling unit (ADU), or multi-family) to be constructed. This total number of multi-family dwelling units is higher than the 8,300 units projected in the 2024-2028 Forecast. The number of new single-family dwelling units and ADUs combined is estimated to be 2,810 during this forecast period, which is 28% lower than the projections in the 2024-2028 Forecast, primarily driven by a downward trend of single-family/duplex units in the City's overall shift away from single-family development typology and toward more density, which is in line with the Envision San José 2040 General Plan Focused Growth Strategy. The following chart shows the number of new units, by housing type, anticipated in San José through 2028-2029.

# CAPITAL REVENUE FORECAST

## CONSTRUCTION ACTIVITY PROJECTIONS



### B. Commercial Construction Activity

In 2022-2023, commercial construction activity totaled \$578 million, a decrease of 31% from a peak level of activity in 2021-2022 of \$843 million. In 2023-2024, PBCE expects commercial activity to decrease 35% to \$375 million in total permit valuation as large commercial new construction projects move through the development pipeline and construction is completed. Going forward, commercial new construction and alteration activity is expected to increase slightly over the forecast period, rising to \$400 million in 2028-2029.

The total commercial construction valuation projected in this forecast is \$1.8 billion, a decrease of 51% from the previous five-year forecast at \$3.7 billion because of a decrease in commercial new construction. As discussed in the attached report provided by PBCE, commercial development activity includes new construction proposals such as the Hilton Garden Inn, Williams Road Residential Care Facility project, Union Assisted Living project, and Jay Paul Office project.

Although growth is forecasted for the commercial sector, commercial activity is expected to drop significantly from the high points of 2019-2020 and 2020-2021 due to lack of available land for large retail centers, companies right-sizing office needs based on hybrid work models, and continued online shopping.

Information provided by real estate trade groups for the 4<sup>th</sup> Quarter of 2023 shows the overall San José office vacancy rate was 23% nearly double pre-pandemic levels; research and development (R&D) vacancy rate increased to 13.5% from 12.0%; and retail vacancy rate slightly decreased from 5.5% to 5.2%<sup>1</sup>.

<sup>1</sup> CoStar Q4 2023, as cited in *Development Activity Trends and Five-Year Forecast (2025-2029)* prepared by PBCE.

# CAPITAL REVENUE FORECAST

## CONSTRUCTION ACTIVITY PROJECTIONS

---

### C. Industrial Construction Activity

In 2022-2023, industrial activity totaled \$357 million, an increase of 7% from 2021-2022, primarily driven by an increase in new construction. PBCE expects valuation to increase to \$420 million in 2023-2024, primarily driven by an upward trend in new construction activity, while permit records show a decrease in total production of industrial square footage. Valuation then is projected to slightly increase across the forecast to \$450 million annually by 2028-2029 as alteration and new construction activity grows.

Information provided by real estate trade groups for the 4<sup>th</sup> Quarter of 2023 indicates that the overall San José vacancy rate for industrial space was 2.4%, decreasing from 3.2% in the 4<sup>th</sup> Quarter 2022<sup>2</sup>.

It should be noted that the City Council has undertaken several actions to reduce the cost of new development in San José to create a predictable and competitive environment that supports the City's economic development goals of filling industrial buildings and encouraging new workplace development. The City Council approved incentives for high-rise residential developments and a partial suspension for construction taxes for building projects that fall under the refined land use definition of Office, Research and Development and Data Center. How these incentive programs impact the Building and Structure Construction Tax and the Construction Excise Tax are discussed later in this section.

### Major Development Activity Data

As part of the attached *Development Activity Trends and Five-Year Forecast (2025-2029)* document prepared by PBCE (Appendix D), information is provided on development activity that serves as the foundation for their forecast. Data is provided on “major” projects (residential projects greater than 50 units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet), and is broken down by the three major land use categories – residential, commercial, and industrial. The projects are further subdivided into four categories based on their status (completed, under construction, approved but construction not yet commenced, and pending City approval). In addition, the City is divided into 15 planning areas and individual maps that show the projects in all status categories are available through the City of San José's map gallery (see “Development Projects” gallery at <https://gis.sanjoseca.gov/apps/mapsgallery/>), except for the Almaden, Calero, Coyote, and San Felipe planning areas as no major development activity has occurred and/or these areas are outside the City's Urban Service Area and Urban Growth Boundary. These maps can be used in conjunction with the activity data to help analyze the rate, type, and location of major development activity in San José.

---

<sup>2</sup> CoStar Q4 2023, as cited in *Development Activity Trends and Five-Year Forecast (2025-2029)* prepared by PBCE.

# CAPITAL REVENUE FORECAST

## CONSTRUCTION AND CONVEYANCE TAX

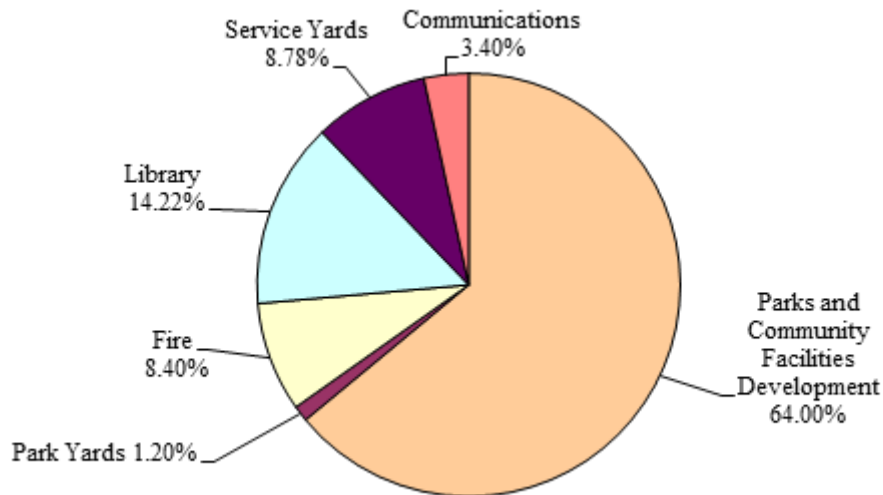
It should be noted that the City Council has undertaken several actions to reduce the cost of new development in San José to create a predictable and competitive environment that supports the City’s economic development goals of filling industrial buildings and encouraging new workplace development. The City Council approved incentives for high-rise residential developments and a partial suspension for construction taxes for building projects that fall under the refined land use definition of Office, Research and Development and Data Center. How these incentive programs impact the Building and Structure Construction Tax and the Construction Excise Tax are discussed later in this section.

The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential, 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 new 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 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 99% of the total Construction and Conveyance Taxes collected.

Under current ordinance, Construction and Conveyance Tax receipts are allocated to six different capital programs per the following distribution formula:

### CONSTRUCTION AND CONVEYANCE TAX DISTRIBUTION



Under the current City ordinance, the combined proceeds from the Construction and Conveyance Tax may be used for facility acquisition, construction, equipment, furnishings, and limited operating and maintenance expenses.

# CAPITAL REVENUE FORECAST

## CONSTRUCTION AND CONVEYANCE TAX

---

Consistent with the Construction and Conveyance Tax Task Force recommendations adopted by the City Council in June 1989, the Parks and Community Facilities Development portion of the estimated revenues, less non-construction costs and transfers to the General Fund, is allocated for all years of the forecast using a two-to-one ratio, with two-thirds of the proceeds going to neighborhood/district park projects and one-third to citywide park projects. Per the current City Council policy, 20% of funds for neighborhood/district projects are set aside and equally allocated to meet special needs. The balance of the funds is then distributed to district funds based on a formula using the following criteria:

- neighborhood and community-serving park acres per 1,000 population;
- developed neighborhood and community-serving park acres per 1,000 population;
- square feet of neighborhood and community-serving center space per 1,000 population; and
- developed park acres and/or facilities in good condition per 1,000 population.

The five-year projection for Construction and Conveyance Tax revenue totals \$240.0 million, which is \$25.0 million higher than the estimate used to develop the 2024-2028 Adopted CIP. The Construction and Conveyance Tax revenue projections are based on: 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.

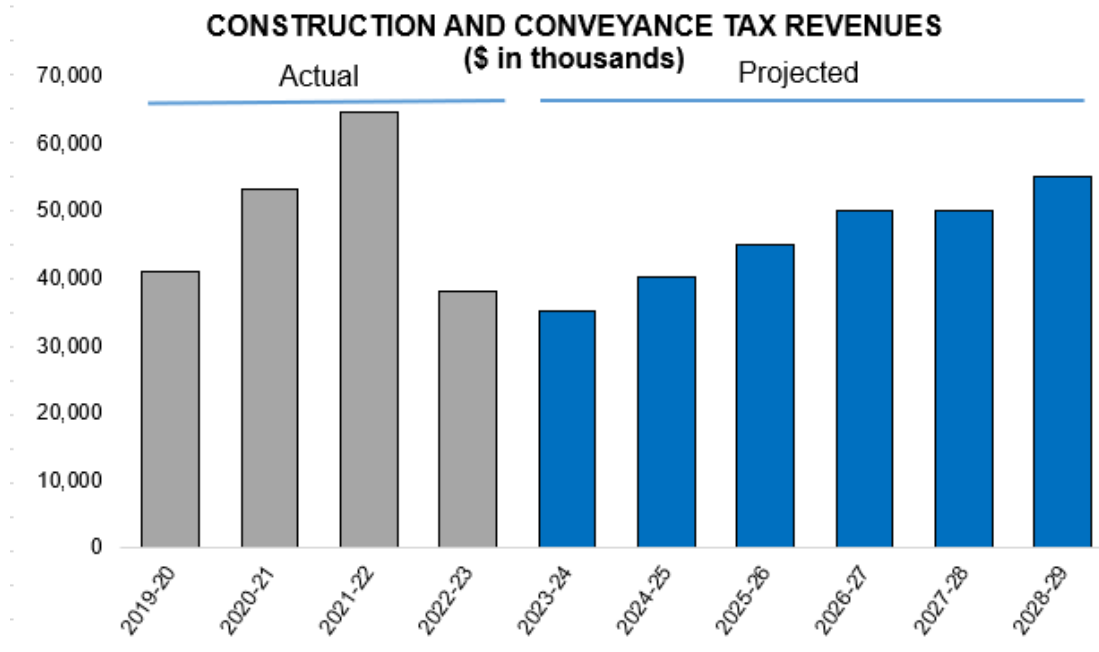
Historically, Construction and Conveyance Tax revenues have been volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After reaching a record setting high of \$64.5 million in 2021-2022, tax collections fell in 2022-2023 to \$38 million, and are anticipated to decline further to \$35.0 million in 2023-2024 due to a constrained real estate market, which is the primary driver of this tax. While residential home prices have remained high in recent years, the volume of transactions has been suppressed, likely due to rising interest rates and slightly higher unemployment rates.

According to data from the Santa Clara County Association of Realtors, the local real estate market is experiencing declining activity levels, but at higher home prices. Through the first half of the fiscal year, property transfers totaled 2,584, which is almost 20% below the prior year's level of 3,212. However, the pace of decline has lessened, with November and December transactions showing only single-digit percentage declines, as opposed to double-digit year-over-year drops over the prior year. On the positive side, the December 2023 median home price was \$1.5 million, which is 16.5% above the December 2022 price of \$1.3 million. Also, homes are on the market for a shorter period of time before selling; the average days-on-market through December 2023 totaled 24 days, which is slightly lower than the average of 29 days experienced year-to-date through December 2022.

# CAPITAL REVENUE FORECAST

## CONSTRUCTION AND CONVEYANCE TAX

Construction and Conveyance Tax collections in 2023-2024 are projected to end the year at \$35.0 million. This collection level is 7.7% below the actual receipts received in 2022-2023 (\$37.9 million). Collections in this extremely volatile revenue category are forecasted to increase to \$40.0 million in 2024-2025, \$45.0 million in 2025-2026, \$50.0 million in 2026-2027, and remain at the level in 2027-2028, and \$55.0 million in 2028-2029. The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 10-year period.



## CONSTRUCTION VALUATION TAX RATES

The primary ongoing revenue stream for the Traffic Capital Program, which rehabilitates and improves the City’s transportation infrastructure, is supplied by taxes levied on the valuation of private new construction and alteration activity. The two main taxes are the Building and Structure Construction Tax and the Construction Excise Tax. To balance the need to promote San José’s job growth and economic development with necessary investment in transportation infrastructure, these tax rates have seen temporary suspensions regarding the definition of commercial and industrial classification of uses over the past several years. The tables below display the permanent tax rates without suspensions, and the rates in effect through March 31, 2024, with partial suspensions resulting from the identification of specific uses as approved by the City Council. The City Council will consider the continuation of these suspensions later this month.



# CAPITAL REVENUE FORECAST

## CONSTRUCTION VALUATION TAX RATES

---

### Permanent Tax Rates without Partial Suspension:

|             | Percentage Tax Based on Building Official's Valuation |                                 |                               |
|-------------|---|---------------------------------|-------------------------------|
| Category    | Building and Structure Construction Tax               | Construction Excise Tax         | Combined Tax Rate             |
| Residential | 1.75 %<br>(of 88% of valuation)                       | 2.75 %<br>(of 88% of valuation) | 4.5%<br>(of 88% of valuation) |
| Commercial  | 1.5%  | 3.0%                            | 4.5%                          |
| Industrial  | 1.0%  | -                               | 1.0%                          |

### Tax Rates with Partial Suspension from April 1, 2019 through March 31, 2024:

|                                    | Percentage Tax Based on Building Official's Valuation |                                 |                               |
|------------------------------------|---|---------------------------------|-------------------------------|
| Category                           | Building and Structure Construction Tax               | Construction Excise Tax         | Combined Tax Rate             |
| Residential                        | 1.75 %<br>(of 88% of valuation)                       | 2.75 %<br>(of 88% of valuation) | 4.5%<br>(of 88% of valuation) |
| Commercial                         | 1.5%  | 3.0%                            | 4.5%                          |
| Office - General Business*         | 1.5%  | 0.5%                            | 2.0%                          |
| Office - Research and Development* | 1.5%  | 0.5%                            | 2.0%                          |
| Data Centers*                      | 1.0%  | -                               | 1.0%                          |
| Industrial                         | 1.0%  | -                               | 1.0%                          |

\*Rates affected by the partial suspension

Historically, revenues received from the Building and Structure Construction Tax and the Construction Excise Tax generally tracked in alignment with each other, though years of heavy industrial investment have always favored Building and Structure Construction Tax collections. However, starting in 2019-2020, the change in tax rates and strong office development have resulted in a more pronounced variance between the two revenue sources, with Building and Structure Construction Tax achieving significantly higher collections and Construction Excise Tax tracking consistently compared to historical levels. Even as industrial activity descends from its elevated levels, the partial suspension of the tax rates is designed to incent office-related development, while also directing a greater proportion of revenue into the Building and Structure Construction Tax Fund that restricts funding for improvements to major arterial and collector streets. The partial suspension of the tax rates will expire on March 31, 2024. As of the writing of this report, a recommendation will be presented to the City Council at the end of March 2024 to extend the partial suspension until March 31, 2029.

# CAPITAL REVENUE FORECAST

## CONSTRUCTION VALUATION TAX RATES

---

If the extension is not approved, tax revenues could change as the Construction Excise Tax rates for Office – General Business and Office – Research and Development would revert back to the Commercial rate of 3.0%, and the Building and Structure Construction Tax rate for Data Centers would be the same as the Commercial rate of 1.5%

The City Council approved incentives for high-rise residential developments in 2007, and incentives remain in effect today. The current incentives reduce both the Building and Structure Construction Tax and Construction Excise Tax by 50% for qualified residential high-rise projects within the Downtown Planned Growth Area.

## BUILDING AND STRUCTURE CONSTRUCTION TAX

---

Completion deadlines of the current Downtown High-Rise Residential Development Incentive Program were extended by the City Council in November 2022 until June 30, 2025, for developers to pull building permits and June 30, 2029, to receive certificates of occupancy for construction related taxes such as the Building and Structure Construction Tax and the Construction Excise Tax and the Affordable Housing Impact Fee. As of the writing of this report, a recommendation will be presented to the City Council in April 2024 to update the current Downtown High-Rise Residential Development Incentive Program for qualified residential high-rise projects located within the Downtown Planned Growth Area that obtain building permits on, or prior to, June 30, 2028, and obtain certificates of occupancy on, or prior to, June 30, 2032. Additionally, as part of the recommendation, the City Council will be asked to consider directing staff to analyze various options and study potential impacts of a temporary multifamily residential fee reduction program to support housing production in other areas of the city outside of Downtown.

The Building and Structure Construction Tax is imposed upon the construction, repair or improvement of any building or structure where a building permit is required. The proceeds from the Building and Structure Construction Tax are restricted by ordinance for use for traffic capital improvements on major arterials and collectors. These improvements can include the acquisition of land and interest in land and the construction, reconstruction, replacement, widening, modification and alteration (but not maintenance) of City streets. This tax revenue provides the Traffic Capital program with funds to complete major street infrastructure projects, particularly those that improve the Level of Service (LOS). LOS refers to the efficiency with which streets and roadways accommodate peak level traffic.

In 2023-2024, Building and Structure Construction Tax receipts through December totaled \$7.6 million, down 20.0% from \$9.5 million collected through the same period last year, and expected to end 2023-2024 approximately \$2.0 million below the budget estimate of \$19.0 million. Based on collections through December, a revised estimate for 2023-2024 of \$17.0 million has been used for the development of the 2025-2029 Proposed Traffic Capital Improvement Program.

# CAPITAL REVENUE FORECAST

## BUILDING AND STRUCTURE CONSTRUCTION TAX

---

Based on the construction activity forecasts supplied by PBCE and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections total \$94.0 million, \$1.0 million less than the estimate included in the 2024-2028 Adopted CIP. It is projected that collections will remain flat at \$17.0 million for this year and next year, increase to \$18.0 million in 2025-2026, \$19.0 million in 2026-2027, and \$20.0 million in 2027-2028 and remain at that level for the remainder of the forecast period.

A comparison of the five-year forecast with actual collections in previous years for the Building and Structure Construction Tax is shown in the chart that follows the discussion of Construction Excise Tax performance.

## 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 that cannot be funded by the Building and Structure Construction Tax or grants. Typical projects funded with this tax include street maintenance and resurfacing, streetlights, bicycle and pedestrian facilities, and most strategic planning programs, which improve the City’s ability to obtain State and federal grants for transportation projects. A portion of these taxes (\$1.0 million) is transferred to the General Fund on an ongoing basis and has also been used as a budget balancing solution to address General Fund shortfalls in prior years.

In 2023-2024, tax receipts through December for the Construction Excise Tax Fund totaled \$7.2 million, 47.0% above the \$4.9 million collected through the same period last year. Based on the collections to date, tax receipts are expected to end the year at the budgeted estimate of \$15.0 million.

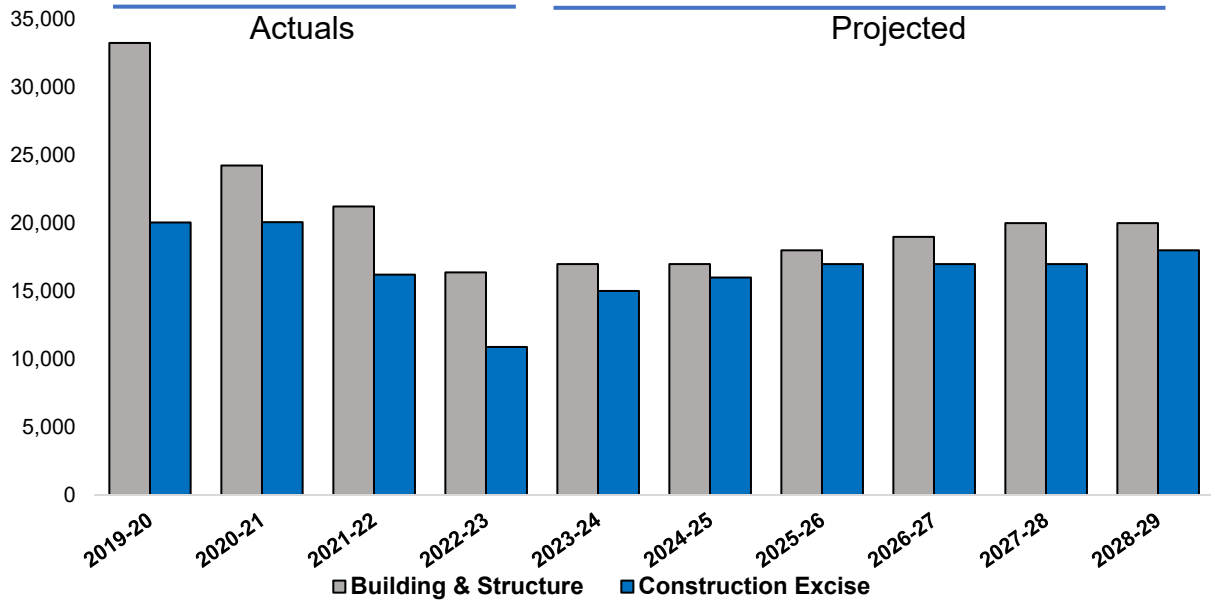
Based upon the construction projections provided by PBCE and an analysis of actual collection patterns, Construction Excise Tax collections are projected to total \$85.0 million over the five-year forecast period, \$3.0 million more than the estimate included in the 2024-2028 Adopted CIP. It is projected that collections will increase from the 2023-2024 estimate of \$15.0 million to \$16.0 million in 2024-2025, \$17.0 million in 2025-2026 and remain at that level through 2027-2028, and then increase to \$18.0 million in 2028-2029.

A comparison of the five-year forecast with actual collections in previous years for the Building and Structure Construction Tax and Construction Excise Tax is shown in the chart that follows.

# CAPITAL REVENUE FORECAST

## CONSTRUCTION EXCISE TAX

### MAJOR CONSTRUCTION-RELATED TAX REVENUES (in thousands)



## MUNICIPAL WATER SYSTEM FEES

Various Municipal Water System fees are charged for connecting to the City’s water system. These fees include the Advance System Design Fee, Meter Installation Fee, and Service Connection Fee. Advance System Design Fees are charged to developers to cover engineering and inspection costs for water facilities required in new developments. Meter Installation Fees are charged to developers to recover costs based on the size of the meter and/or fire hydrant installation necessary.

Service Connection Fees are charged to developers to recover the actual costs associated with the construction of water main or fire hydrant installations when improvements are constructed by the City.

Based on projected activity and collection trends, the Municipal Water System fees are projected to decrease to \$50,000 over the forecast period. These fees are detailed in the chart below.

# CAPITAL REVENUE FORECAST

## MUNICIPAL WATER SYSTEM FEES

---

### MUNICIPAL WATER SYSTEM FEES

(\$ in Thousands)

|                           | 2024-2028  | 2025-2029  |              | %          |
|---------------------------|------------|------------|--------------|------------|
|                           | CIP        | Forecast   | Difference   | Change     |
| Advance System Design Fee | 50         | 50         | -            | 0%         |
| Meter Installation Fee    | 50         | 50         | -            | 0%         |
| Service Connection Fee    | 75         | 125        | 50.00        | 67%        |
| <b>TOTAL</b>              | <b>175</b> | <b>225</b> | <b>50.00</b> | <b>29%</b> |

## RESIDENTIAL CONSTRUCTION TAX

---

The Residential Construction Tax is imposed upon the construction of residential dwelling units and mobile home lots in the City. The rates are imposed on each dwelling unit and differ according to the number of units located in the building. Rates vary from \$90 for each unit in a building of at least 20 dwelling units to \$180 for a single-family residence.

This tax is collected and placed in the Residential Construction Tax Contribution Fund and is used to reimburse developers that have constructed a wider arterial street than their residential development required. The funds are also used to construct median island landscaping and other street improvements.

In 2022-2023, receipts are projected to total \$200,000 based on year-to-date activity levels. This collection level is on target to meet the budgeted estimates of \$200,000. Based upon construction estimates by PBCE and the actual collection pattern for this tax, collections are expected to remain at \$200,000 in the forecast. A total of \$1.0 million is expected over the five-year period of this forecast, which is equal to the total in the 2024-2028 Adopted CIP.

# CAPITAL REVENUE FORECAST

## SANITARY SEWER CONNECTION FEE

---

The Sanitary Sewer Connection Fee is charged for connecting undeveloped parcels to the City's sewer system. The fees collected may only be used for the construction and reconstruction, including land acquisition, of the San José sanitary sewer system. The fee is based on the number of single and multi-family residential units built and the acres developed on commercial and industrial properties.

In 2023-2024, receipts are projected to total \$400,000 based on year-to-date activity levels, which is lower than the budgeted estimate of \$500,000. The five-year forecast for Sanitary Sewer Connection Fees totals \$2.5 million, with annual receipts of \$500,000 for the period from 2024-2024 to 2028-2029. This collection level is equal to the estimate included in the 2024-2028 Adopted CIP.

## STORM DRAINAGE CONNECTION FEE

---

The Storm Drainage Connection Fee is charged to developers as a connection fee for any project that will discharge storm water, surface water or ground water runoff into the City's storm drainage system. The fees are charged by acreage or lot and vary by land use and by the number of units located in the development. Storm Drainage Connection Fees may only be used for the construction, reconstruction, land acquisition and maintenance of the San José storm drainage system.

In 2023-2024, receipts are projected to total \$100,000 based on year-to-date activity levels, which is below the budgeted estimate of \$175,000. The five-year forecast for Storm Drainage Connection Fees totals \$500,000, with annual receipts of \$100,000 for the period from 2024-2025 to 2028-2029. This collection level decreased by approximately 47% compared to the \$875,000 estimate included in the 2024-2028 Adopted CIP.

**ATTACHMENT A**  
**CONSTRUCTION-RELATED REVENUE**  
**2025-2029 FORECAST**  
(in \$ thousands)

|  | 2023-24        | 2024-25        | 2025-26        | 2026-27       | 2027-28       | 2028-29       | 5 Yr Total     |
|--|----------------|----------------|----------------|---------------|---------------|---------------|----------------|
| <b>Construction and Conveyance Tax</b>           |                |                |                |               |               |               |                |
| 2024-2028 Adopted CIP                            | 40,000         | 40,000         | 45,000         | 45,000        | 45,000        |               | 215,000        |
| <b>2025-2029 FORECAST</b>                        | <b>35,000</b>  | <b>40,000</b>  | <b>45,000</b>  | <b>50,000</b> | <b>50,000</b> | <b>55,000</b> | <b>240,000</b> |
| <b>Difference</b>                                | <b>(5,000)</b> | <b>-</b>       | <b>-</b>       | <b>5,000</b>  | <b>5,000</b>  |               | <b>25,000</b>  |
| <b>Building and Structure Construction Tax</b>   |                |                |                |               |               |               |                |
| 2024-2028 Adopted CIP                            | 19,000         | 19,000         | 19,000         | 19,000        | 19,000        |               | 95,000         |
| <b>2025-2029 FORECAST</b>                        | <b>17,000</b>  | <b>17,000</b>  | <b>18,000</b>  | <b>19,000</b> | <b>20,000</b> | <b>20,000</b> | <b>94,000</b>  |
| <b>Difference</b>                                | <b>(2,000)</b> | <b>(2,000)</b> | <b>(1,000)</b> | <b>-</b>      | <b>1,000</b>  |               | <b>(1,000)</b> |
| <b>Construction Excise Tax</b>                   |                |                |                |               |               |               |                |
| 2024-2028 Adopted CIP                            | 15,000         | 16,000         | 17,000         | 17,000        | 17,000        |               | 82,000         |
| <b>2025-2029 FORECAST</b>                        | <b>15,000</b>  | <b>16,000</b>  | <b>17,000</b>  | <b>17,000</b> | <b>17,000</b> | <b>18,000</b> | <b>85,000</b>  |
| <b>Difference</b>                                | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>      | <b>-</b>      |               | <b>3,000</b>   |
| <b>Municipal Water Advance System Design Fee</b> |                |                |                |               |               |               |                |
| 2024-2028 Adopted CIP                            | 10             | 10             | 10             | 10            | 10            |               | 50             |
| <b>2025-2029 FORECAST</b>                        | <b>10</b>      | <b>10</b>      | <b>10</b>      | <b>10</b>     | <b>10</b>     | <b>10</b>     | <b>50</b>      |
| <b>Difference</b>                                | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>      | <b>-</b>      |               | <b>-</b>       |
| <b>Municipal Water Meter Installation Fee</b>    |                |                |                |               |               |               |                |
| 2024-2028 Adopted CIP                            | 10             | 10             | 10             | 10            | 10            |               | 50             |
| <b>2025-2029 FORECAST</b>                        | <b>10</b>      | <b>10</b>      | <b>10</b>      | <b>10</b>     | <b>10</b>     | <b>10</b>     | <b>50</b>      |
| <b>Difference</b>                                | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>      | <b>-</b>      |               | <b>-</b>       |
| <b>Municipal Water Service Connection Fee</b>    |                |                |                |               |               |               |                |
| 2024-2028 Adopted CIP                            | 15             | 15             | 15             | 15            | 15            |               | 75             |
| <b>2025-2029 FORECAST</b>                        | <b>25</b>      | <b>25</b>      | <b>25</b>      | <b>25</b>     | <b>25</b>     | <b>25</b>     | <b>125</b>     |
| <b>Difference</b>                                | <b>10</b>      | <b>10</b>      | <b>10</b>      | <b>10</b>     | <b>10</b>     |               | <b>50</b>      |
| <b>Residential Construction Tax</b>              |                |                |                |               |               |               |                |
| 2024-2028 Adopted CIP                            | 200            | 200            | 200            | 200           | 200           |               | 1,000          |
| <b>2025-2029 FORECAST</b>                        | <b>200</b>     | <b>200</b>     | <b>200</b>     | <b>200</b>    | <b>200</b>    | <b>200</b>    | <b>1,000</b>   |
| <b>Difference</b>                                | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>      | <b>-</b>      |               | <b>-</b>       |
| <b>Sanitary Sewer Connection Fee</b>             |                |                |                |               |               |               |                |
| 2024-2028 Adopted CIP                            | 500            | 500            | 500            | 500           | 500           |               | 2,500          |
| <b>2025-2029 FORECAST</b>                        | <b>400</b>     | <b>500</b>     | <b>500</b>     | <b>500</b>    | <b>500</b>    | <b>500</b>    | <b>2,500</b>   |
| <b>Difference</b>                                | <b>(100)</b>   | <b>-</b>       | <b>-</b>       | <b>-</b>      | <b>-</b>      |               | <b>-</b>       |
| <b>Storm Drainage Connection Fee</b>             |                |                |                |               |               |               |                |
| 2024-2028 Adopted CIP                            | 175            | 175            | 175            | 175           | 175           |               | 875            |
| <b>2025-2029 FORECAST</b>                        | <b>100</b>     | <b>100</b>     | <b>100</b>     | <b>100</b>    | <b>100</b>    | <b>100</b>    | <b>500</b>     |
| <b>Difference</b>                                | <b>(75)</b>    | <b>(75)</b>    | <b>(75)</b>    | <b>(75)</b>   | <b>(75)</b>   |               | <b>(375)</b>   |
| <b>TOTAL</b>                                     |                |                |                |               |               |               |                |
| 2024-2028 Adopted CIP                            | 74,910         | 75,910         | 81,910         | 81,910        | 81,910        |               | 396,550        |
| <b>2025-2029 FORECAST</b>                        | <b>67,745</b>  | <b>73,845</b>  | <b>80,845</b>  | <b>86,845</b> | <b>87,845</b> | <b>93,845</b> | <b>423,225</b> |
| <b>Difference</b>                                | <b>(7,165)</b> | <b>(2,065)</b> | <b>(1,065)</b> | <b>4,935</b>  | <b>5,935</b>  |               | <b>26,675</b>  |
| % Change from 2024-2028 CIP                      | -9.6%          | -2.7%          | -1.3%          | 6.0%          | 7.2%          |               | 6.7%           |

**INTENTIONAL BLANK PAGE**