

CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES

Overview

The major revenues that support the City of San José’s capital programs are bond proceeds, grants, 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-related Capital Program revenues remain relatively flat from the estimates provided in the 2011-2015 Adopted Capital Improvement Program (CIP) reflecting minimal improvements in the current economic environment. There is a small projected increase of 4% over the last Forecast, from \$172.1 million in the 2011-2015 Adopted CIP to \$178.5 million in the 2012-2016 Forecast. The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this forecast with the 2011-2015 Adopted CIP.

FORECAST COMPARISON SUMMARY (\$ in Thousands)

	2011-2015 CIP	2012-2016 Forecast	Difference	% Change
Construction and Conveyance Tax	\$ 107,000	\$ 109,000	\$ 2,000	2%
Building and Structure Construction Tax	27,500	29,000	1,500	5%
Construction Excise Tax	33,000	36,500	3,500	11%
Municipal Water System Fees	1,510	600	(910)	(60%)
Residential Construction Tax	345	200	(145)	(42%)
Sanitary Sewer Connection Fee	2,100	2,700	600	29%
Storm Drainage Connection Fee	650	530	(120)	(18%)
TOTAL	\$ 172,105	\$ 178,530	\$ 6,425	4%

Real estate activity (primarily housing resales) determines the collection level of one of the major capital revenue sources, the Construction and Conveyance (C&C) Tax. As projected in the 2011-2015 Forecast, the bottoming and stabilizing of these revenues from the extreme distress in both the national and local real estate markets have seen collections level off from the sharp declines in previous years. Construction and Conveyance (C&C) Tax revenues are currently expected to meet or slightly exceed budgeted estimates for 2010-2011 by year-end. As a result, in this Forecast, this category is projected to generate \$109 million over the next five years, an increase of \$2 million from the estimates assumed in the 2011-2015 Adopted Capital Improvement Program. The average annual collection level of \$21.8 million projected in the

CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES (CONT'D.)

Overview (Cont'd.)

2012-2016 Forecast is, however, well below the actual collection levels in the mid 2000's that reached a peak of \$49 million in 2005-2006.

The capital revenue projections for the other taxes and fees in this forecast are derived from actual revenue collection patterns and construction activity estimates provided by the Planning, Building and Code Enforcement (PBCE) Department. Each year the PBCE Department provides projections of activity for each of the three types of development (residential, commercial, and industrial) revenue. The valuation figures have been adjusted to 2010 dollars, per Bureau of Labor Statistics Consumer Price Index, San José-San Francisco-Oakland all items index. A more complete discussion of these estimates is provided in a technical report prepared by PBCE entitled "Development Activity Highlights and Five-Year Forecast (2012-2016)", which is attached as an appendix to this document.

Based on projections provided by the Planning, Building and Code Enforcement Department, construction activity valuation is projected to experience a dramatic, short term spike in 2010-2011 (\$750 million for 2010-2011 or a 42% increase compared to \$529 million in 2009-2010). This level of activity is unsustainable and primarily reflects a record setting surge of residential permits issued for two new developments in North San José in late 2010. This spike in activity significantly positively impacted most of the construction-related taxes and fees in the current year, and as a result, collections have exceeded the budgeted estimates. Activity is expected to return back to moderate levels and is projected to drop back down to \$600 million in 2011-2012 and 2012-2013 and then grow to \$675 million in 2014-2015 and 2015-2016. These assumptions are reduced from the levels presented in the 2011-2015 Forecast where activity was expected to drop to \$575 million in 2009-2010 and recover to \$675 million in 2012-2013 before flattening out in 2013-2014 and 2014-2015 at \$725 million. Construction activity peaked in 2000-2001 at \$2.1 billion, followed by a decline that reached a low point of approximately \$848 million in 2003-2004. From that low point, a modest recovery occurred in 2004-2005 with 15% growth in that year. However, in 2005-2006, construction activity dipped again, to \$859 million, primarily due to a decrease in multi-family development to a ten-year low. A modest rebound driven primarily by residential high rise construction in the Downtown area occurred in 2006-2007. Due to a marked slowdown in residential construction since that time, 2007-2008 experienced a 9% decline, then an additional 26% decline in 2008-2009, and a further decline of 19% in 2009-2010 with total valuation of \$529 million.

A discussion of major construction activity trends and each of the revenue categories are included in more detail on the following page.

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. As described above, the PBCE Department has provided construction activity projections for each of the three types of development (residential, commercial, and industrial) from which the revenue estimates are derived. These construction activity estimates are described in a report prepared by PBCE entitled "Development Activity Highlights and Five-Year Forecast (2012-2016)", which is attached as an appendix to this document.

A summary of the PBCE Department 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 decline 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. Permit activity in 2009-2010 in this sector declined further, with total construction valuation falling to an all-time low. Only 573 building permits were issued for new dwelling units compared to 2,515 permits issued in 2005-2006; 3,214 permits issued in 2006-2007; 1,545 permits issued in 2007-2008; and 1,071 permits issued in 2008-2009. This represented a decrease of 82% over the last three years from a total of 3,214 new dwelling units in 2006-2007, reflecting the severe economic downturn and the extreme distress in the real estate market. Significant declines occurred in both multi-family and single-family construction activity. In 2010-2011, there was a dramatic, short-term spike in building permits issued for new dwelling units, bringing the number of permits estimated to be 2,500 with a permit valuation of \$325 million. This level of activity is unsustainable and primarily reflects two new developments in North San José in late 2010.

Over the forecast period, the PBCE Department expects residential construction activity to generate an estimated 1,750 new units in 2011-2012 which is expected to increase to 2,500 new units in 2014-2015 and 2015-2016. This represents an average of 2,150 units per year or 10,750 units over the forecast period. This activity level, driven by both multi-family and single-family markets, has increased slightly compared to the 10,000 units included in the 2011-2015 Forecast with an average of 2,000 units per year. This forecast represents a significant decline from the actual levels experienced in peak years, which reached a high of 5,842 units in 1997-1998.

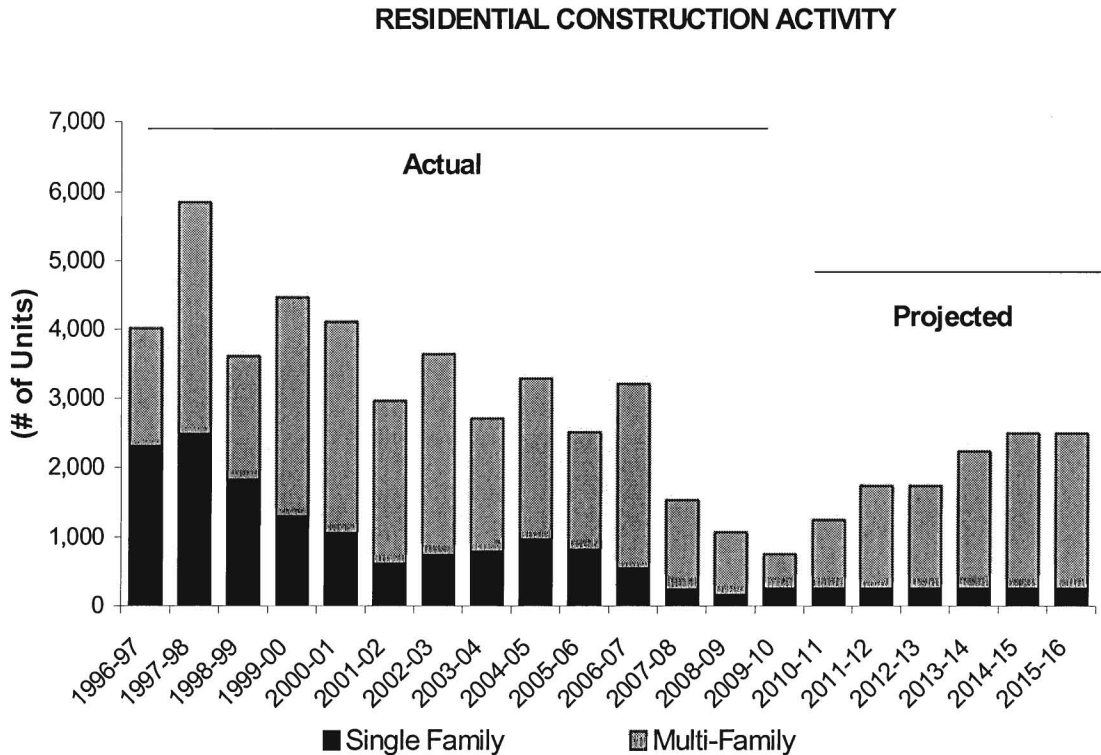
During the near term, residential activity is expected to remain weak due to low builder and consumer confidence, uncertainty about the direction of home prices, low employment gains, and widespread foreclosures, among others, will continue to hold down demand.

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS (CONT'D.)

A. Residential Construction Activity (Cont'd.)

In this Forecast, a total of 9,500 multi-family permits or an average of 1,900 multi-family permits per year are expected reflecting the construction of higher density housing in the downtown area and certain areas in North and South San José. This figure represents a 9% growth compared to the projections in the 2011-2015 Forecast for this category (estimated 8,750 multi-family permits). Reflecting uncertainty about the direction of home prices, rising inventory, and credit tightening, only 1,250 new single-family dwelling permits are anticipated during this forecast period. This figure is flat compared to the projections in the 2011-2015 Forecast for single-family permits. The following chart shows the number of units, by housing type, anticipated in San José through 2015-2016.



B. Commercial Construction Activity

In 2009-2010, commercial construction activity totaled \$265 million. The average valuation for this activity over a five-year period is \$260 million compared to a peak reached in 2000-2001 of \$869 million. The PBCE Department expects commercial activity to decrease further in 2010-2011, with permit valuation estimated at \$225 million. Activity will be driven by a limited number of new construction projects, and relatively steady tenant improvements (alterations) which should surpass new construction by 25% in terms of building permit valuation. In January

CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS (CONT'D.)

B. Commercial Construction Activity (Cont'd.)

2011, alterations jumped to its highest level in over a decade as a permit for tenant improvements was issued to PricewaterhouseCoopers (PWC) for occupancy of the long-vacant “Sobrato building” (488 Almaden Boulevard). It should be noted that recent information from the Office of Economic Development for the 4th Quarter in 2010 indicated that the San José commercial office vacancy rate was 18.2% and the commercial retail vacancies totaled 6.3%. Vacancy rates for these categories are tracking very similar to 4th Quarter in 2009 (18.8% and 6.9% respectively).

Over the forecast period, commercial construction is expected to remain flat with anticipated valuations of \$225 million for each year of the forecast (see the chart on the following page). The total commercial valuation projected in this forecast is \$1.125 billion, which reflects no change from the previous five-year forecast. As discussed in the attached report provided by the PBCE Department, the outlook for commercial construction activity will repeat the moderate levels following other boom years. Credit markets remain tight, and in any event, declining retail sales, rental rates, and occupancy rates are diminishing demand for new space. In this environment, only the most prime development sites are likely to proceed, and even then in a prudent, phased manner. Future activity is likely to come primarily from less economically sensitive segments, such as private schools.

C. Industrial Construction Activity

Industrial construction activity in San José has also experienced a dramatic decline since the peak in 2000-2001. In 2002-2003, permit valuation reached a low point of approximately \$88 million, a precipitous drop from the peak of \$603 million in 2000-2001. In 2004-2005, a slight recovery was experienced with permit valuation reaching \$157 million and continued to grow to \$251 million in 2006-2007 and \$284 million in 2007-2008. Following the national recession and credit-tightening, valuation for this sector dropped to \$237 million in 2008-2009. In 2009-2010, although permit valuation was projected to reach \$175 million, actual valuation of \$115 million was well below the estimates. Activity is expected to increase by 9% in 2011-2012 to \$125 million in valuation in each of the five years of the Forecast. The total industrial valuation over the forecast is estimated at \$625 million, which is slightly below the \$875 million estimated in the last forecast. As discussed in the attached report provided by the PBCE Department, activity in this area is expected to remain low over the forecast period with new construction almost solely comprised of several mid-rise office buildings underway for Brocade Communications Systems. No new major groundbreakings are anticipated in the near term and permit valuation is expected to return to the low levels seen earlier in the decade. Alterations in this category are expected to outpace new construction by 50%. Recent information from the Office of Economic Development for the 4th Quarter in 2010 indicated that the San José vacancy rate for industrial space was 7.2% which is similar to the 8.8% vacancy rate for the same period in 2009.

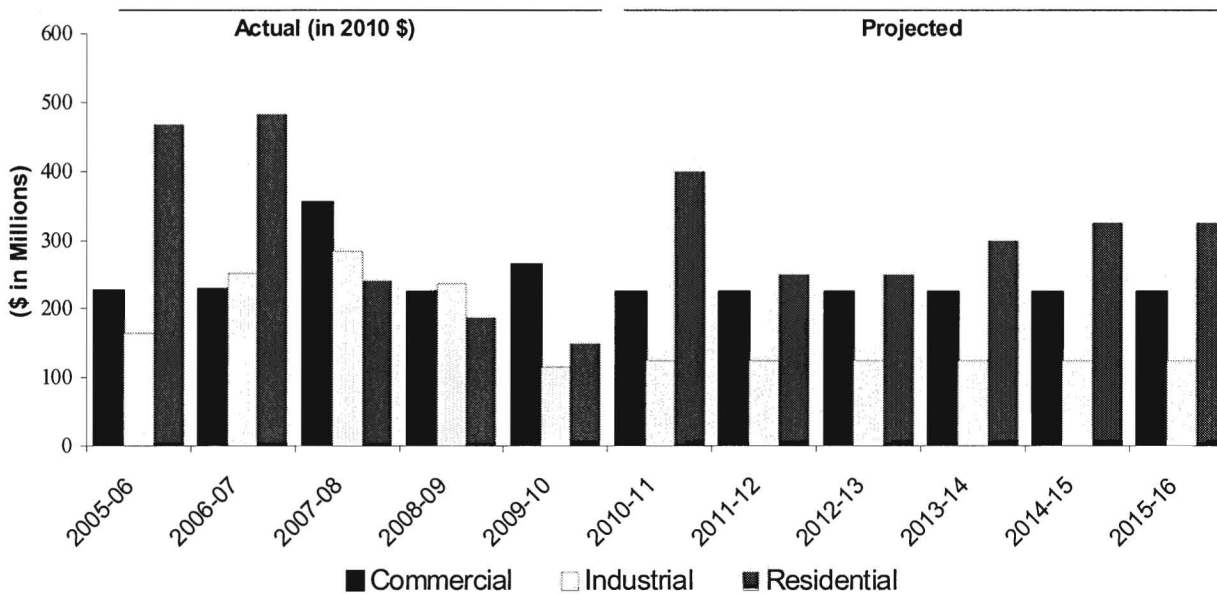
CAPITAL REVENUE FORECAST

CONSTRUCTION ACTIVITY PROJECTIONS (CONT'D.)

C. Industrial Construction Activity (Cont'd.)

The following graph illustrates the level of projected construction activity by type (not including exemptions).

CONSTRUCTION VALUATION, BY TYPE



MAJOR DEVELOPMENT ACTIVITY DATA

As part of the attached Development Activity Highlights and Five-Year Forecast (2012-2016) document prepared by the PBCE Department, information is provided on development activity that serves as the foundation for their forecast. Data is provided on the 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 not yet commenced, and pending City approval). In addition, individual maps are provided that show the projects in all status categories submitted since January 1, 2007 for each of the 15 planning areas in the City. 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.

CAPITAL REVENUE FORECAST

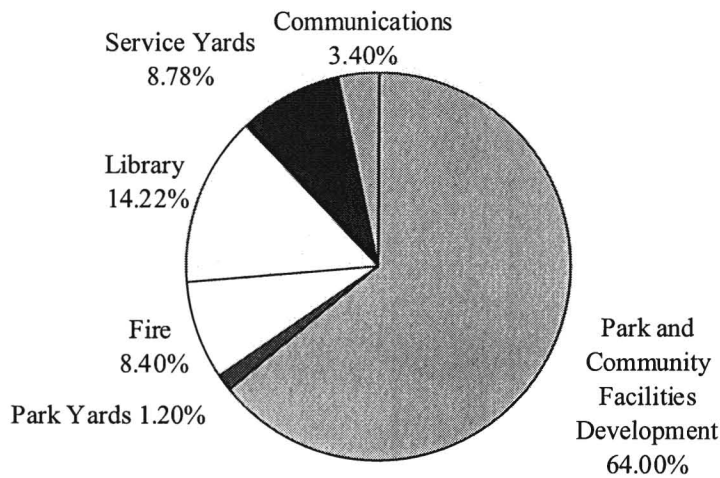
CONSTRUCTION AND CONVEYANCE TAX

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 20 dwelling units to \$150 for a single-family residence. The commercial and industrial rate is eight cents per square foot of floor area constructed. The Construction Tax accounts for a very small portion (approximately 1%) of the total Construction and Conveyance Taxes collected.

The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds one hundred dollars. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately 99% of the total Construction and Conveyance Taxes collected.

Construction and Conveyance Tax receipts are allocated using the following distribution to capital programs.

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.

Consistent with the Construction and Conveyance Tax Task Force recommendations adopted by the City Council in June 1989, the Park 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 projects and one-third to city-wide 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:

CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX (CONT'D.)

- 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 \$109 million, a very slight increase of \$2 million from the \$107 million estimated in the 2011-2015 CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market.

Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. In the late 1980s, collections of this tax were relatively strong, peaking at \$18 million in 1988-1989. In the first half of the 1990s, however, revenue fell precipitously with collections ranging from approximately \$9.3 million to \$11 million annually, reflecting the economic slowdown experienced at that time. In the latter half of the 1990s, healthy annual increases were again realized in this revenue category with growth skyrocketing from \$13.4 million in 1995-1996 to a peak of \$31.6 million in 2000-2001. This tremendous growth was indicative of the economic gains during that period, marked by stock market growth, low unemployment, and gains in personal income. As economic conditions began to worsen, tax receipts in this area again fell, experiencing a 17% decline in 2001-2002 to \$26.3 million and an additional 5.5% decline to \$24.8 million in 2002-2003. Surprisingly, this drop-off did not continue, despite the general decline in economic conditions. Far exceeding projections, collections grew to \$38.2 million in 2003-2004 and reached a record setting high of \$49 million in 2005-2006. Collections from that time, however, have continually fallen as our forecasts have predicted, declining to \$41.8 million in 2006-2007, \$26.8 million in 2007-2008, \$20.5 million in 2008-2009, and \$22.5 million in 2009-2010 following the recent real estate slowdown and financial market crises.

Construction and Conveyance (C&C) Tax revenues have been stabilizing from the extreme distress in both the national and local real estate markets as collections have leveled off from the sharp declines over the previous years. The C&C revenue collections are currently expected to meet or slightly exceed budgeted estimates by year-end. The 2010-2011 Adopted Capital Budget estimate for C&C taxes is \$20.0 million. The adopted C&C Tax estimate allowed for an 11.1% drop from the 2009-2010 collection level. Overall, collections of \$11.1 million through January 2011 represent a 4.7% drop from the \$11.7 million collected through January 2010.

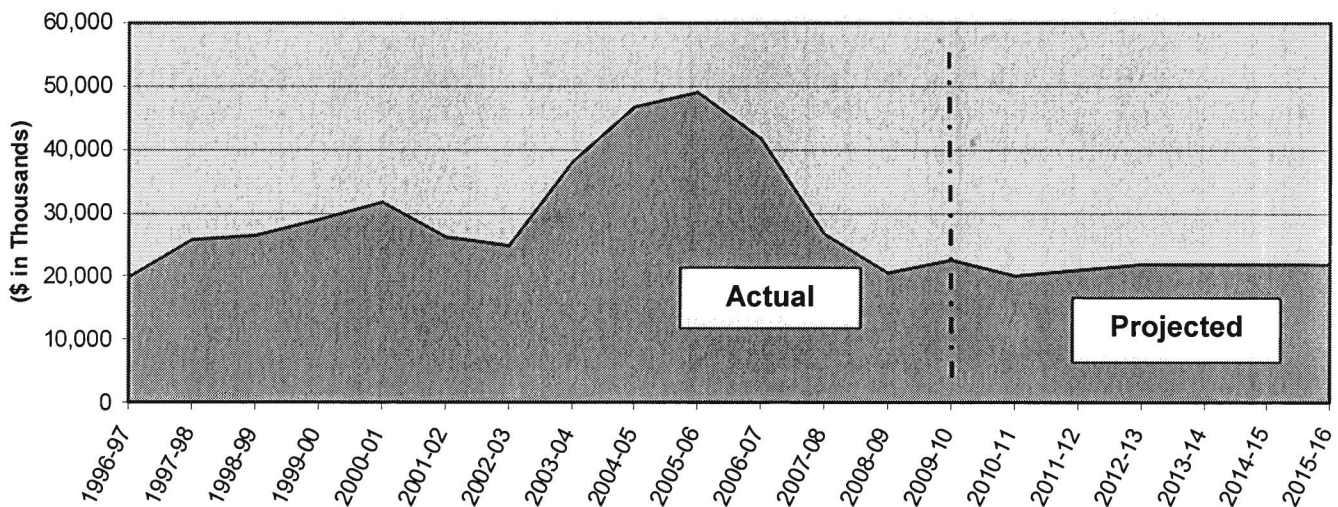
CAPITAL REVENUE FORECAST

CONSTRUCTION AND CONVEYANCE TAX (CONT'D.)

Nearly 99% of the total Construction and Conveyance Taxes are comprised of conveyance receipts, a tax based on the value of property transfers, which are the main driver in this revenue category. The median single-family home price in December 2010 was \$478,000. The price decreased by 2.4% from the December 2009 median single-family home price of \$490,000. The average days-on-market for single-family and multi-family dwellings increased from 67 days in December 2009 to 87 days in December 2010. In addition, the number of property transfers (sales) for all types of residences in December 2010 totaled 718, which represents a decrease of approximately 6.1% from the 765 sales that occurred in the same month in the prior year.

The 2012-2016 Construction and Conveyance Tax revenue forecast is built on the assumption that collections will remain generally flat in the near term and experience modest growth in the out-years. Collections are projected at \$21 million in 2011-2012, rising slightly to a collection level of \$22 million annually for the four remaining years of the forecast. This forecasted collection level reflects what is believed to be a more sustainable level of ongoing housing resale activity. The graph below illustrates the volatility of this revenue source, as discussed above, through a display of actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 20 year period.

CONSTRUCTION AND CONVEYANCE TAX REVENUES



CAPITAL REVENUE FORECAST

BUILDING AND STRUCTURE CONSTRUCTION TAX

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. Current rates are:

- 1) Residential - 1 ³/₄% of 88% of the Building Official's valuation.
- 2) Commercial - 1 ¹/₂% of the Building Official's valuation.
- 3) Industrial - 1% of the Building Official's valuation.

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.

Building and Structure Construction Tax receipts through December totaled \$6.5 million, exceeding the budgeted estimate of \$4.5 million by \$2.0 million. In comparison to last year's receipts for the first six months of the fiscal year, the collection levels are \$4.0 million higher representing an increase of 160.2%. This significant increase is due to two new housing developments in North San José in late 2010. As a result of this dramatic, short term spike in activity, year-end collections are expected to be approximately \$8.5 million or \$4 million above revenue estimates. It should be noted that this higher revenue collection is not at a sustainable level and is expected to ease back to \$5.5 million in 2011-2012.

Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections totals \$29.0 million, with annual expected proceeds ranging from \$5.5 million in 2011-2012 to \$6.0 million in 2015-2016. The five-year revenue projection represents an increase of approximately \$1.5 million (5%) from the estimate included in the 2011-2015 Adopted CIP. While collections are expected to improve slightly over the forecast period, the lower projected activity levels reflect the economic environment and will end the forecast period still well below the peak levels experienced a few years ago.

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 in the following section.

CAPITAL REVENUE FORECAST

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, which 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. The current rates are:

- 1) Residential - 2 ³/₄% of 88% of the Building Official’s valuation.
- 2) Commercial - 3% of the Building Official's valuation.

Unlike the Building and Structure Construction Tax, this tax does not apply to industrial development. As a result, changes in industrial building activity do not affect these tax receipts. As mentioned above, this tax is a general fund tax that can be used for any purpose. The majority of the proceeds have generally been used for a variety of essential Traffic Capital projects 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. A portion of these taxes have also been regularly used as a small solution to address General Fund shortfalls during times of financial stress on that fund.

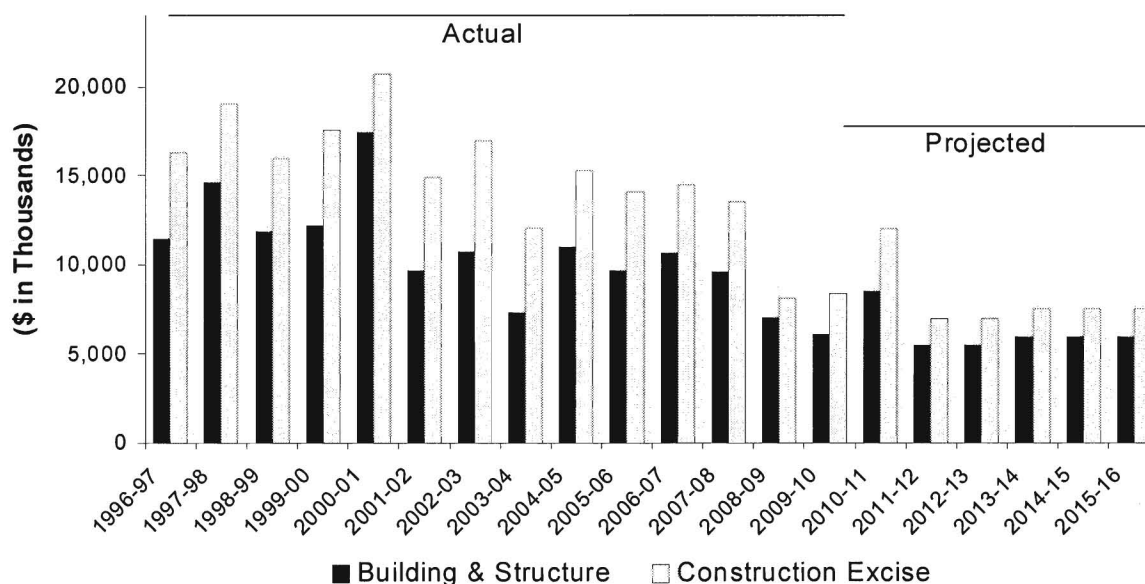
Tax receipts through December for the Construction Excise Tax Fund totaled \$9.7 million, exceeding the budgeted estimate of \$6.0 million by \$3.7 million. In comparison to last year’s receipts for the first six months of the fiscal year, the collection levels are \$6.6 million higher representing a 213.8% increase. This significant increase is due to two new housing developments in North San José in late 2010. As a result of this dramatic, short term spike in activity, year-end collections are expected to be approximately \$12.0 million or \$6.0 million above revenue estimates. It should be noted that this higher revenue collection is not at a sustainable level and is expected to ease back to \$7.0 million in 2011-2012.

Based upon the construction projections provided by the PBCE Department and actual collections on this tax, Construction Excise Tax collections are projected to total \$36.5 million over the five-year forecast period, with annual expected proceeds ranging from \$7.0 million in 2011-2012 and 2012-2013 to \$7.5 million annually for the three remaining years. This collection level also represents an increase of \$3.5 million (11%) from the 2011-2015 Adopted CIP. This increase reflects the assumption that the economic environment will improve slightly over the remainder of the forecast period.

CAPITAL REVENUE FORECAST

CONSTRUCTION EXCISE TAX (CONT'D.)

MAJOR CONSTRUCTION-RELATED TAX REVENUES



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, Major Facilities 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. Major Facilities Fees are charged based on average daily water use for new or expanded 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.

Through December, fee collections for the Municipal Water System totaled \$101,000, or 36.9% of the budgeted amount for 2010-2011 (\$275,000). Advance System Design Fee collections totaled 82.8% of the budgeted estimate of \$50,000 and collections of Meter Installation Fees totaled 79.1% of the budgeted estimate of \$50,000 through December. Both these revenue streams are expected to exceed budget by year end. In contrast to this, collections of Service Connection Fees, the major source of revenue for this fund, total only 11.7% of the budgeted estimate of \$175,000 through December. Advance System Design and Meter Installation Fees reflect all scales of development activity, while Service Connection Fees are unique to smaller developments, which may account for the varying trends in these fee collections.

CAPITAL REVENUE FORECAST

MUNICIPAL WATER SYSTEM FEES (CONT'D.)

Based upon development forecasts, only \$600,000 in revenue is expected over the five-year period of this forecast for the fees detailed in the chart below.

MUNICIPAL WATER SYSTEM FEES

(\$ in Thousands)

	2011-2015 CIP	2012-2016 Forecast	Difference	Change
Advance System Design Fee	280	250	(30)	(11%)
Meter Installation Fee	280	200	(80)	(29%)
Service Connection Fee	950	150	(800)	(84%)
TOTAL	1,510	600	(910)	(60%)

The large decrease in the estimate for Municipal Water System fees from the 2011-2015 Adopted CIP again reflects the major slowdown in development activity in the Municipal Water System service areas which include North San José, Evergreen, Alviso, Edenvale, and Coyote Valley areas. As noted in the previous Forecast, because of the volatility of Major Facilities Fee revenue, this fee revenue will be allocated for projects as actual collections occur rather than being allocated based on an estimate.

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 \$99 for each dwelling unit in a multiple dwelling of at least 20 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.

Tax receipts through December totaled \$180,000, exceeding the budgeted estimate of \$60,000 by \$120,000. This significant increase is due to two new housing developments in North San José in late 2010. As a result of this dramatic, short term spike in activity, year-end collections are expected to be approximately \$200,000. It should be noted that this higher revenue collection is not at a sustainable level and is expected to ease back to \$40,000 in 2011-2012.

CAPITAL REVENUE FORECAST

RESIDENTIAL CONSTRUCTION TAX (CONT'D.)

Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, \$200,000 in revenue is expected over the five-year period of this forecast. This amount is below the 2011-2015 Adopted CIP revenue estimates of \$345,000.

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.

Through December, revenue collected was \$411,000, and will exceed the budgeted estimate of \$350,000.

The 2012-2016 Forecast projection for this fee is \$2.7 million, which is a 29% increase from the 2011-2015 CIP estimate of \$2.1 million. This estimate is based on the assumptions that development activity will not significantly improve and be primarily concentrated to properties which are redeveloped. Redeveloped properties are typically not subject to this fee. The chart on the following page exhibits the actual collections for this fee and the projected revenues estimated over the five-year forecast period.

STORM DRAINAGE CONNECTION FEE

The Storm Drainage Connection Fee is charged to the owner of any land that discharges 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.

Through December, revenue collected was \$54,000, and is expected to meet the budgeted estimate of \$100,000.

The five-year forecast for Storm Drainage Connection Fees is \$530,000, which is a decrease from the estimate of \$650,000 included in the 2011-2015 CIP.

ATTACHMENT A
CONSTRUCTION-RELATED REVENUE
2012 - 2016
(in \$ thousands)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	5 Yr Total
Construction and Conveyance Tax							
2011-2015 ADOPTED CIP	20,000	21,000	22,000	22,000	22,000	N/A	107,000
2012-2016 FORECAST	20,000	21,000	22,000	22,000	22,000	22,000	109,000
Difference	-	-	-	-	-	N/A	2,000
Building and Structure Construction Tax							
2011-2015 ADOPTED CIP	4,500	5,000	6,000	6,000	6,000	N/A	27,500
2012-2016 FORECAST	8,500	5,500	5,500	6,000	6,000	6,000	29,000
Difference	4,000	500	(500)	-	-	N/A	1,500
Construction Excise Tax							
2011-2015 ADOPTED CIP	6,000	6,000	7,000	7,000	7,000	N/A	33,000
2012-2016 FORECAST	12,000	7,000	7,000	7,500	7,500	7,500	36,500
Difference	6,000	1,000	-	500	500	N/A	3,500
Municipal Water Advance System Design Fee							
2011-2015 ADOPTED CIP	50	50	60	60	60	N/A	280
2012-2016 FORECAST	50	50	50	50	50	50	250
Difference	-	-	(10)	(10)	(10)	N/A	(30)
Municipal Water Meter Installation Fee							
2011-2015 ADOPTED CIP	50	50	60	60	60	N/A	280
2012-2016 FORECAST	40	40	40	40	40	40	200
Difference	(10)	(10)	(20)	(20)	(20)	N/A	(80)
Municipal Water Service Connection Fee							
2011-2015 ADOPTED CIP	175	175	200	200	200	N/A	950
2012-2016 FORECAST	30	30	30	30	30	30	150
Difference	(145)	(145)	(170)	(170)	(170)	N/A	(800)
Residential Construction Tax							
2011-2015 ADOPTED CIP	60	60	75	75	75	N/A	345
2012-2016 FORECAST	200	40	40	40	40	40	200
Difference	140	(20)	(35)	(35)	(35)	N/A	(145)
Sanitary Sewer Connection Fee							
2011-2015 ADOPTED CIP	350	350	450	450	500	N/A	2,100
2012-2016 FORECAST	500	525	525	550	550	550	2,700
Difference	150	175	75	100	50	N/A	600
Storm Drainage Connection Fee							
2011-2015 ADOPTED CIP	100	100	150	150	150	N/A	650
2012-2016 FORECAST	100	100	100	110	110	110	530
Difference	-	-	(50)	(40)	(40)	N/A	(120)
TOTAL							
2011-2015 ADOPTED CIP	31,285	32,785	35,995	35,995	36,045	N/A	172,105
2012-2016 FORECAST	41,420	34,285	35,285	36,320	36,320	36,320	178,530
Difference	10,135	1,500	(710)	325	275	N/A	6,425
% Change from 2011-2015 CIP	32%	5%	-2%	1%	1%	N/A	4%