CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

2018-2019
City Manager's Budget Request

&

2019-2023
Five-Year Forecast
and
Revenue Projections

For the
General Fund and Capital Improvement Program

Office of the City Manager

February 2018

2018-2019
CITY MANAGER'S BUDGET REQUEST
&
2019-2023
FIVE-YEAR ECONOMIC FORECAST
AND
REVENUE PROJECTIONS

For the
General Fund and Capital Improvement Program

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Prepared by
Office of the City Manager
February 2018

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: David Sykes

SUBJECT: **2018-2019 CITY MANAGER'S BUDGET REQUEST AND 2019-2023 FIVE-YEAR FORECAST**

DATE: March 6, 2018

INFORMATION

EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2018-2019 City Manager's Budget Request (2018-2019 Budget Balancing Strategy Guidelines) and the 2019-2023 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. Major highlights of this report follow.

As shown in the chart below, a General Fund shortfall of $7.3 million is projected for 2018-2019. This projection is derived by comparing estimated revenues with the cost of delivering City Council-approved existing services as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. In the remaining years of the Forecast, General Fund shortfalls ranging from $8.9 million to $15.5 million are projected through 2021-2022 and a surplus of $10.8 million is projected in the 2022-2023, the last year of the Forecast. These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from -0.7% to 0.4% of the projected annual budget (combined total of revenues and expenditures). Over the five-year period, a total shortfall of $31.4 million is anticipated, which equates to approximately $6.3 million annually. This average shortfall figure equates to -0.3% of the projected General Fund annual budget (revenues and expenditures).

2019-2023 General Fund Forecast
Incremental General Fund Surplus/(Shortfall)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Incremental Surplus/(Shortfall)	($7.3 M)	($15.5 M)	($8.9 M)	($10.5 M)	$10.8 M
% of Budget (Revenues and Expenditures)	(0.3%)	(0.7%)	(0.4%)	(0.4%)	0.4%

- This Forecast reflects the Administration's best estimates on the projected revenues and expenditures over the next five years based on the information currently available. It does not, however, incorporate several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2017-2018; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

- The General Fund position has improved when compared to the 2018-2022 Forecast issued in March 2017. In the previous Forecast, shortfalls ranging from -$11.5 million to -$34.8 million were projected in each year of the Forecast. The change from the previous forecast reflects the improvement in revenues as well as lower growth in projected costs, particularly retirement costs.

- As with all forecasts, there is a level of uncertainty regarding the revenue and expenditure estimates contained in this document. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. The City's two largest General Fund revenues, Property Tax and Sales Tax, have experienced these fluctuations in the past. Various cost elements can also vary from year to year. As seen in recent years, retirement costs fluctuate and will likely continue to experience upward or downward swings based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions approved by the Federated and Police and Fire Department Retirement Boards.

- As is customary in the Forecast, two alternative forecasts have been developed to model the range of budgetary scenarios possible under varying economic conditions. "Optimistic" and "Pessimistic" Cases have been created to model economic scenarios considered possible, but less likely to occur than the "Base Case". At this time, it is assumed that the "Pessimistic Case" is more plausible than the "Optimistic Case".

- The chart on page 3 compares the 2018-2019 Forecast to the 2017-2018 Adopted Budget. The combined result of the Adopted to Forecast changes is a General Fund shortfall of $7.3 million. The first element of the chart is the small carry-over shortfall from the 2017-2018 Adopted Budget of $416,000. The next major comparison element is the change in revenue sources year-over-year. Ongoing revenues are projected to increase by $15.2 million, driven primarily by increases in the Property Tax, Sales Tax, and Business Tax revenue estimates. These increases are partially offset by the elimination of the Successor Agency to the Redevelopment Agency (SARA) reimbursement related to the Convention Center lease payment of $15.2 million. A corresponding reduction is reflected in the City-Wide Expenditures category to reflect the elimination of the Convention Center lease payment. When comparing expenditures (the third element), base costs are expected to increase by $22.0 million from 2017-2018 ongoing budget levels, with the majority of the net increase associated with employee pay increases.

2018-2019 General Fund Forecast
Reconciliation from 2017-2018 Adopted Budget

2018-2019 General Fund Forecast Components (Ongoing)	$ in Millions
Carry-Over from 2017-2018 Adopted Budget	**($ 0.42)**
Revenue Changes	
- Property Tax	$ 28.61
- Sales Tax	4.10
- Business Tax	3.70
- Overhead Reimbursements	2.48
- Use of Money and Property	1.14
- SARA Reimbursement for Convention Center Lease Payment	(15.24)
- Other Revenue	(5.11)
- Fines, Forfeitures, and Penalties	(1.05)
- Other Net Revenue Changes	(3.47)
Total Revenue Changes (Increase)	**$ 15.16**
Expenditure Changes	
- SJ Police Officers' Association Pay Increase (includes associated retirement costs)	$12.82
- Employee Pay Increases (except SJPOA) (includes associated retirement costs)	14.64
- Non-Management Step and Management-Pay-for-Performance Increases	6.22
- Retirement Contributions (Police: $5.9 million; Federated/Fire/Other: -$2.4 million	3.53
- Transfer to the San José Arena Capital Reserve Fund	1.60
- Police Marked Vehicle Replacement	1.23
- Microsoft Office 365 licenses	0.66
- 41.0 Sworn Police Officers (Added June 2019 per 2017-2018 Adopted Budget)	0.63
- Committed Additions (Parks and Traffic)	0.62
- Fire Apparatus Replacement	0.60
- Parks Water Costs	0.54
- Convention Center Lease Payments	(15.24)
- SARA Administration	(0.88)
- Health Plans and Other Benefits	(0.80)
- Arena Traffic Control	(0.34)
- Workers' Compensation Claims	(0.29)
- Other Expenditure Net Savings	(3.51)
Total Expenditure Changes (Increase)	**$22.03**
2018-2019 Projected General Fund Shortfall	**($ 7.29)**

- For the 2018-2019 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the total cost in the General Fund. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the $868.7 million projected personal services total for 2018-2019, salary and other compensation costs total $497.2 million (57.3% of projected personal services), retirement costs total $314.8 million (36.2% of projected personal services), and health and other fringe benefits costs total $56.8 million (6.5% of projected personal services). In the out years of the forecast, annual personal services growth ranging from 1.6% to 4.8% is projected.

- Committed Additions, expenses that address previous City Council direction, are included and total $619,000 in 2018-2019, rising to $1.7 million by the end of the forecast period. The largest expense in this category is the Arcadia Softball Complex.

- In approaching the 2018-2019 budget, the Administration proposes the use of the budget balancing strategy guidelines outlined in this memorandum (2018-2019 City Manager's Budget Request). The overall City of San José Budget Principles and the Service Delivery Framework, combined with City Council approval of the March Budget Message and priorities identified in prior policy sessions, will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed 2018-2019 City Manager's Budget Request, with any desired revisions, as part of the Mayor's March Budget Message review and approval process later in March.

- While the City's revenues and expenditures remain in close alignment, the City is not able to address all the gaps in services that impact our community. There are also significant unmet deferred infrastructure and maintenance needs that will have a long-term impact on the City. Looking forward, the Administration's goal is to ensure multi-year fiscal stability while also addressing, to the extent possible, the City's basic service delivery needs and the backlog of unmet/deferred infrastructure and maintenance needs.

- Projections for the selected Capital Improvement Program (CIP) revenues are also included in this document. These revenues total $364.9 million over the five-year period, which is equal to the amount included in the 2018-2022 Adopted CIP. Construction and Conveyance (C&C) Tax projections over the five-year period increased $6 million (3%) compared to the prior forecast based on the strong performance in this category. The Building and Structure Construction Tax and the Construction Excise Tax revenue estimates dropped slightly in this Forecast from a combined total of $183 million to $177 million (down 3%) to account for some slowdown in development activity over the forecast period from the high levels experienced in recent years.

- Consistent with past practice, as part of the preparation for the 2018-2019 Proposed and Adopted Budgets, the Administration will bring forward revisions to both the revenue and expenditure estimates as new information becomes available.

BACKGROUND

In compliance with City Charter Section 1204 and the City Council's Adopted Budget process, this document provides both the recommended 2018-2019 City Manager's Budget Request and the 2019-2023 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. The City Manager's Budget Request and Five-Year Forecast are key components of the City's annual budget process and critical steps in developing the City's annual Operating and Capital Budgets and the Five-Year Capital Improvement Program (CIP).

The City Manager's Budget Request includes budget balancing strategy guidelines that the Administration recommends to be used in developing the 2018-2019 Proposed Budget. These guidelines are predicated on the most current projections for expenditure requirements and available revenue in the coming fiscal year. As the City's anticipated fiscal status for 2018-2019 is an integral part of the Administration's proposed approach to preparing the 2018-2019 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2018-2019, and the subsequent four years, is provided as part of this document.

ANALYSIS

This section includes the following: a discussion of the 2018-2019 City Manager's Budget Request; an overview of the 2019-2023 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program; and a description of the next steps in the 2018-2019 budget process.

2018-2019 City Manager's Budget Request

The City Manager's Budget Request includes a set of general budget balancing strategy guidelines recommended to be used in the development of the 2018-2019 Proposed Budget. These proposed guidelines were formulated in the context of projections for General Fund shortfalls over the Forecast period. The over-arching goals of these guidelines are to continue operational and fiscal stability while minimizing any service delivery impacts to our community as well as impacts to our employees. These goals are accomplished by keeping General Fund revenues and expenditures in balance; seeking cost savings and revenue generation opportunities; and effectively allocating one-time funding. The potential uses of the one-time funding include continuing, in some cases, programs funded on a one-time basis in 2017-2018, addressing unmet/deferred infrastructure needs, investing in technology that improves efficiency, and setting aside funding in reserves to address potential future budget uncertainty. In a very limited number of cases, ongoing budget additions may be necessary to address key service needs identified by the City Council as priorities.

In addition to City Council's approval of the Mayor's March Budget Message and priorities identified in prior policy sessions, these guidelines will be used with the overall City Council-approved City of San José Budget Principles, and the Service Delivery Framework that are attached as *Appendix A* to this document.

In accordance with the City Charter, the City is required to adopt a balanced budget each year, allocating any projected surplus or addressing any projected shortfall. In 2018-2019, a General Fund shortfall of $7.3 million is projected, representing 0.3% of the General Fund annual budget (revenues and expenditures). In the out years of the Forecast, General Fund shortfalls range from $8.9 million to $15.5 million through 2021-2022 with a surplus of $10.8 million projected in 2022-2023 primarily due to lower projected retirement costs. These annual variances are relatively small when put into context of the size of the projected General Fund budget, ranging from -0.7% to 0.4% of the projected annual budget (revenues and expenditures), but continue to highlight that the City lacks capacity to address significant ongoing funding needs. To avoid future service disruptions, it is critical that the City does not over-commit its resources in this environment. Although overall service levels fall below desired levels for the San José community, the Administration continues to recommend aligning new ongoing service commitments with ongoing funds to support these additions. As in past years, the Administration recommends that one-time funding identified in the budget process be strategically invested to address one-time needs, such as addressing a portion of the City's unmet/deferred infrastructure and maintenance needs or building reserves.

In addition, challenges remain in addressing other funding needs that are not included in the Forecast. When evaluating the annual General Fund shortfalls or surplus projected in this Forecast, it is important to keep in mind that these figures do not incorporate impacts associated with:

- The costs to continue services funded on a one-time basis in 2017-2018 in the General Fund. Major items funded on a one-time basis include the following: San José Works, San José Learns, Pavement Maintenance Program, Police Department Downtown Foot Patrol, Parks, Recreation and Neighborhood Services Placemaking and Parks Activation, Sports Authority, Workers' Compensation Program Temporary Staffing, and Business Development and Economic Strategy Activities. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2017-2018. This analysis will be conducted during the 2018-2019 budget process and funding recommendations for these programs and services will be included in the 2018-2019 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.

- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs that were updated and presented to the City Council on March 6, 2018 at $7.9 million annually in the General Fund ($111.9 million all funds). In addition, there is a one-time backlog of infrastructure needs totaling $55.5 million in the General Fund ($1.4 billion all funds).

- One-time revenues that may become available or one-time expenditure needs. Because the Forecast compares ongoing revenues and expenditures, it does not factor in one-time funding elements that may be available or required in any given year.

- It should be noted that the Development Fee Programs (Building, Fire, Planning, and Public Works) are designed to be 100% cost recovery and have been programmed to have a neutral impact on the Forecast by adjusting the revenue and costs to be equal. In the Planning, Building, Fire, and Public Works Development Fee Programs, budget gaps are currently projected for 2018-2019. It is assumed that a combination of program reserves that are available in each of these programs, fee changes, and/or cost reductions will be used to address these variances. For purposes of the Forecast, the use of program reserves is assumed. However, for the Planning Development Fee Program, other budget balancing strategies will be necessary as the reserve is insufficient to cover the projected gap between revenues and expenditures.

2018-2019 Budget Balancing Strategy Guidelines

The 2018-2019 Budget Balancing Strategy Guidelines provide recommended direction on the general approaches to use in the development of the 2018-2019 Proposed Budget.

2018-2019 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditures with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management. To the extent possible, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
3. Focus on protecting vital core City services for both the short-and long-term. Analyze all existing services and target service reductions or eliminations in those areas that are least essential; limit, to the extent possible, service disruptions to the public.
4. When considering whether to scale back or completely eliminate a service, evaluate the impact to the community, the quality of the services to be delivered across the department, the ability of the department to manage the range of services, and alternative service provider options in the community.
5. When bringing forward any position reductions, make every effort to eliminate vacant positions rather than filled positions, if operationally feasible, to minimize the number of employees displaced by reductions with the goal of no significant employee impacts.
6. Evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to close service delivery gaps, generate new revenues, address truly significant community or organizational risks, fund programs added on a one-time basis in 2017-2018, and/or respond to specific City Council direction and organizational risks.
7. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
8. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
9. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
10. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
11. Explore expanding existing revenue sources and/or adding new revenue sources.
12. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers, and explore opportunities to establish new fees and charges for services, where appropriate.
13. Focus any available one-time resources on investments that 1) address the City's unmet or deferred infrastructure needs; 2) leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions; 3) continue high-priority programs funded on a one-time basis in 2017-2018 for which ongoing funding is not available; and/or 4) increase budget stabilization reserves to address any potential future budget uncertainty.
14. Engage employees in department budget proposal idea development.
15. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.
16. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

These guidelines include some revisions to those approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2017-2018 to reflect strategies associated with potential budget reductions.

Guiding Budget Principles and Service Delivery Framework

When considering changes to the budget, it is important to consider the overall City of San José Budget Principles (included in *Appendix A*) that were initially developed as part of the General Fund Structural Deficit Elimination Plan work several years ago. These principles, which were approved as part of the City Council's approval of the Mayor's March Budget Message for Fiscal Year 2008-2009 and subsequently amended on September 9, 2008, provide a meaningful framework for maintaining the fiscal discipline crucial to a large organization like the City of San José.

As the City Council is aware, it is important that the City take a holistic approach when either adding or reducing resources and programs. The Service Delivery Framework (included in *Appendix A*) provides a multi-pronged approach to delivering direct services to the community that takes into consideration various factors, including adequate strategic support resources, adequate infrastructure, service delivery method to ensure efficient and effective operations, service delivery goals and current performance status, service sustainability, and staffing resources.

Incorporating Strategies into the 2018-2019 Budget Process

As noted above, the Administration proposes the use of the general budget balancing strategy guidelines outlined above in the 2018-2019 City Manager's Budget Request combined with the overall City of San José Budget Principles, and the Service Delivery Framework to approach the 2018-2019 budget development process.

In December 2017, the Administration directed the City departments to develop 2018-2019 budget proposals using a draft version of the 2018-2019 Budget Balancing Strategy Guidelines. At that time, General Fund reduction targets totaling $25 million were issued to generate potential budget balancing options based on a preliminarily forecasted shortfall of $20 - $25 million. The reduction target level represented approximately 2% of the 2018-2019 General Fund base expenditure level. Given the challenging budget environment, departments were directed to focus on opportunities to reduce costs while minimizing impacts to direct services, generate new revenues, and/or implement new service delivery models. Departments could also develop proposals that use one-time bridge funding to bring about ongoing reductions that may take time to implement so as to minimize and/or avoid community and employee impacts. In addition, departments were directed to evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to reduce costs, close service delivery gaps and/or adjust to shifting community needs. When bringing forward position reductions, departments were to make every effort to eliminate vacant positions rather than filled positions, if operationally feasible, to limit employees displaced by reductions. Budget proposals requesting a net addition of General Fund resources were to be limited to those that address truly significant community or organizational risks and/or respond to specific City Council direction.

The City's short-term goal is to balance the budget with no significant service level or employee impacts. The long-term goal continues to be to build capacity to address our significant service delivery and infrastructure needs while ensuring that the General Fund revenues and expenditures remain in alignment.

The Mayor is scheduled to issue a proposed March Budget Message on March 9, 2018, which will then be discussed, amended if necessary, and adopted by the City Council. The contents of that Message will provide guidance for the preparation of the City Manager's 2018-2019 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 23, 2018 and May 1, 2018, respectively. As part of the 2018-2019 Mayor's March Budget Message, the Administration requests confirmation of the proposed 2018-2019 Budget Balancing Strategy Guidelines, with any desired revisions. As required by City Charter, those Proposed Budgets will contain comprehensive plans for how the City organization will address the highest priority needs of the community while maintaining the fiscal integrity of the City.

After the release of the Proposed Budgets, there will be a series of Proposed Budget Study Sessions and Public Hearings to discuss the budget proposals and the associated impacts on performance measures and service delivery. The Administration will also work with the City Council to provide informational meetings to the community on the Proposed Budget. Additional input by the City Council and community will be incorporated into the budget through these Proposed Budget Study Sessions, Public Hearings, and the Mayor's June Budget Message during the months of May and June 2018.

2019-2023 Five-Year Forecast and Revenue Projections

The 2019-2023 Five-Year Forecast and Revenue Projections portion of this document is divided into five sections.

1. **Elements of the General Fund Forecast** – This section begins with a description of the overall economic outlook and the expected performance of the economy over the five-year period, followed by detailed descriptions of the assumptions made concerning each of the General Fund revenue and expenditure categories. The Elements of the General Fund Forecast section ends with information regarding the projected General Fund operating margin for each of the five years included in the forecast period.

2. **Base General Fund Forecast** – The forecast model is presented in this section. It includes projections for each of the General Fund revenue and expenditure categories. The expenditure summary is divided into two sections:

   - *Base Case without Committed Additions* – This section describes projections associated with existing expenditures only.

   - *Base Case with Committed Additions* – This section describes the existing expenditures (Base Case) along with those expenditures to which the City is committed by previous City Council direction and has less discretion, such as maintenance and operating costs for capital projects scheduled to come on-line during the next five years.

The Five-Year Forecast discussion is based on the Base Case with Committed Additions scenario, which is considered the most likely scenario for the upcoming year.

3. **Committed Additions to the Base General Fund Forecast** – This section describes the committed additions per previous City Council direction considered in the Forecast, including the financial impact in each year of the Five-Year Forecast. This section also includes a discussion of Budget Principle #8, which pertains to capital projects with General Fund operating and maintenance costs in excess of $100,000.

4. **Alternative Forecast Scenarios** – Because all forecasts are burdened with a large degree of uncertainty, two plausible alternative forecast scenarios are presented – an Optimistic Case and a Pessimistic Case that modify revenue assumptions. These cases are compared with the Base Case, with committed additions, to show the range of growth rates for revenues and the associated operating margins.

5. **Capital Revenue Forecast** – This section describes the estimates for construction and real estate related revenues that are major sources of funding for the City's Five-Year Capital Improvement Program.

6. **Appendices** – Three appendices are also included in this document. *Appendix A* includes the following: overall City Council-approved City of San José Budget Principles and the Service Delivery Framework. *Appendix B* provides descriptions of the City's major General Fund revenue categories. *Appendix C*, prepared by the Planning, Building and Code Enforcement Department, documents the basis for that department's five-year projections for construction activity.

2019-2023 General Fund Forecast

The following table displays the projected General Fund revenues and expenditures over the next five years and the total cumulative shortfall. In addition to the cumulative shortfall, the incremental shortfalls and surplus (assuming each preceding shortfall or surplus is addressed completely with ongoing solutions in the year it appears) for each year of the forecast is included. Because it is the City's goal to remain in balance on an ongoing basis, the incremental figure is useful in that it shows the additional shortfall or surplus attributed to a particular fiscal year. To the extent that a shortfall is not resolved or a surplus is not expended on an ongoing basis, it is important to understand that the remaining budget gap or surplus will carry over to the following year.

2019-2023 General Fund Five-Year Forecast
($ in Millions)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Projected Revenues	$1,121.7	$1,155.1	$1,189.9	$1,220.2	$1,248.8
Projected Expenditures	$1,129.0	$1,177.9	$1,221.6	$1,262.4	$1,280.2
Total Cumulative Surplus/(Shortfall)	($7.3)	($22.8)	($31.7)	($42.2)	($31.4)
Total Incremental Surplus/(Shortfall)	**($7.3)**	**($15.5)**	**($8.9)**	**($10.5)**	**$10.8**
% of Budget (Revenues and Expenses)	**(0.3%)**	**(0.7%)**	**(0.4%)**	**(0.4%)**	**0.4%**

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2017-2018; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

In the 2019-2023 Forecast, small incremental General Fund shortfalls are anticipated in four of the five years with an incremental surplus projected in the final year of the Forecast. These margins are relatively narrow when put into context with the size of the projected General Fund budget, ranging from -0.7% to 0.4% of the projected annual budget (revenues and expenditures). However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast.

Given the decreasing level of precision to be expected in the later years of a multi-year forecast, the significance of the projections in the out years is not so much in terms of their absolute amounts, but rather in the relative size of the decrease or increase from the prior year. This information should be used to provide a multi-year perspective to budgetary decision-making, rather than as a precise prediction of what will occur.

When reconciling next year's Forecast to the 2017-2018 Adopted Budget, the projected shortfall of $7.3 million for 2018-2019 is the result of the following: a small carryover shortfall of $416,000, improved revenues of $15.2 million, offset by increased costs of $22.0 million.

General Fund revenues are estimated to improve by $15.2 million when compared to the ongoing revenue performance assumed in the 2017-2018 Adopted Budget. Overall, revenue performance in 2017-2018 continues to reflect moderate growth and is estimated to exceed current budgeted levels. In 2018-2019, several revenue categories are forecasted to grow year-over-year, including: Property Tax ($28.6 million), which is based on the most recent information provided by the County of Santa Clara and includes an additional $12 million associated with the SARA bond refunding in December 2017; Sales Tax ($4.1 million), which is primarily due to stronger than anticipated performance in the Local Sales Tax category; Business Tax ($3.7 million), which is primarily due to higher than anticipated Marijuana Business Tax revenue; Overhead Reimbursements ($2.5 million); and Use of Money and Property ($1.1 million) that is primarily related to higher interest earnings. The increased revenue estimates in these categories are partially offset by declines in other areas, the largest of which is the elimination of the SARA reimbursement of $15.2 million related to the Convention Center lease payment (a corresponding reduction to the City-Wide expense is also included). In addition, the Other Revenue category is down $5.1 million, which is primarily due to the reduction of funding received for the SAP Arena in accordance with the term sheet with Sharks Sports Entertainment.

On the expenditure side, a number of upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of $22.0 million in 2018-2019. The largest change from the 2017-2018 Adopted Budget is the increase to employee salary costs and associated retirement costs ($27.5 million). This includes the negotiated increases for the San José Police Officers' Association (SJPOA) of 6% (3.25% pensionable and 2.75% non-pensionable) totaling $12.8 million, as well as anticipated increases of $14.6 million for the remaining bargaining units that have contracts expiring in June 2018 and are under negotiation. Non-management step increases and management pay-for-performance increases result in an increase of $6.2 million from the 2017-2018 Adopted Budget. A net increase in retirement costs of $3.5 million is also anticipated. The next largest increases are programmed for a Transfer to the San José Arena Capital Reserve Fund ($1.6 million), Police Marked Vehicle Replacement ($1.2 million), increased costs for Microsoft Office 365 licenses ($0.7 million), committed additions for Parks and Traffic capital assets ($0.6 million), and fire apparatus replacement ($0.6 million). The addition of 41.0 Police positions (1.0 Police Lieutenant, 7.0 Police Sergeants, and 33.0 Police Officers) is also assumed starting June 2019 per the 2017-2018 Adopted Budget at a cost of $0.6 million in 2018-2019; the annualized cost of these positions is $7.7 million. Downward adjustments are included for Convention Center lease payments (-$15.2 million, offset by a reduction to the SARA reimbursement for this expense), the elimination of Successor Agency to the Redevelopment Agency (SARA) Administration costs (-$0.9 million) that are no longer necessary, Health Plan costs and other benefits (-$0.8 million), Arena Traffic Control services (-$0.3 million), and Workers' Compensation Claims (-$0.3 million).

Further detailed information regarding the General Fund revenues and expenditures and the assumptions used in the development of the Forecast can be found in *Section I – Elements of the General Fund Forecast* of this document.

General Fund Committed Additions

Cost estimates for a number of specific "Committed Additions" that address previous City Council direction are included in this Forecast in the years that they are projected to be required. The Committed Additions category, summarized in the chart below, reflects projected additional operating and maintenance costs for new or renovated capital projects in the 2018-2022 Adopted Capital Improvement Program or for projects approved by the City Council during 2017-2018. The costs of the additions total $619,000 in 2018-2019 and increase to $1.7 million by the end of the Forecast period.

2019-2023 General Fund Committed Additions
Maintenance and Operations Costs

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
New Parks and Recreation Facilities	$216,000	$523,000	$667,000	$725,000	$809,000
New Traffic Infrastructure Assets	22,000	45,000	69,000	82,000	95,000
Measure P (Parks)	381,000	677,000	715,000	755,000	790,000
Total	**$619,000**	**$1,245,000**	**$1,451,000**	**$1,562,000**	**$1,694,000**

These Committed Additions are related to new parks and recreational facilities, new traffic infrastructure assets, and the Arcadia Softball Complex as part of the Measure P (Parks) Bond funds. A detailed listing of all committed additions with operating and maintenance costs are included in this 2019-2023 General Fund Forecast and can be found in *Section 3 - Committed Additions to the Base General Fund Forecast* of this document.

General Fund Capital Operating and Maintenance Costs/Budget Principle #8

General Fund Capital Operating and Maintenance Costs/Budget Principle #8 requires City Council certification that funding will be made available in the General Fund for capital projects with an estimated operating budget impact greater than $100,000 at the time of taking beneficial use of the facility or project, and that this operations and maintenance funding will not require a decrease in existing basic neighborhood services. Capital projects with operating and maintenance costs over $100,000 that have been previously certified by the City Council, or are recommended for certification in the future, are identified in Chart A in Section III. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast that have not been approved by the City Council may be recommended for certification as part of the 2019-2023 Proposed Capital Improvement Program. If certified by the City Council, the operating and maintenance costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents. It should be noted that the maintenance and operations costs for the Arcadia Softball Complex (previously titled Softball Complex) are estimated to exceed $100,000; however, these projects were established prior to the adoption of Budget Principle #8 and did not need to be certified by City Council.

Alternative Forecast Scenarios

To model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the "Base Case." "Optimistic" and "Pessimistic" cases model economic scenarios considered possible, but less likely to occur than the "Base Case." These alternatives are presented to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and is being used for planning purposes for the 2018-2019 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios.

- *Base Case* – The Base Case Forecast is built on the assumption of slowing, but still positive, economic growth. In recent years, several of the City's economically sensitive revenues experienced strong growth as the City recovered from the severe recession that started in the latter half of the last decade. This region has also benefitted from continued venture capital investment in the technology industry, solid employment growth, and a strong real estate market. Over the forecast period, activity in most of these areas is expected to moderate, which will result in a slowing rate of local expansion and ultimately lower growth in the City's revenues. In the Base Case Forecast, General Fund revenue collections are anticipated to experience slow growth over the forecast period, with lower growth in the out-years of the Forecast.

- *Optimistic Case* – The Optimistic Case assumes somewhat faster economic growth than anticipated in the Base Case, but still slower than that experienced in recent years. On a national level, economic growth is slightly higher with increased defense spending. This increased defense spending positively impacts technology sectors, which benefits the local economy. Local conditions are very strong and the area's largest technology employers are doing much better than in the Base Case scenario. Venture capital expenditures are steady, as is the flow of foreign funds into the region. Local employment continues to expand and, because of this solid employment growth, housing prices remain at high levels and grow through the entire forecast period. Inflation is also expected to be higher than in the Base Case. This stronger growth results in increased collections in the economically sensitive revenue categories, such as Property Tax and Transient Occupancy Tax.

- *Pessimistic Case* – The Pessimistic Case assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case. Significantly lower growth is assumed for several of the key determinants of the City's revenue; local employment, local housing prices and number of sales, and local inflation are all lower than those of the Base Case. However, this scenario does not assume an economic crash at the local, national, or international levels. In this scenario, the City's revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, are significantly impacted by an economic slowdown.

Capital Revenue Forecast

Section V of this report describes the Capital Revenue Forecast that will be used to develop several major elements of the 2018-2019 Capital Budget and the 2019-2023 Capital Improvement Program (CIP). As in past years, the construction-related revenue estimates included in this report are derived from construction activity projections provided by the Planning, Building and Code Enforcement (PBCE) Department and an analysis of actual collection patterns. The projections and their basis are described in a report prepared by the PBCE Department, which is included as *Appendix C* of this document (Development Activity Highlights and Five-Year Forecast [2019-2023]). This activity forecast includes a review of specific projects that are in progress as well as a general prediction of expected levels of new construction.

The following table compares the estimates for the economically sensitive capital revenue categories included in this Five-Year Forecast with those included in the 2018-2022 Adopted CIP.

As shown below, revenues are anticipated to remain flat as compared to the prior Forecast at $364.9 million.

Capital Revenue Forecast Comparison Summary
($ in Thousands)

	2018-2022 CIP	2019-2023 Forecast	Difference	% Change
Construction and Conveyance Tax	$176,000	$182,000	$6,000	3%
Building and Structure Construction Tax	78,000	76,000	(2,000)	(3%)
Construction Excise Tax	105,000	101,000	(4,000)	(4%)
Municipal Water System Fees	375	375	0	0%
Residential Construction Tax	1,000	1,000	0	0%
Sanitary Sewer Connection Fee	3,500	3,500	0	0%
Storm Drainage Connection Fee	1,000	1,000	0	0%
TOTAL	**$364,875**	**$364,875**	**$0**	**0%**

Real estate activity (primarily housing sales) determines the collection level of the Construction and Conveyance Tax. After reaching a record setting high of $49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to $20.5 million in 2008-2009. However, collections have rebounded in recent years with revenues expected to end the year at $42.0 million in 2017-2018. This collection level is 3% below the actual receipts received in 2016-2017 ($43.3 million), but is substantially higher than the $36.0 million estimated in the 2018-2022 Adopted CIP. Based on recent collection trends and real estate activity, collections in this extremely volatile revenue category are forecasted to drop to $38.0 million in 2018-2019 and then decrease to $36.0 million annually for the remaining years of the forecast period. Estimated revenues in the 2019-2023 Forecast are projected to generate $182.0 million, $6 million or 3% higher than the estimate of $176.0 million in the 2018-2022 Adopted CIP.

The remaining economically sensitive capital revenue categories are directly linked to private development activity. Based on projections provided by the PBCE Department, though performing stronger than originally anticipated, construction activity valuation is anticipated to be lower than the prior year: $1.8 billion for 2017-2018, a 5% decrease compared to $1.9 billion in 2016-2017. This level of activity is expected to decrease to $1.4 billion in 2018-2019 due to a decrease in commercial and industrial alterations activity, $1.3 billion in 2019-2020, and drop to approximately $1.2 billion annually in 2020-2023 as projects move through the development pipeline. Construction activity forecasts for the five-year projection for the Building and Structure Construction Tax collections totals $76.0 million, $2 million (or 3%) below the estimate included in the 2018-2022 Adopted Capital Improvement Program. It is projected that collections will drop from the 2017-2018 estimate of $20.0 million to $16.0 million in 2018-2019 and to $15.0 million for the remainder of the forecast period as projects are completed and activity levels slightly decrease. Construction Excise Tax collections are projected to total $101.0 million over the five-year forecast period, with proceeds estimated at $21.0 million in 2018-2019, and decreasing to $20.0 million in 2019-2020 through 2022-2023. This collection level represents a slight decrease of $4.0 million (or 4%) from the 2018-2022 Adopted CIP. Under the Downtown High-Rise Residential Development Incentive Program, 50% of construction taxes for any residential tower in the downtown area that breaks ground by July 2018 and is completed by December 2020 will be waived. Under the North San José Area Development Policy, any Building and Structure Construction Tax collected for new developments will need to be set aside in a reserve for future transportation improvement projects in that area.

NEXT STEPS IN THE 2018-2019 BUDGET PROCESS

The next major steps in the budget development process include the following:

March 2018

- 2018-2019 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

April 2018

- 2018-2019 Proposed Capital Budget and 2019-2023 Capital Improvement Program Released

May 2018

- 2018-2019 Proposed Operating Budget and 2018-2019 Proposed Fees and Charges Released
- 2018-2019 Community Budget Meetings
- City Council Study Sessions and Initial Public Hearing on 2018-2019 Proposed Operating Budget, 2019-2023 Proposed Capital Budget and Capital Improvement Program, and 2018-2019 Proposed Fees and Charges

June 2018

- 2018-2019 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2018-2019 Operating Budget, 2018-2019 Capital Budget and 2019-2023 Capital Improvement Program, and 2018-2019 Fees and Charges Adopted by City Council

CONCLUSION

This document compares the projected revenues and expenditures for the General Fund over the next five years as well as provides estimates for some of the key revenues that support the City's Capital Improvement Program. A General Fund shortfall of $7.3 million is projected in 2018-2019, followed by shortfalls ranging from $8.9 million to $15.5 million through 2021-2022 and a surplus of $10.8 million in 2022-2023. When considering the size of the General Fund budget that totals $1.1 billion to $1.3 billion over the forecast period, these margins are relatively narrow totaling less than 1% of the overall budget (revenues and expenditures).

As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document, and it is important to keep in mind that this Forecast does not reflect several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2017-2018; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

The revenue and expenditure projections for 2018-2019 will continue to be refined over the next several months as additional information becomes available. This includes additional Sales Tax data for the second quarter of the 2017-2018 fiscal year that will be available in March 2018 and additional Property Tax roll growth data that is updated each month. Based on this additional data, any necessary adjustments will be incorporated into the 2018-2019 Proposed and Adopted Operating Budgets, as appropriate.

This document also provides the recommended 2018-2019 City Manager's Budget Request (Budget Balancing Strategy Guidelines) for consideration by the City Council as part of its review of the Mayor's March Budget Message. The over-arching goals of these guidelines are to continue operational and fiscal stability while delivering services to our community in a cost-effective manner. The Administration will consider cost reductions and service delivery efficiencies with the goal of balancing the budget with no significant service level or employee impacts.

Over the past many years, the Mayor and City Council have remained committed to ensuring the fiscal health of the City while delivering essential services in the most cost-effective manner. Continued commitment to these strategies will help ensure the fiscal sustainability of the City's services moving forward.

David Sykes
City Manager

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Five-Year Economic Forecast and Revenue Projections

2019-2023

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides three alternative Five-Year Forecast scenarios for General Fund revenues and expenditures: Base Case, Optimistic Case, and Pessimistic Case. The Administration recommends that the Base Case, considered the most likely projection, be used for the development of the 2018-2019 Proposed Operating Budget. Given the uncertainties inherent in any five-year forecast, however, two alternative case forecasts for the General Fund are also provided. These scenarios attempt to model the potential impact of more optimistic and pessimistic views of the future economic environment that affect the City's revenue collections.

- **Base Case** – The Base Case Forecast is built on the assumption of slowing, but still positive, economic growth. In recent years, several of the City's economically sensitive revenues experienced strong growth as the City recovered from the severe recession that started in the latter half of the last decade. This region has also benefitted from continued venture capital investment in the technology industry, solid employment growth, and a strong real estate market. Over the forecast period, activity in most of these areas is expected to moderate, which will result in a slowing rate of local expansion and ultimately lower growth in the City's revenues. In the Base Case Forecast, General Fund revenue collections are anticipated to experience slow growth over the forecast period, with lower growth in the out-years of the Forecast.

- **Optimistic Case** – The Optimistic Case assumes somewhat faster economic growth than anticipated in the Base Case, but still slower than that experienced in recent years. On a national level, economic growth is slightly higher with increased defense spending. This increased defense spending positively impacts technology sectors, which benefits the local economy. Local conditions are very strong and the area's largest technology employers are doing much better than in the Base Case scenario. Venture capital expenditures are steady, as is the flow of foreign funds into the region. Local employment continues to expand at a high rate and, because of this solid employment growth, housing prices remain at high levels and grow through the entire forecast period. Inflation is also expected to be higher than in the Base Case. This stronger growth results in increased collections in the economically sensitive revenue categories, such as Property Tax and Transient Occupancy Tax.

- **Pessimistic Case** – The Pessimistic Case assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case. Significantly lower growth is assumed for several of the key determinants of the City's revenue; local employment, local housing prices and number of sales, and local inflation are all lower than those of the Base Case. However, this scenario does not assume an economic crash at the local, national, or international levels. In this scenario, the City's revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, are significantly impacted by an economic slowdown.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

As with all forecasts, this General Fund Forecast is based on a series of assumptions regarding the overall economic environment, both now and in the future. These assumptions were reached after reviewing the projections included in a number of economic forecasts. The economic conditions and the projected impacts on City revenues will continue to be closely monitored and any new developments will be factored into the City Manager's 2018-2019 Proposed Operating Budget, scheduled to be published on May 1, 2018.

The following is a discussion of both the national and local economic outlooks used to develop the revenue estimates for the Base Case Forecast. Various economic forecasts are reviewed in the development of the revenue estimates, including the national and State economic forecasts produced by the Anderson School of Management at University of California – Los Angeles (UCLA). The City also uses an economic forecasting consultant to assist in the development of this Forecast, particularly the modeling of the growth in the out-years of the Forecast. In addition, consultants that focus on particular revenue categories such as Sales Tax and Transient Occupancy Tax were asked to weigh in on the current projections and future outlooks in these areas.

Current National Economic Conditions

The U.S. economy is performing at a level not achieved for nearly a decade. Real U.S. Gross Domestic Product (GDP) increased by 2.3% in 2017, compared with an increase of 1.5% in 2016. The increase in real GDP in 2017 primarily reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, and exports that were partly offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the calculation of GDP, increased.[1] The U.S. unemployment rate declined further over the past year, standing at 4.1% in January 2018 compared to 4.8% in January 2017, according to the U.S. Department of Labor's Bureau of Labor Statistics February 2, 2018 report. A contributing factor to this job growth on the national level was reconstruction following the summer hurricanes in Texas, Florida, and Puerto Rico and tax cuts to businesses, which is prompting businesses to increase investment, wages, and employment.

Some of the key drivers to the U.S. economy include new housing construction, automotive manufacturing and sales, and a robust technology sector. The housing construction sector is currently strong. One of the contributing factors for this performance is due to the summer hurricanes in Texas, Florida, and Puerto Rico resulting in the need to repair and build new houses. The continued expansion in the housing sector is crucial to long-term economic growth. Car sales are estimated at slightly below 17 million cars per year, which is marginally below recent levels, but still represents strong performance. The automotive sector represents a large and important employment sector in the economy and a base component of the U.S.'s industrial

[1] U.S. Department of Commerce Bureau of Economic Analysis, GDP: Fourth Quarter and Annual 2017 (Second Estimate), February 28, 2018

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

production sector. It is important to note that the housing and automobile sectors are highly sensitive to interest rates, which rose three times in 2017 and are anticipated to rise again in 2018. While rates have not yet increased enough to significantly affect these two sectors, future increases may impact auto sales. It is not anticipated interest rate increases will significantly impact housing sales due to the strong demand in the real estate market.

On a national level in 2017, the real estate market experienced the highest level of housing sales in eleven years. Home sales (including single-family homes and multi-dwelling homes) in 2017 totaled 5.51 million, which surpassed 2016 sales of 5.45 million, and represents the highest level of sales since 2006 (6.48 million). Although the housing market continued to perform strongly in 2017, December sales showed signs of decreased activity, which is likely the result of unprecedented high prices and a historically low housing supply. According to Lawrence Yun, National Association of Realtors Chief Economist, "Existing sales concluded the year on a softer note, but they were guided high these last 12 months by a multi-year streak of exceptional job growth, which ignited buyer demand. At the same time, market conditions were far from perfect. New listings struggled to keep up with what was sold very quickly, and buying became less affordable in a large swath of the country. These two factors ultimately muted what should have been a stronger sales pace. Closings scaled back in most areas last month for the same reason. Affordability pressures persisted, and the pool of interested buyers at the end of the year significantly outweighed what was available for sale."[2] The trend of extremely low levels of inventory, rising mortgage rates, and increased home prices will continue in 2018. Regarding new housing inventory, privately owned housing starts were at a seasonally adjusted annual rate of 1.302 million in December 2017. This activity level was 0.1% below the revised November rate of 1.303 million, but is 2.8% above the December 2016 rate of 1.266 million.[3] Although housing starts have been increasing over the past several years, they continue to be lower than historical levels, which averaged 1.5 million to 1.6 million units per year.

The energy sector is one of the backbones of the U.S. economy, with petroleum accounting for almost one-third of the nation's energy production. While oil production had been generally decreasing for many years, beginning in 2009, more cost-effective drilling and improvements in extraction technology has helped boost oil production.[4] The average U.S. crude oil price had experienced sharp declines in 2015 and 2016, with the average price per barrel dropping from $96 in 2014 to $49 in 2015 and $41 in 2016. In late 2016, the Organization of the Petroleum Exporting Countries (OPEC) agreed to production decreases, which helped drive the average oil price up to $54 in 2017 and it is currently anticipated the average price per barrel will be approximately $60 in 2018.[5]

[2] National Association of Realtors, News Release, January 24, 2018
[3] U.S. Census Bureau and U.S. Department of Housing and Urban Development, News Release, January 18, 2018
[4] U.S. Energy Information Administration, U.S. Energy Facts Explained, Updated May 19, 2017
[5] U.S. Energy Information Administration, News Release, January 11, 2018

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Venture capital, the driving force of the technology sector, finished extremely strong in 2017 with $84 billion invested, the largest amount since the dot-com era in the early 2000's. Over the past several years, the Venture Capital industry has evolved as venture capital-backed companies stay private longer and require larger deal sizes. Therefore, fewer transactions are occurring, but more capital is being deployed into higher valued companies. In 2017, deal counts dropped to the lowest figure since 2012, however, median and average deal sizes reached a decade-high.[6]

National Economic Outlook

Moderate continued economic growth appears likely for the next several years, driven by growth across most sectors of the economy. The December 2017 UCLA Anderson Business School Forecast, assumes continued job growth along with wage increases will power consumption in 2018. Tax cuts (particularly corporate tax cuts) coupled with recent aggressive infrastructure expenditures has resulted in real GDP growth being close to 3%. However, in 2018 as the unemployment rate drops below 4% and employment growth stalls in the face of a labor shortage, the GDP is anticipated to decrease back to 2% in 2018. GDP could potentially decline to 1.5% in 2019 due to the economy continuing to operate at full employment coupled with anticipated additional increases to interest rates.

Higher wages along with a continued rebound in oil prices and continued high housing costs is anticipated to result in the inflation rate exceeding 2%. A modest rate of inflation is a key driver for business and consumer demand and for future property and sales taxes. The Consumer Price Index (CPI) increased 0.1% in December 2017 (seasonally adjusted) and increased 2.1% over the last 12 months (before seasonal adjustment).[7] In 2017, the Federal Reserve raised interest rates three times to allow economic growth to continue to expand at a moderate pace. In addition, to keep inflation rates at target levels, it is anticipated the Federal Reserve will raise interest rates again in 2018, thereby reducing monetary policy support and allowing consumer spending to drive the economy.

Current City of San José Economic Conditions

The Silicon Valley continues to show positive economic performance, but some economic indicators are beginning to moderate from the extremely strong performance experienced in recent years.

The December 2017 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.12 million was 2.2% higher than the December 2016 level of 1.10 million. Between December 2016 and December 2017, 23,900 jobs were added.

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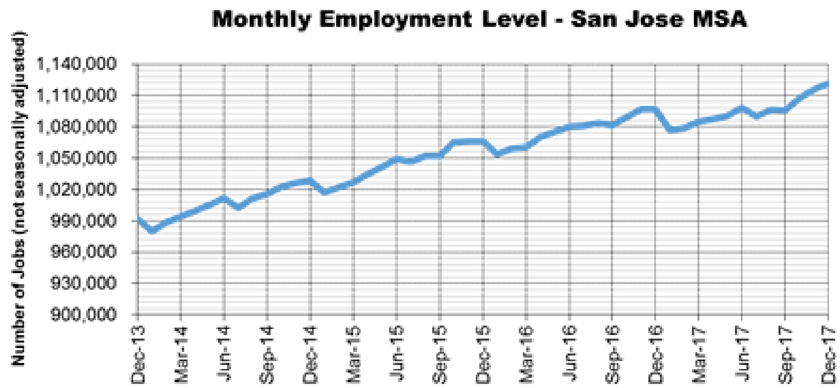
[6] National Venture Capital Association, News Release, January 9, 2018
[7] U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index Detailed Report, December 2017

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

This includes 9,100 jobs in private educational and health services (predominatly within health care and social assistance), and 7,700 jobs in leisure and hospitality services, marking the 88th consecutive monthly gain on a year-over-year basis.[8]



As noted in the January 2018 Beacon Employment Report, however, while California continued to have year-over-year employment growth in 2017 (2.1%), this growth has begun to moderate with the employment growth in 2017 being the lowest level since 2011. Robert Kleinhenz, Executive Director of Research at Beacon Economics and the UC Riverside School of Business Center for Economic Forecasting, stated "Payroll growth in California accelerated in the final months of 2017, giving the state a strong finish for the year. Job gains and overall economic growth were constrained throughout this year, however, by limited expansion of the labor force, which is something that is likely to continue in 2018."[9]

In December 2017 the unemployment rates at the local, State, and national levels continued to drop from prior year levels. In December 2017, the unemployment rate for the San José Metropolitan Statistical Area was 2.7%, which is consistent with the November 2017 rate, and is below the 3.4% rate experienced a year ago. In this region, the December 2017 unemployment rate continues to be lower than the unadjusted unemployment rate for the State (4.2%) and the nation (3.9%).

Unemployment Rate (Unadjusted)

	Dec. 2016	Nov. 2017	Dec. 2017**
San José Metropolitan Statistical Area*	3.4%	2.7%	2.7%
State of California	5.0%	4.0%	4.2%
United States	4.5%	3.9%	3.9%

* San Benito and Santa Clara Counties
** Preliminary Estimate
Source: California Employment Development Department

Local construction activity remained very strong through December 2017; and is tracking well above prior year levels. Residential permits for new dwelling units through December totaled 1,809 versus 1,424 in the prior year. Correspondingly, the valuation of new residential construction and alteration activity have also increased compared to prior year levels ($394.1 million in 2017-2018 vs. $328.1 million in 2016-2017). Combined residential valuation of $394.1 million through December is 20.1% above the prior year level of $328.1 million.

[8] State of California Employment Development Labor Market Information Division Press Release, January 19, 2018
[9] Beacon Economics, Employment Report, January 2018

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

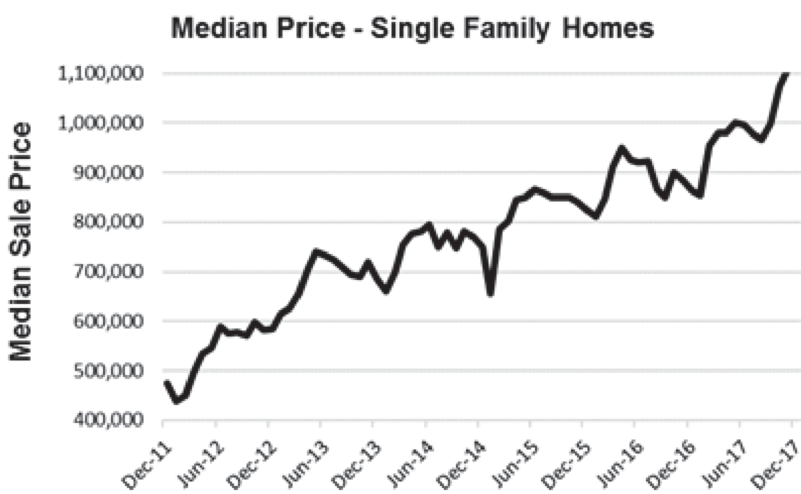
Base Case Forecast

Private Sector Construction Activity (Valuation in $ Millions)

	July-Dec. 2016	July-Dec. 2017	% Increase/ (Decrease)
Residential	$ 328.1	$ 394.1	20.1%
Commercial	$ 394.5	$ 406.3	3.0%
Industrial	$ 275.5	$ 291.9	6.0%
Total	**$ 998.1**	**1,092.3**	**9.4%**

Overall commercial valuation through December is 3% above the 2016-2017 level ($406.3 million in 2017-2018 vs $394.5 million in 2016-2017). New commercial construction increased slightly ($291.7 in 2017-2018 vs. $272.8 in 2016-2017) while alteration activity decreased slightly ($114.7 in 2017-2018 vs. $121.7 in 2016-2017). Industrial construction valuation through December is 6.0% above the 2016-2017 level ($291.9 million in 2017-2018 vs. $275.5 million in 2016-2017).

The local real estate market continues to experience strong growth in home prices compared to prior year levels. The median single-family home price in December 2017 of $1.14 million was up 32.1% from the December 2016 price of $863,000. The December 2017 level represents the highest single-family median home price in the City of San José's history. It is also taking significantly less time to sell these homes, with the average days-on-market for single-family and multi-family dwellings in December 2017 totaling 16 days, a 52.2% drop from the 34 days experienced in December 2016. Also of interest is the continued tightening of inventory available in the housing market. The average number of new listings in the first half of 2017-2018 totaled 681, which is 13.2% below the average number of new listings recorded in the same time period of the prior fiscal year. While the median home price has risen and the length of time to sell these more expensive homes has decreased, the number of property transfers (sales) has dropped slightly. The number of property transfers in 2017 totaled 7,791 which represents a 1% drop from the 7,869 transfers that occurred in 2016.



City of San José Economic Outlook

While most of the above metrics have improved or remained at elevated levels when compared to the previous year, the local economy is expected to enter a period of slower economic growth. Unemployment levels, which have consistently been well below national levels are anticipated to remain low. While the employment growth level is a bit slower than was previously experienced,

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

City of San José Economic Outlook

it is still positive. Employment levels in Silicon Valley are determined largely by the flow of venture capital funding and the overall health of the U.S. economy. As both of these contributors continue to remain healthy, local employment levels are projected to remain at low levels.

Many policies and decisions made at the national level significantly influence the local economy. Defense spending continues to be a high priority for the current administration and is anticipated to continue for several years. As modern defense is extremely reliant on technology, increased defense spending positively impacts the local economy. Foreign investment, primarily in technology and real estate, are vital to the local economy. If trade policies, especially with China, are significantly altered or eliminated the results could adversely impact the Silicon Valley.

Base Case Forecast

Taken together, San José can expect a moderate slowdown in economic growth rates throughout the forecast period among economically sensitive revenues such as Sales Tax, Property Tax, and Transient Occupancy Tax receipts.

Optimistic Case Forecast

In the Optimistic Case Forecast, local conditions are very strong and the area's largest tech employers are doing much better than the Base Case Forecast. Local economic conditions are extremely strong and the area's largest technology employers continue to expand at a very high rate, which results in rapid employment increases. In addition, venture capital investments are extremely high and there is higher foreign investment, which helps propel the economy. In this scenario, local employment continues to expand at a high rate and, because of this solid employment growth, housing prices remain at high levels and grow through the entire forecast period. Also in this scenario, the growth in the national economy is a bit higher than that of the Base Case Forecast. As a result of the positive national outlook, local inflation is also higher.

The Optimistic Case Forecast is based partly on the assumption that the real estate sector, nationally and locally, continues to increase due to higher home prices and an increase in the number of new home starts over the next several years. While mortgage rates will be higher, employment increases and higher wages will spur a greater number of home purchases. As a partial result of more rapid new home construction, the country's overall employment levels continue to improve.

Under the Optimistic Case Forecast, the economically sensitive revenues are expected to experience somewhat stronger performance as general increases in employment, wages, and consumer attitudes offset the negative influences of higher interest rates and promotes increased spending, which generates Sales Tax for the City. Improvement in the real estate market will result in higher Property Tax revenues. Conversely, Gasoline taxes decline significantly in the Optimistic Case Forecast.

Elements of The General Fund Forecast

Assumptions Regarding the Economic Environment

Pessimistic Case Forecast

The Pessimistic Case Forecast assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case Forecast. Both domestic and foreign venture capital expenditures in the local economy and real estate market decline significantly compared to those presented in the Base Case Forecast. Under the Pessimistic Case Forecast, there is a rapid decline of employment and home prices. Further, much more vigorous enforcement of immigration laws and the reduced number of visa permits being authorized impact the local labor force much greater than in the Base Case Forecast.

The Pessimistic Case Forecast assumes home prices and related construction activity decline deeper than in the Base Case Forecast. In addition, these decreases would happen earlier (late 2018) and would occur very quickly. While the decline in economic activity is relatively deep, it is still softer than experienced during the dot-com bust and the Great Recession. Decreased revenue collections in categories such as Property Tax and Transient Occupancy Tax would be realized when compared to the Base Case Forecast. Lower employment levels, along with very low inflation also impact these revenues. Conversely, Gas Tax revenues are higher in the Pessimistic Case Forecast.

Given current economic conditions and outlooks, the Pessimistic Case Forecast is likely more plausible than the Optimistic Case Forecast.

Impact of Forecasted Economic Conditions on Revenue Collections

The economic conditions discussed above are the primary drivers for the economically sensitive revenues, with the most significant impacts in the Property Tax and Sales Tax categories. Performance in other areas, however, is primarily driven by other factors. For example, the Franchise Fee and Utility Tax categories are more heavily impacted by utility rate changes and energy prices. Collections from local, State, and federal agencies are primarily driven by the grant and reimbursement funding available from these agencies. As a result, these General Fund revenues experience no significant net gain or loss in times of an economic expansion or slowdown, respectively. Because these revenue sources do not track directly with the performance of the economy, the growth in these areas, even in times of economic strength, can dampen the City's overall revenue growth. Conversely, in an economic slowdown, these categories can act as a buffer, easing the impact of declines in the economically sensitive revenue categories.

Impact of Forecasted Economic Conditions on Revenue Collections

An in-depth analysis of the General Fund revenue categories was completed to develop 2018-2019 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2017-2018 and build upon those projections to develop the 2018-2019 revenue estimates. These estimates are based on the Base Case Forecast economic scenario described in this section. These revenue estimates will be closely examined and updated again during the preparation of the 2018-2019 Proposed Operating Budget scheduled to be released on May 1, 2018.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

As displayed in the General Fund Forecast below, revenues (exclusive of Beginning Fund Balance) are shown to increase from $1.1 billion in 2018-2019 to $1.2 billion in 2022-2023, for an average growth rate of 2.9% per year.

General Fund 2019-2023 Forecast
Revenue Summary

General Fund Revenue Category	Modified Budget 2017-2018	Forecast 2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
General Revenues						
Property Tax	288,990,000	317,600,000	333,988,000	350,955,000	366,713,000	382,188,000
Sales Tax	224,000,000	232,100,000	238,506,000	244,969,000	249,967,000	253,891,000
Transient Occupancy Tax	18,720,000	19,600,000	20,374,000	21,097,000	21,638,000	22,174,000
Franchise Fees	50,813,083	50,230,000	51,149,000	51,932,000	50,790,000	49,580,000
Utility Tax	101,320,000	102,400,000	103,700,000	105,339,000	107,088,000	109,197,000
Telephone Line Tax	20,000,000	20,000,000	20,040,000	20,076,000	20,110,000	20,142,000
Business Tax	63,385,000	67,000,000	67,607,000	68,147,000	68,643,000	69,103,000
Licenses and Permits	59,669,916	58,530,000	60,344,000	62,758,000	64,955,000	67,098,000
Fees, Rates, and Charges	49,431,983	45,779,000	47,198,000	49,086,000	50,804,000	52,481,000
Fines, Forfeitures and Penalties	15,336,284	14,283,000	14,430,000	14,688,000	14,740,000	14,883,000
Money and Property	5,705,000	6,779,000	6,948,000	7,171,000	7,379,000	7,637,000
Revenue from Local Agencies	23,741,738	10,822,000	11,199,000	11,589,000	11,951,000	12,307,000
Revenue from the State	14,182,228	10,590,000	10,590,000	10,590,000	10,590,000	10,590,000
Federal Revenue	5,661,954	-	-	-	-	-
Other Revenue	183,958,167	9,298,000	8,789,000	8,837,000	8,900,000	8,963,000
Gas Tax	17,300,000	17,300,000	16,703,000	16,489,000	17,118,000	17,712,000
Total General Revenues	1,142,215,353	982,311,000	1,011,565,000	1,043,723,000	1,071,386,000	1,097,946,000
Transfers & Reimbursements						
Overhead Reimbursements	45,467,418	48,522,000	49,978,000	51,477,000	53,021,000	54,612,000
Transfers	24,981,465	24,457,000	25,173,000	25,861,000	26,478,000	26,573,000
Reimbursements for Services	670,000	731,000	753,000	776,000	799,000	823,000
Total Transfers & Reimbursements	71,118,883	73,710,000	75,904,000	78,114,000	80,298,000	82,008,000
Total General Fund Revenues	1,213,334,236	1,056,021,000	1,087,469,000	1,121,837,000	1,151,684,000	1,179,954,000
Beginning Fund Balance	241,172,873	65,644,000	67,632,000	68,070,000	68,472,000	68,865,000
Grand Total Sources	1,454,507,109	1,121,665,000	1,155,101,000	1,189,907,000	1,220,156,000	1,248,819,000
Growth %			2.98%	3.01%	2.54%	2.35%

Understanding the basis for the revenue estimates included in this Forecast requires a discussion of the assumptions used for estimating each of the revenue categories. The following discussion focuses on estimates used for the 2019-2023 General Fund Forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

Property Tax receipts of $301.0 million are projected for 2017-2018, which is $12.0 million (4.2%) above the modified budget estimate of $289.0 million and $24.6 million (8.9%) above the 2016-2017 actual collection level of $276.4 million. A significant portion of the growth from both the prior year and the modified budget is due to the Successor Agency to the Redevelopment Agency (SARA) bond refunding in December 2017 that is projected to result in additional property tax distribution to City of $8.8 million in 2017-2018. In 2018-2019, Property Tax collections are expected to increase 5.5% to $317.6 million. This includes general growth of 4.6% in the City's property taxes and additional growth associated with the Successor Agency to the Redevelopment Agency (SARA) bond refunding that is expected to generate $12.0 million in 2018-2019. Additional information about each of the Property Tax sub-categories is provided below.

Secured Property Taxes account for over 90% of the revenues in this category. In 2017-2018, Secured Property Tax receipts are expected to total $276.5 million, reflecting an increase of 9.6% from the 2016-2017 collection level. This growth reflects the additional revenue of $8.8 million generated from the SARA bond refunding, additional revenue resulting from excess Educational Revenue Augmentation Fund (ERAF) funds, as well as general projected growth in Secured Property Tax receipts of 5.2% in 2017-2018. The general growth primarily reflects an increase in assessed value for 2017-2018, due to the California Consumer Price Index (CCPI) increase of 2%, and increased valuation due to changes in ownership or new construction. On a County-wide basis, the 2017-2018 roll growth was driven primarily by changes in ownership (46.8%), new construction (19.4%), and change in the CCPI (16.5%). In addition to the changes in assessed value, collections in this category are impacted by the ERAF payment. Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it. In 2016-2017, the City received $4.4 million from excess ERAF funds from 2015-2016. In 2017-2018, the ERAF payment is projected to total $6.9 million and reflect the excess funds from 2016-2017.

In 2018-2019, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2018, are expected to increase by 5.8% to $292.6 million. This reflects the net impact of the following: a general increase of 5.5% in Secured Property Tax receipts, an increase in collections due to the SARA refunding from $8.8 million in 2017-2018 to $12.0 million in 2018-2019, partially offset by a potential decline in the ERAF payment from $6.9 million in 2017-2018 to $5.5 million in 2018-2019.

The general increase in Secured Property Tax receipts of 5.5% is driven by two factors: the change in the CCPI and the net change in residential and commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CCPI adjustment for the 2018-2019 tax roll is 2%; consistent with the prior year level. A net increase in

REVENUE FORECAST

Property Tax

residential and commercial valuation is also anticipated from the combination of changes in ownership and new construction. The increases in property sale prices will continue to be a positive factor driving growth in this category. In calendar year 2017, residential real estate experienced significant gains as the December 2017 median single-family sales price of $1.14 million was up 32.1% from the December 2016 price of $863,000. The number of sales, however, has declined which will negatively impact growth. The total number of property transfers for single-family and multi-dwelling homes declined approximately 1%, from 7,869 sales in calendar year 2016 to 7,791 sales in calendar year in 2017.

Due to the uncertainty of the ERAF receipt each year, a payment of $5.5 million is incorporated into the 2018-2019 Secured Property Tax estimate, which represents a 20% decrease from the 2017-2018 estimated collection level of $6.9 million. However, this collection level is well above the 2015-2016 ERAF payment of $4.4 million.

It should be noted that final data on the actual tax levy for 2017-2018 is not yet available as adjustments are made through June 30, 2018. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Some of the adjustments, however, are not reflected until the latter months of a given fiscal year, such as the reassessments of commercial property. As this information becomes available, refinements to the Property Tax estimates may be brought forward during the 2018-2019 budget process.

Unsecured Property Taxes are the second largest revenue source in this category. Growth in this category is driven primarily by increases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Based on actual collections through December, Unsecured Property Tax receipts are estimated at $14.0 million in 2017-2018, which is 4.7% above the prior year level of $13.4 million. Collections are expected to increase approximately 3% in 2018-2019 to $14.5 million based on the current economic conditions.

For the other Property Tax categories, 2018-2019 collections are estimated at $6.9 million for **SB 813 Property Taxes** (supplemental taxes that represent payments for taxes owed on recent housing resales), $2.7 million for **Aircraft Property Tax**, and $1.0 million for **Homeowners Property Tax Relief**. These collection levels are consistent with the 2017-2018 estimates.

In the out years of the Forecast, annual Property Tax receipts are projected to increase approximately 4.2% to 5.2% annually over the five-year period. A portion of this growth is due to an estimated 2% CCPI increase annually.

REVENUE FORECAST

Sales Tax

The Sales Tax category includes General Sales Taxes, Local Sales Tax, and Proposition 172 Sales Taxes. In 2017-2018 collections are projected to reach $228.1 million, which is 1.8% above the 2017-2018 Modified Budget of $224.0 million. The higher estimated collection level is primarily due to strong Local Sales Tax revenue (positive variance of $6.0 million), partially offset by lower General Sales Tax revenue (negative variance of $2.0 million). Following is a discussion of the Sales Tax sub-categories.

Information on actual receipts for the first quarter of General Sales Tax for the current year was received in December 2017 and represented activity for July through September 2017. The first quarter 2017-2018 General Sales Tax revenues reflected growth of 8.8% from the same quarter in the prior year. However, the first quarter of 2016-2017 included a one-time negative $2.7 million correction from prior year payments that were made in error, resulting in a decline of 9.4% in that quarter. Factoring out that adjustment, receipts in the first quarter of 2017-2018 reflect growth of 2.1% from the prior year. Based on current collection trends, it is estimated General Sales Tax will grow by 2% in the remaining three quarters of 2017-2018 and end the year at $181.0 million, which is $2.0 million below the budgeted estimate of $183.0 million. In 2018-2019, it is anticipated that General Sales Tax will continue to have modest growth of 2% and total $184.1 million.

The City's Sales Tax consultant, MuniServices, provides economic performance data to the City, which is considered to be a more accurate measure of the actual sales tax activity in San José for a particular period. This growth analysis measures sales tax receipts, excluding State and county pools, and adjusts for anomalies, payments to prior periods, and late payments. On an economic basis, growth of 0.5% was realized in the most recent quarter. The chart below outlines the various sectors of sales tax and the percentage of the total receipts received in the most recent quarter.

Sales Tax Revenue Economic Performance
July – September 2017

Economic Sector	% of Total Revenue	% Change July – Sept 2016 to July – Sept. 2017
General Retail	24.8%	-0.6%
Transportation	23.5%	+1.5%
Business-to-Business	20.0%	-2.2%
Food Products	18.1%	+3.0%
Construction	12.8%	+1.2%
Miscellaneous	0.8%	+6.1%
Total	**100.0%**	**+0.5%**

Information on the second quarter collections (October-December sales activity) for this fiscal year will be received in March 2018.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Sales Tax

Starting in 2016-2017, the Sales Tax category includes **Local Sales Tax**. In June 2016, San José voters approved a ¼ cent local sales tax that was estimated to generate $30.0 million in 2016-2017 (October 2016 implementation) and $40.0 annually beginning 2017-2018. However, based on the lower than anticipated performance during the first two quarters of 2016-2017, the 2016-2017 revenue estimate was lowered from $30.0 million to $26.0 million. Actual collections ended 2016-2017 at $26.5 million, which reflected actual performance for the first two quarters ($8.7 million and $8.9 million) and estimated receipts of $8.9 million for the final quarter. Actual Local Sales Tax results for the final quarter of 2016-2017 totaled $10.2 million, which is $1.3 million above the amount assumed for the 2016-2017 accrual. The additional revenue generated from this difference is reflected in 2017-2018.

Information on actual receipts for the first quarter of Local Sales Tax for the current year was received in December and represented activity for July through September 2017. The first quarter 2017-2018 Local Sales Tax revenues totaled $10.5 million. Based on 2016-2017 collection trends as well as the receipts for first quarter of 2017-2018, it is estimated Local Sales Tax will end the year at $41.0 million on an annualized basis, factoring out one-time accrual adjustments. In 2018-2019 it is estimated Local Sales Tax receipts will grow by 2% and total $41.8 million.

Proposition 172 Sales Tax collections (representing the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total $6.1 million in 2017-2018, which represents a 5.8% decline from 2016-2017 collection levels. In 2018-2019, collections are projected to increase by 2%, to $6.2 million.

In the out years of the Forecast, annual Sales Tax performance is expected to show growth of 1.6% to 2.8% annually.

Transient Occupancy Tax

In 2017-2018, Transient Occupancy Tax (TOT) receipts in the General Fund are projected to reach $18.7 million, reflecting an increase of 2.4% from the 2016-2017 collection level. The increase anticipated in 2017-2018 represents the eight year of consecutive growth in this category, reflective of continued development and economic growth in the region. Occupancy levels through January 2018 have decreased slightly, from 75.55% to 75.25%, relative to January 2017 levels. This decrease has been offset by increased average room rates, up 1.2% through January 2018 from $201.48 to $203.82. Average revenue-per-available room also showed growth, with an increase of approximately 0.8%, from $152.69 through January 2017 to $153.90 through January 2018.

In 2018-2019, TOT receipts are projected at $19.6 million, reflecting growth of 4.5% from the 2017-2018 estimate. This figure incorporates information received from the City's consultant, Conventions, Sports and Leisure (CSL) including the number of hotel rooms expected to come on-

Transient Occupancy Tax

line, however, the growth assumptions used in the development of the Forecast are more conservative than those projected by CSL. CSL assumes annual growth ranging from 3% to 13%, however, as TOT can experience wide swings of positive and negative growth, and given the historically high average daily room rates and hotel occupancy, the Forecast assumes steady annual growth ranging from 2.5% to 4.0% per year.

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Commercial Solid Waste, Cable, City-Generated Tow, Water, and Nitrogen Gas Pipeline categories. Overall, collections are projected at $50.2 million in 2017-2018, an increase of 1.1% from prior year receipts of $49.6 million. The projected increase in 2017-2018 is primarily due to higher collections in Gas and Electricity receipts. In 2018-2019, Franchise Fees are expected to remain at $50.2 million, which reflects growth in Electricity receipts (2%) offset by decreased revenue related to City Generated Tow receipts.

Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in the calendar year (revenues in 2017-2018 are based on calendar year 2017 and revenues in 2018-2019 will be based on calendar year 2018). Year-end estimates are typically based upon an examination of electricity and gas rate changes, industry actions, and actual collection patterns in the utility tax categories. The reconciliation of annual receipts from PG&E for 2017-2018 will be received in April 2018.

In the **Electricity Franchise Fee** category, collections in 2017-2018 are expected to reach $22.3 million, reflecting growth of approximately 2.8% compared to actual receipts in 2016-2017. This estimate takes into consideration the actual collection patterns for electricity utility tax receipts in calendar year 2017. In 2018-2019, Electricity Franchise Fee collections are projected to increase by approximately 2% to $22.7 million and reflects rate increases in January 2018 (average system-wide 0.4%) and March 2018 (average system-wide 3.4%), allowing for a slight reduction in consumption. In May 2016, San José City Council established the San José Clean Energy (SJCE), the City of San José's community Choice Energy (CCE) program, which allows governments to purchase electricity for their business and residents. SJCE will provide the same electricity service currently provided but with more renewable energy options at competitive rates. It is currently anticipated the SJCE municipal launch will occur in summer 2018 and the commercial and residential launch will occur in early 2019. Since Electricity Franchise Fees are calculated on a calendar year basis, the Electricity Franchise Fee estimate for 2018-2019 does not assume any change in revenue related to the new City Energy program.

In the **Gas Franchise Fee** category, the 2017-2018 estimated collections of $5.0 million reflect an increase of 4.4% from the $4.8 million received in the prior year. This estimate takes into consideration the actual collection patterns for gas utility tax receipts in calendar year 2017. In

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Franchise Fees

2018-2019 collections are projected to remain at $5.0 million, however, receipts can fluctuate significantly due to consumption changes associated with the weather and future rate changes.

Commercial Solid Waste (CSW) Franchise Fee collections are estimated to reach budgeted levels of $11.5 million in 2017-2018, 1.24% above the prior year collections, which is primarily due to the 2017-2018 CPI-based increase of 1.3%. Collections reflect the revised methodology for assessing this fee that became effective July 1, 2012. On October 19, 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure is a base of $5 million per year for each of two geographic collection districts plus a supplemental fee of $1.0 million for the right to conduct CSW services in both the North District and the South District. This revised structure is subject to an annual increase based on the percentage change in the CPI rate during the prior two calendar years. It should be noted that this increase is not automatic, and is subject to City Council approval each year. Therefore, the 2018-2019 estimate of $11.5 million is consistent with the 2017-2018 estimate and does not automatically assume a CPI adjustment. These adjustments are brought forward as proposed changes in the Proposed Operating Budget.

In the **Cable** Franchise Fee category, the estimated 2017-2018 collections of $10.4 million is consistent with the prior year receipts. In addition, revenue in 2018-2019 is anticipated to remain at $10.4 million.

City Generated Tow Fees in 2017-2018 are projected at $628,000, reflecting a 37% decline from the 2016-2017 actual collection level and the 2017-2018 Adopted Budget estimate of $1.0 million. As detailed in the Amendments to City Generated Tow Agreements memorandum that was approved by the City Council on October 31, 2017, City Generated Tow Fees have significantly declined. Fee amendments approved as part of that memorandum became effective January 1, 2018. Based on current collection trends and anticipated impacts of the approved fee amendments, revenues are estimated to end 2017-2018 at $628,000 and drop to $256,000 in 2018-2019.

Remaining categories, including **Water and Nitrogen Gas Pipeline**, are estimated to end 2017-2018 at $354,000 and increase to $360,000 in 2018-2019. In 2018-2019, collections are anticipated to remain flat for Nitrogen Gas Pipeline ($60,000) and increase 5.0% for Water ($300,000).

In the out years of the Forecast, Franchise Fee revenues are anticipated to increase in the range of 1.53% to 1.83% annually through 2020-2021, then decrease 2.2% in 2021-2022 and 2.4% in 2022-2023 due to the sunsetting of a gas and electricity surcharge in the last half of 2021-2022. On February 9, 2010, the City Council approved ordinances amending the franchises within PG&E for the sale of natural gas and electricity. These amendments added a franchise fee surcharge of 0.3%, resulting in a total franchise fee remitted to the City of 2.3% of gross receipts from the sale of gas and electricity through 2021. It is important to keep in mind that there is a significant potential for fluctuations in growth rates depending on the outcome of rate cases as well as changes in consumption levels.

REVENUE FORECAST

Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2017-2018 are anticipated to total $100.9 million, representing a minimal increase of less than 1% from the 2016-2017 collection level of $100.8 million. In 2018-2019, Utility Tax collections are projected to increase approximately 1.5% to $102.4 million. Due to the uncertainty regarding the outcome of rate cases, the Forecast generally does not assume revenue increases associated with pending rate cases; however, it does take into account changes already approved. Rate cases will continue to be monitored and adjustments will be brought forward as appropriate based on the final outcomes.

The **Electricity Utility Tax** is anticipated to generate $48.0 million in 2017-2018, a 4.4% increase from prior year levels. This reflects actual collection patterns as well as rate increases in January 2018 (0.4% system-wide) and March 2018 (3.4% system-wide). In 2018-2019, revenues are estimated to increase an additional 2% to $49.0 million, reflecting only the annualization of rate increases in 2017-2018. In May 2016, San José City Council established the San José Clean Energy (SJCE), the City of San José's community Choice Energy (CCE) program, which allows governments to purchase electricity for their business and residents. SJCE will provide the same electricity service currently provided but with more renewable energy options at competitive rates. It is currently anticipated the SJCE municipal launch will occur in summer 2018 and the commercial and residential launch will occur in early 2019.

Gas Utility Taxes are projected at $10.0 million in 2017-2018, a 10% decrease from 2016-2017 levels based on actual collection patterns and anticipated consumption levels. In 2018-2019 collections are projected to remain at $10.0 million, however, receipts can fluctuate significantly due to consumption changes associated with the weather and future rate changes.

Water Utility Tax receipts of $16.7 million are anticipated to be received in 2017-2018, an increase of approximately 13% from 2016-2017 collection levels. In 2018-2019, receipts are projected to increase approximately 3% to $17.2 million based on the continued rising wholesale price of water and anticipated increased water usage.

In the **Telephone Utility Tax** category, revenues are collected on landlines, wireless, VoIP, and prepaid wireless services sold at retail locations. Receipts in 2017-2018 and 2018-2019 are projected at $26.2 million, a 9.3% decrease from 2016-2017 collection levels. The decline in this revenue category is the result of wireless consumers shifting to less expensive prepaid wireless plans and consumers continuing to permanently disconnect landlines in favor of cellular phones and internet phones.

In the out years of the Forecast, conservative growth ranging from 1.3% to 2.0% annually is projected overall in the Utility Tax category. There is significant volatility and uncertainty regarding the performance in this category based on potential changes in rates and consumption levels, as well as the establishment of the SJCE. In addition, the Water and Gas Utility Tax categories are significantly influenced by weather conditions.

REVENUE FORECAST

Telephone Line Tax

Based on the current collection trend, receipts in 2018-2019 are estimated to total $20.0 million, which is consistent with the 2017-2018 estimate. Given the steady nature of collections in this category, receipts are anticipated to remain relatively flat (growth of less than 1%) in the out years of the Forecast as well.

Business Taxes

This category includes General Business Tax, Cardroom Tax, Disposal Facility Tax, and Marijuana Business Tax. Business Taxes are estimated to reach $66.4 million in 2017-2018, a 22.6% increase from prior year levels, then grow slightly to $67.0 million in 2018-2019. The significant increase estimated in 2017-2018 is primarily due to a change in the General Business Tax, which is discussed below.

In 2017-2018, **General Business Tax** proceeds are anticipated to reach $23.7 million, an 81.7% increase from the 2016-2017 collection level of $13.0 million. The significant growth in revenue in 2017-2018 reflects the modernization of the San José business tax, which was approved by San José voters on November 8, 2016 and took effect on July 1, 2017. The adjustments to the business tax included increasing the base tax, increasing the incremental tax and making it more progressive, increasing the cap (the maximum amount of the tax affecting large businesses), updating the application of the tax to more classes of business, and adding inflation based adjustments for future tax rates. In 2018-2019 General Business Tax revenues are anticipated to grow by 2% to $24.2 million.

Based on current performance, collections in the **Cardroom Tax** category are estimated at $18.7 million in 2017-2018, a 1.2% increase from the prior year collection level of $18.5 million. In 2018-2019, receipts are anticipated to remain steady at $18.7 million.

Disposal Facility Taxes (DFT) are business taxes based on the tons of solid waste disposed at landfills within the City. This revenue stream can vary due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. Based on current collection trends and the anticipation of a recycling plant closing for several months in the current year (resulting in higher solid waste being diverted to the landfill), 2017-2018 DFT collections are estimated at $12.0 million, representing a 1.3% decline from 2016-2017 collection levels. In addition, the 2018-2019 estimate decreases further to $11.5 million as the recycling plant reopens and solid waste is diverted from the landfill. DFT revenues have declined over time as a result of continued waste diversion efforts. For instance, a decade ago in 2007-2008, DFT receipts totaled $13.9 million and two decades ago in 1997-1998, receipts totaled $19.5 million.

REVENUE FORECAST

Business Taxes

Marijuana Business Tax collections reflect marijuana business tax as well as marijuana business tax compliance revenues. Marijuana Business Taxes are currently being collected at a 10% rate on gross receipts as approved by the voters in Ballot Measure U in 2010 on medical and non-medical, legal and illegal sales. In 2017-2018, collections are anticipated to increase to approximately $12.0 million, an increase of 14.6% from prior year levels of $8.9 million. In 2018-2019 Marijuana Business Tax collections are anticipated to increase an additional 5% to $12.6 million. In November 2016, the California Marijuana Legalization Initiative (Proposition 64) legalized recreational marijuana use in the State of California. As a result, the sale of recreational cannabis at the 16 licensed dispensaries in San José began in January 2018. With limited information currently known, additional revenue has not been incorporated in the current year revenue estimate based on the legalization of recreational marijuana. Activity and potential increased revenue associated with the sale of recreational cannabis will continue to be closely monitored and any recommended adjustments will be brought forward later in the 2018-2019 budget process.

In the remaining years of the forecast, overall, the Business Tax category is expected to experience very minimal growth of less than 1% per year.

Licenses and Permits and Fees, Rates, and Charges

The Licenses and Permits and Fees, Rates, and Charges categories contain fees and charges collected by various departments. The most significant revenue sources are development-related fees. Revenue collection levels are projected based on City Council-approved cost-recovery policies with the goal of a net-zero impact on the General Fund. In 2018-2019, the Licenses and Permits category is estimated at $58.5 million and the Fees, Rates, and Charges category is estimated at $45.8 million.

For the Development Fee Programs, the Forecast assumes no net impact on the General Fund based on the assumption that these programs will remain at 100% cost recovery. For 2018-2019, the Building Fee Program, Planning Fee Program, Fire Fee Program, and Public Works Fee Program base expenditures are projected to exceed the base revenue estimates. For all the fee programs except the Planning Fee Program, there are sufficient earmarked reserves to bring projected revenues and expenditures into alignment for a net-zero General Fund impact in 2018-2019. This Forecast assumes that Fee Program Reserves will be used to address these shortfalls as outlined in the Beginning Fund Balance section below. The Planning Fee Program earmarked reserves are anticipated to be insufficient to align projected revenues and expenditures for a net zero General Fund impact in 2018-2019. However, the Planning Fee Program Forecast continues to be assumed to remain at 100% cost recovery. Fee increases and/or expenditure changes will likely be recommended as part of the 2018-2019 budget process to maintain 100% cost-recovery for the Planning Fee Program. For the non-development-related fees and charges, the 2018-2019 estimates are based on current collection trends.

REVENUE FORECAST

Licenses and Permits and Fees, Rates, and Charges

In the out years of the Forecast, both the Licenses and Permits and Fees, Rates, and Charges categories are expected to experience growth ranging from 3.1% to 4.0%. The growth rates in the out years are tied to the expected increases in personnel costs, which the fees are designed to recover, including salary, retirement, and health costs.

In 2017-2018, the Fines, Forfeitures and Penalties category is expected to generate $15.0 million. The largest component of this revenue category is Parking Fines, which are currently expected to generate approximately $10.4 million in 2017-2018 and 2018-2019. These estimates reflect a 12.0% decline from 2016-2017 receipts of $11.8 million. The estimated decrease in citation revenue is primarily attributable to ongoing turnover among Parking and Traffic Control Officers and the prioritization of vehicle abatement to address increased service request volumes. Total revenue in 2018-2019 is estimated at $14.3 million in the Fines, Forfeitures, and Penalties category. In the out years of the Forecast, annual growth of approximately 0.4% to 1.8% is projected.

Money and Property

This category consists of revenue associated with the rental of City-owned property, subrogation recovery efforts, and interest income and is projected to generate $6.8 million in 2017-2018. In 2018-2019, revenue is expected to remain at $6.8 million, which reflects reduced revenue related to rental of communications facilities, offset by higher interest earnings, which are anticipated as a result of increased interest rates. In the out years of the Forecast, growth of 2.5% to 3.5% annually is assumed in the Money and Property category.

Revenue from Local Agencies

In 2017-2018, revenue of $23.7 million is projected from other local agencies, such as the Successor Agency to the Redevelopment Agency of San Jose and the Central Fire District. In 2018-2019, revenue in this category is projected at $10.8 million, which is $12.9 million below the 2017-2018 estimate. The decrease in 2018-2019 revenue is primarily due to one-time reimbursement funding for enforceable obligations totaling $10.8 million reimbursement in 2017-2018, but reducing to $1.0 million in 2018-2019. In addition, the 2018-2019 figure eliminates reimbursements and grants that are not secured on an ongoing basis.

In 2017-2018, a reimbursement from the Successor Agency to the Redevelopment Agency of San José (SARA) for enforceable obligations is estimated at $10.8 million, with additional funding of $1.0 million anticipated to be received in 2018-2019. The $10.8 million reimbursement accounts for costs the City incurred supporting SARA since dissolution of the San José Redevelopment Agency in 2012. The 2018-2019 reimbursement of $1.0 million is lower because it accounts for only one year of support services.

REVENUE FORECAST

Revenue from Local Agencies

The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. Based on information provided by the Central Fire District staff, payments of $7.0 million are anticipated in 2017-2018. This reflects a 7.5% increase from the prior year level. In 2018-2019, collections are projected to increase 5.5% to $7.3 million. In 2018-2019, reimbursement totaling $970,000 is also expected from local agencies for services provided by the Animal Care and Services Program. This collection level is consistent with the 2017-2018 estimate.

The Forecast assumes reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program), which totals $1.5 million in 2017-2018 and $1.3 million in 2018-2019. The reimbursement associated with the Paramedics Program was eliminated from the budget beginning in 2014-2015. Because the City's performance fell slightly below the performance standards set forth in the agreement with the County, no reimbursement was provided for either the equipment reimbursement component (Annex B, Category A funds) or the service-related component (Annex B, Category B funds). However, based on recent information received from the County, revenue is anticipated to be received in 2017-2018 totaling $1.5 million for Category A funds ($1.3 million) and Category B funds ($224,000). The category B funds are based on actual performance for the first quarter, however, additional reimbursement may be received based on performance for the remainder of the year. Due to uncertainty related to future reimbursements for Category B funds, the 2018-2019 estimate is decreased to $1.3 million and only incorporates Category A reimbursement. It should be noted that the direct incremental cost to the City to provide the paramedic program totals over $5.0 million annually. If the County were to assume responsibility for this program, its costs are estimated to far exceed this amount.

In the remaining years of the Forecast, the Revenue from Local Agencies category is projected to increase annually by approximately 3.0% to 3.5%.

Revenue from the State of California

The Revenue from the State of California category includes Tobacco Settlement payments, State grant revenues, and other State reimbursements. Collections in this category are estimated to reach $10.6 million in 2018-2019 and remain flat through the out years of the Forecast. Tobacco Settlement payments account for the majority of revenue in this category and are estimated at $9.0 million in 2018-2019, consistent with the amount projected for 2017-2018.

The State grants and reimbursements total $1.1 million, with the largest reimbursement for the Abandoned Vehicles Abatement Program ($680,000). Vehicle License Fees Collection in Excess are also estimated at $500,000 annually and account for the Vehicle License Fee revenues that are collected by the Department of Motor Vehicles as a result of certain compliance procedures that are equally apportioned to counties and cities on a population basis.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Revenue from the Federal Government

The Revenue from the Federal Government category consists of grant revenues and rental income. In 2018-2019 and the out years of this Forecast, there is no funding assumed for this revenue category.

Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including cost reimbursements for the Investment Program, payments from Comcast and AT&T required under the Franchise Agreement, and proceeds from the Sale of Surplus Property. In 2017-2018, this category is expected to generate $185.3 million.

The 2017-2018 estimate includes a number of adjustments not included in the 2018-2019 Forecast, the largest of which include: 1) $150.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension benefits that are brought forward for City Council approval in August of each year along with the associated expenditure; and 2) one-time PERS Levy Litigation Settlement funds of $13.1 million.

In 2018-2019, the revenue estimate of $9.3 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2018-2019 costs or agreements and the elimination of one-time funding sources. This figure will increase significantly during 2018-2019 once the revenues associated with the issuance of the TRANs are brought forward with an offsetting expenditure based on estimated cash flow needs.

The Arena Fixed Fee, which was previously allocated at $5.05 million is decreasing to $375,000 beginning in 2018-2019 in accordance with the term sheet with Sharks Sports Entertainment approved in May 2015. Payments from Comcast and AT&T are estimated at $2.1 million. As defined in the Franchise Agreement, these funds will be used to support the Public, Education, and Government (PEG) Access facilities. There are associated City-Wide Expenses allocations for this purpose. The cost reimbursement for the Investment Program is estimated at $1.3 million based on the current allocation of staff to this function. In addition, the proceeds from the Sale of Surplus Property category is estimated at $1.0 million in 2018-2019 based on the anticipated assets that will be sold next fiscal year.

In the out years of the Forecast, annual collections are expected to experience growth and declines ranging from -5.5% (reduction is related to one-time grants) to 0.7% annually.

Elements of The General Fund Forecast

Revenue Forecast

Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2017-2018 are projected to reach $17.3 million, which is consistent with the prior year actuals. Several factors impact collections, including falling gas prices that would support increased consumption and, as an offsetting factor, the move to more energy efficient automobiles. In addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well. In 2018-2019, collections in this category are projected to remain at $17.3 million. In the out years of the Forecast, collections are expected to experience growth and declines ranging from -3.5% to 3.8% annually.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2018-2019, a total of $48.5 million in reimbursements are projected based on 2018-2019 overhead rates for the majority of City funds prepared by the Finance Department applied against the projected 2018-2019 salaries for those positions for which an overhead rate is applied. In the remaining years of the Forecast, annual increases of 3.5% are assumed, reflecting increases in costs, which the overhead rate is designed to recover, including increased personal services costs.

Transfers

The Transfers category is projected at $24.5 million in 2018-2019, which is slightly below the 2017-2018 modified budget estimate of $25.0 million. The largest component of this category ($15.1 million) is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for Airport Crash Fire Rescue and Airport Police costs. In 2018-2019, these reimbursements have been built to cover the direct base costs as well as indirect costs.

Additional large transfers programmed for 2018-2019 include the Construction and Conveyance Tax Fund transfer ($3.7 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer ($1.8 million) for general use and pavement maintenance activities; the General Purpose Parking Fund ($707,000); and the transfer from the Convention and Cultural Affairs Fund ($473,000) for reimbursement of City oversight of the fund.

In the remaining years of the Forecast, annual increases range from 2.1% to 3.0%. The reimbursement from the Airport Maintenance and Operation Fund for police and fire services is expected to increase in the out years based on the increased costs for those services.

Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2018-2019 of $743,000. In the remaining years of the Forecast, annual increases are expected to recover the projected cost increases from 2.1% to 3.0%.

REVENUE FORECAST

Beginning Fund Balance

The $65.6 million forecast estimate of available 2018-2019 Beginning Fund Balance is based on the following assumptions:

- The current Contingency Reserve of $36.5 million is carried forward at the current level based on the assumption that this amount will not be used in 2017-2018 and will be available for use in 2018-2019. The current funding level is approximately enough to cover General Fund payroll costs for approximately two weeks in an emergency. (On the expenditure side, the Contingency Reserve is increased to $36.5 million in 2018-2019 and grows to $41.0 million by 2022-2023, which complies with the City Council policy to set aside at least 3% of expenditures in this Reserve.)

- A total of $18.0 million in fund balance will be achieved in 2017-2018 for use in 2018-2019 from a combination of excess revenues and expenditure savings as well as the liquidation of prior-year carryover encumbrances. Consistent with past practice, the Administration will closely monitor actual General Fund performance through the remainder of the year and may bring forward adjustments to this estimate as appropriate later in the budget process.

- An additional $11.1 million reflects the anticipated liquidation of reserves. Of this amount, $10.8 million will be used to support the Development Fee Programs as follows: $5.7 million from the Building Development Fee Program Reserve; $3.2 million from the Planning Development Fee Program Reserve (this reserve is currently not sufficient to cover this amount; fee increases and/or cost reductions will be necessary to close the funding gap for this program); $1.1 million from the Public Works Development Fee Program Reserve; and $787,000 from the Fire Development Fee Program Reserve. The use of Development Fee Program reserves is assumed to cover a portion of the 2018-2019 base costs associated with these programs that cannot be addressed with base fee revenue to keep the Development Fee Programs 100% cost recovery in the Forecast. Other current year reserves that will be used to support base costs programmed in 2018-2019 include the San Jose Environmental Sustainability Program Reserve ($297,000), and the 2018-2019 Cinequest Reserve ($50,000).

In the out years of the Forecast, the beginning fund balance estimates assume that excess revenue and expenditure savings, including liquidations of carryover encumbrances will generate $20 million annually for use in the following year. In addition, it is assumed that the Contingency Reserve of $36.5 million will be carried over each year; and the use of the Development Fee Program Reserves for Building, Planning, Public Works, and Fire continue in the out years to support projected development fee program costs in excess of revenues. For the Development Fee Programs, a combination of fee increases, cost reductions, and/or use of reserves may be used to close gaps between revenues and expenditures, as needed. In total, the Beginning Fund Balance ranges from $65.6 million in 2018-2019 to $68.9 million in 2022-2023.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

An in-depth analysis of the General Fund expenditure categories was completed to develop the 2018-2019 expenditure estimates included in this Forecast. These expenditure estimates will be closely examined and updated again during the preparation of the 2018-2019 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from $1.1 billion in 2018-2019 to $1.3 billion in 2022-2023, for an average growth rate of 3.3% per year.

2019-2023 General Fund Forecast Expenditure Summary

	Modified Budget	Forecast				
Expenditure Category	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**
Personal Services						
Salaries and Other Compensation	$ 473,466,433	$ 497,206,000	$ 520,840,000	$ 539,070,000	$ 557,937,000	$ 577,465,000
Retirement	301,440,205	314,761,000	329,400,000	346,398,000	358,718,000	352,174,000
Health and Other Fringe Benefits	57,235,454	56,755,000	59,707,000	62,191,000	64,916,000	67,895,000
Total Personal Services	**$ 832,142,092**	**$ 868,722,000**	**$ 909,947,000**	**$ 947,659,000**	**$ 981,571,000**	**$ 997,534,000**
Total Non-Personal/Equipment	**$ 124,019,581**	**$ 114,007,000**	**$ 115,266,000**	**$ 118,732,000**	**$ 121,968,000**	**$ 122,059,000**
City-Wide						
City-Wide Expenses	$ 267,544,922	$ 68,411,000	$ 72,902,000	$ 73,705,000	$ 75,408,000	$ 77,043,000
Capital Projects	46,158,854	5,580,000	5,580,000	5,580,000	5,580,000	5,580,000
Transfers	32,476,596	33,239,000	33,837,000	34,357,000	34,683,000	34,210,000
Earmarked Reserves	115,665,064	1,880,000	1,080,000	1,080,000	1,080,000	1,080,000
Contingency Reserve	36,500,000	36,500,000	38,000,000	39,000,000	40,500,000	41,000,000
Total City-Wide	**$ 498,345,436**	**$ 145,610,000**	**$ 151,399,000**	**$ 153,722,000**	**$ 157,251,000**	**$ 158,913,000**
Committed Additions						
New Parks and Recreation Facilities Maint. & Operations		216,000	523,000	667,000	725,000	809,000
New Traffic Infrastructure Assets Maint. & Operations		22,000	45,000	69,000	82,000	95,000
Measure P (Parks) Maint. & Operations		381,000	677,000	715,000	755,000	790,000
Total Committed Additions		**$ 619,000**	**$ 1,245,000**	**$ 1,451,000**	**$ 1,562,000**	**$ 1,694,000**
Total Base Exp. w/ Committed Additions	**$ 1,454,507,109**	**$ 1,128,958,000**	**$ 1,177,857,000**	**$ 1,221,564,000**	**$ 1,262,352,000**	**$ 1,280,200,000**
Growth %			**4.3%**	**3.7%**	**3.3%**	**1.4%**

It is important to note that adjustments are made to the Forecast to eliminate one-time additions/deletions and annualize partial-year allocations that were included in the 2017-2018 Adopted Budget. Various one-time additions totaling over $11 million are scheduled to expire in June 2018. The major items funded on a one-time basis include the following: San José Works, Pavement Maintenance Program, San José Learns, Parks, Recreation and Neighborhood Services Placemaking and Parks Activation, Police Department Downtown Foot Patrol, Urban Village Planning Staffing, Office of Emergency Management Disaster Plans and Community Emergency Response Team (CERT) Program, Greenhouse Gas Reduction Strategy Update, Human Resources Department Workers' Compensation Program Temporary Staffing, Police Department Recruiting Program, Business Development and Economic Strategy Activities, and Policy and Ordinance Support Staffing. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2017-2018. This analysis will be conducted during the 2018-2019 budget process and funding recommendations for these programs and services will be included in the 2018-2019 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Understanding the basis for the expenditure estimates included in this Forecast requires discussion of the assumptions used for estimating each of the expenditure categories. The following discussion focuses on the individual expenditure components in the General Fund.

Personal Services

As is the usual practice, the first year (2018-2019) projection for personal services costs in this Forecast has been calculated at a detailed level, using a January 2018 extract from the City's payroll system as the starting point. This included the most recent retirement plan and health plan information for each position. The individual position-level information was then reviewed, corrected, and updated to ensure accurate salary step and bi-weekly salary, as well as any position reallocations. Further, 2017-2018 ongoing position additions (cost increases) and reductions (cost savings), as appropriate, were annualized and all categories of benefit costs in the coming year were projected.

For the 2018-2019 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the total cost in the General Fund. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the $868.7 million projected personal services total for 2018-2019, salaries and other compensation costs amount to $497.2 million (57.2% of projected personal services), retirement costs amount to $314.8 million (36.3% of projected personal services), and health and other fringe benefits costs amount to $56.8 million (6.5% of projected personal services).

Following is a discussion of the factors impacting the salaries and other compensation, retirement, and health and other fringe benefits elements of personal services costs in this Forecast. As with past forecasts, personal services costs in years two through five of this Forecast have been projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from salary and benefit cost increases. The out-years are projected to inflate at an average annual rate of approximately 3.7%.

Salaries and Other Compensation:

Pay increases for all employees, salary step increases for current non-management employees, and pay for performance for management employees are assumed in each year of this Forecast. The only negotiated pay increase included in this Forecast is based on the current agreement reached between the City and the San José Police Officers' Association (SJPOA); this increase totals 6% in 2018-2019 (3.25% pensionable and 2.75% non-pensionable). With the remaining bargaining unit contracts set to expire in June 2018, Salaries and Benefits Reserve funding is included in each year of this Forecast in order to set aside funds for potential employee pay increases. This reserve allocation includes $14.6 million for 2018-2019, and would require City Council labor negotiations direction and discussion with the City's bargaining groups before any form of distribution could be made. As contracts in the out-years of the forecast are determined, subsequent Forecast documents will be updated to reflect the latest information at that time. With the exception of employees represented by SJPOA and the International Association of Fire Fighters (IAFF), Local 230, non-management step increases have been calculated at a 2.5% step increase rate. For SJPOA and IAFF, a 5% step increase rate was applied in this Forecast. The out-years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

The Overtime budget in the General Fund totals $29.9 million for 2018-2019, with most of these funds allocated to Police Department ($17.8 million) and Fire Department ($10.5 million) operations. The out-years of the Forecast continue these costs, with small adjustments using salary step as the inflationary factor.

Retirement:

The City's two retirement systems, the Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan, provide defined retirement benefits to eligible employees. Both retirement plans use investment income and employer and employee contributions to provide eligible retirees with pensions and retiree healthcare benefits. Both systems were modified by the passage of a pension reform ballot measure known as Measure B in June 2012 and the subsequent Alternative Pension Reform measure (Measure F) in November 2016. The retirement systems and their modifications are discussed in more detail below.

Employees represented by SJPOA and IAFF, Local 230 are members of the Police and Fire Department Retirement Plan and have different retirement benefits with the corresponding different City contributions and rates. Within the Police and Fire Department Retirement Plan, effective August 4, 2013, the City provides for a lower defined benefit plan (Tier 2) for new and rehired police members. Effective January 2, 2015, a lower defined benefit plan (Tier 2) was implemented for new and rehired Fire members. With the passage of Measure F, former Tier 1 members previously or newly rehired to the City are placed within the Tier 1 defined benefit plan.

Within the Federated Retirement System, effective September 30, 2012, the City provides for a lower defined benefit plan (Tier 2) for new employees in that system. Federated employees who joined the City between September 30, 2012 and September 27, 2013 are eligible for retiree healthcare coverage (Tier 2A). Effective September 27, 2013, however, new employees no longer receive retiree healthcare coverage (Tier 2B). With the passage of Measure F, former Tier 1 members previously or newly rehired to City are placed within the Tier 1 defined benefit plan.

Effective March 31, 2017 for members of the Police and Fire Department Retirement Plan and June 18, 2017 for members of the Federated City Employees' Retirement System, employees with previous CalPERS or reciprocal retirement system experience are eligible to join the Tier 1 defined benefit pension plan for their respective retirement systems. These employees need to have been employed at their previous agency before January 1, 2013, have less than a six (6) month break in service before joining the City, and not have concurrent service.

EXPENDITURE FORECAST

On December 4, 2012, a defined contribution plan (Tier 3) for new employees in Unit 99 (Senior Staff, Executive Staff, and senior managers under the City Manager's Appointing Authority; City Council Office staff; professional and management employees under the appointing authority of the City Attorney, City Auditor, and Independent Police Auditor; and some employees in the City Clerk's Office) was approved. Effective February 4, 2013, new employees to the City hired directly into Unit 99 have the ability to make the one-time election to participate in the defined benefit Tier 2B plan or the Tier 3 plan. The Tier 3 plan provides for a City contribution of 3.75%.

For 2018-2019, retirement costs total $314.8 million for the General Fund, which are up $13.3 million from the 2017-2018 Modified Budget of $301.4 million. These costs represent 27.9% of the total General Fund base expenditure budget with committed additions and reflect the Federated Retirement System and Police and Fire Department Retirement Boards' approved economic and demographic assumptions. To generate budgetary savings, this cost assumes the pre-payment of the City's annual required contribution (ARC) for Federated Retirement System Tier 1 members and contributions for the Police and Fire Department Retirement Plan for Tier 1 police and fire members. For 2018-2019, net budgetary savings from the pre-payment, including borrowing costs, are estimated at approximately $3.3 million in the General Fund ($4.6 million in all funds). The pre-payment savings figure reflects a 45% reduction in accordance with the Prefunding Risk Mitigation Process approved by the Federated and Police and Fire Retirement Boards in 2015.

In 2010-2011, the Retirement Boards adopted an annual required contribution methodology that established that the City's contribution to the retirement systems be based on a dollar value that is the greater of 1) the employer ARC amount contained in the actuarial valuation (applied in cases where the City's payroll is at or lower than the payroll assumed by the actuary) or 2) the contribution rate contained in the actuarial valuation multiplied by the actual payroll for the Fiscal Year (applied in cases where the City's payroll is above the amount assumed by the actuary). This concept is referred to as the "floor methodology". In January 2016, at the City's recommendation, the Retirement Boards approved a change in the methodology used to calculate the Federated and Police and Fire pension contributions. This methodology, applied to the Federated Tier 1 and Police and Fire Tier 1 plans, uses different calculations for the unfunded actuarial liability (UAL) portion of the contribution and for the normal cost portion of the contribution. The UAL portion is calculated as a dollar amount and the normal cost (including the administrative expense) is calculated as a percent of pay. This change decreases the disparity between retirement contribution calculations that arise from different City and actuarial payroll projections to avoid a potential overpayment of the UAL by the City in any given year.

In September 2014 and October 2014, the Federated Retirement System Board and the Police and Fire Department Retirement Plan Board, respectively, approved that for Tier 2 members, the City's contribution shall only be based on a percentage of payroll.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

On June 5, 2012, voters approved a pension reform ballot measure known as Measure B. Measure B has been subsequently subject to various forms of litigation. In an effort to settle this case for budget stability and to provide certainty to the City's workforce, the City Council directed the City Administration to make any and all reasonable efforts to reach and implement a settlement. In August 2015 and December 2015, terms for the alternative pension reform settlement framework agreements with the Police and Fire and Federated bargaining units, respectively, were reached regarding Measure B, which included impacts to retiree healthcare. In November 2016, voters approved the Alternative Pension Reform measure (Measure F) that was consistent with the pension reform settlement framework.

The actuarial reports for both the Federated and Police and Fire Retirement Systems used to prepare this Forecast incorporate changes associated with the implementation of Measure F. This includes changes in the calculation of City contributions associated with retiree healthcare, which prior to Measure F, were frozen at certain levels for Federated and Police and Fire systems. Subsequent to the passage of Measure F, the methodology approved by the Federated Retirement Board had the impact of lowering the annual contribution from previous levels, while the Police and Fire Retirement Board's impact slightly increased the previous contribution. When compared to the retiree healthcare contribution rates used by the City to forecast 2017-2018 to projections for 2018-2019, the Federated contribution decreased across all categories: Tier 1 contribution rates decreased from 9.24% to 6.65%, Tier 2a decreased from 9.41% to 6.65%, and Tier 2b decreased from 12.66% to 6.65%. The average contribution rate assumed in 2017-2018 for Police and Fire members, averaging 10.37%, remained relatively unchanged. However, as the final decision by the Police and Fire Retirement Board did not occur until after development of the City's forecast model, projections in this Forecast assume a rate of 11.0%.

Based on projections received from the Retirement Boards' actuary (Cheiron) and the City Manager's Budget Office's independent analysis, Table 1 details the General Fund's retirement costs and budgetary retirement contribution rates for the Federated Retirement System and the Police and Fire Department Retirement Plan and the respective pension and retiree healthcare costs for the forecast period. Over this Forecast, the General Fund retirement costs are expected to grow from $314.8 million ($404.4 million in all funds) in 2018-2019 to $352.2 million ($453.7 million in all funds) in 2022-2023. When compared to the previous Forecast, these amounts are lower due to both the change in retiree healthcare contribution as described above and to the updated calculation of the unfunded actuarial liability as determined by the Retirement Boards' actuary.

For illustration purposes only, Table 2 depicts the Retirement Board approved contribution rates for 2018-2019 and the Cheiron projected rates for the out-years of the Forecast. It should be noted that the City budgetary rates differ from the Federated and Police and Fire Retirement Board approved rates to reflect the application of the City's methodology to fund the Board approved UAL amounts, and the application of a pre-payment discount for Federated as well as Police and Fire Tier 1 contributions.

EXPENDITURE FORECAST

TABLE 1 – 2019-2023 CITY RETIREMENT CONTRIBUTION COSTS AND BUDGETARY CITY RETIREMENT CONTRIBUTION RATES
($ in Millions and with Pre-Payment Discount) *

Retirement Plan	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Fed. Ret. System Tier 1 – Pension	$84.0	$88.7	$92.7	$96.5	$99.2	$100.5
Fed. Ret. Syst. Tier 1 – Ret. Healthcare	$9.3	$6.4	$5.8	$5.4	$4.7	$4.4
Fed. Retirement Plan Tier 1 – Total	**$93.3**	**$95.1**	**$98.5**	**$101.9**	**$103.9**	**$104.9**
Budgetary Contribution Rates	*92.4%*	*98.3%*	*109.1%*	*123.5%*	*137.9%*	*152.1%*
Fed. Ret. System Tier 2A – Pension	$0.5	$0.6	$0.7	$0.8	$0.9	$1.0
Fed. Ret. Syst. Tier 2A – Ret. Healthcare	$0.7	$0.5	$0.6	$0.7	$0.7	$0.8
Fed. Retirement Plan Tier 2A – Total	**$1.2**	**$1.1**	**$1.3**	**$1.5**	**$1.6**	**$1.8**
Budgetary Contribution Rates	*15.7%*	*14.9%*	*14.9%*	*14.9%*	*14.6%*	*14.7%*
Fed. Ret. System Tier 2B – Pension	$4.2	$8.2	$9.0	$10.1	$11.2	$12.3
Fed. Ret. Syst. Tier 2B – Ret. Healthcare	$8.5	$6.6	$6.8	$7.8	$8.4	$9.4
Fed. Retirement Plan Tier 2B – Total	**$12.7**	**$14.8**	**$15.8**	**$17.9**	**$19.6**	**$21.7**
Budgetary Contribution Rates	*18.9%*	*14.9%*	*14.9%*	*14.9%*	*14.6%*	*14.7%*
Fed. Ret. System Tier 2C – Pension **	$0.1	$0.0	$0.0	$0.0	$0.0	$0.0
Fed. Ret. Syst. Tier 2C – Ret. Healthcare **	$0.2	$0.0	$0.0	$0.0	$0.0	$0.0
Fed. Retirement Plan Tier 2C – Total	**$0.3**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Budgetary Contribution Rates	*19.1%*	*14.9%*	*14.9%*	*14.9%*	*14.6%*	*14.7%*
Police Ret. Plan Tier 1 – Pension	$90.3	$95.7	$95.2	$97.7	$98.1	$85.2
Police Ret. Plan Tier 1 – Ret. Healthcare	$11.1	$12.2	$11.2	$10.2	$9.2	$8.2
Police Retirement Plan Tier 1 – Total	**$101.4**	**$107.9**	**$106.4**	**$107.9**	**$107.3**	**$93.4**
Budgetary Contribution Rates	*92.7%*	*97.3%*	*105.0%*	*116.5%*	*127.7%*	*126.0%*
Police Retirement Plan Tier 2 – Pension	$3.4	$5.1	$8.3	$9.5	$11.4	$13.6
Police Ret. Plan Tier 2 – Ret. Healthcare	$3.0	$4.1	$6.7	$7.6	$9.2	$10.9
Police Retirement Plan Tier 2 – Total	**$6.4**	**$9.2**	**$15.0**	**$17.1**	**$20.6**	**$24.5**
Budgetary Contribution Rates	*21.6%*	*24.7%*	*24.6%*	*24.6%*	*24.6%*	*24.7%*
Fire Retirement Plan Tier 1 – Pension	$71.5	$74.6	$79.3	$85.8	$89.9	$88.7
Fire Ret. Plan Tier 1 – Retiree Healthcare	$8.0	$8.5	$8.2	$7.9	$7.6	$7.1
Fire Retirement Plan Tier 1 – Total	**$79.5**	**$83.1**	**$87.5**	**$93.7**	**$97.5**	**$95.8**
Budgetary Contribution Rates	*103.9%*	*107.9%*	*116.8%*	*129.8%*	*142.0%*	*148.4%*
Fire Retirement Plan Tier 2 – Pension	$0.9	$1.5	$2.3	$3.1	$4.1	$5.2
Fire Ret. Plan Tier 2 – Retiree Healthcare	$0.9	$1.1	$1.6	$2.3	$3.0	$3.8
Fire Retirement Plan Tier 2 – Total	**$1.8**	**$2.6**	**$3.9**	**$5.4**	**$7.1**	**$9.0**
Budgetary Contribution Rates	*22.4%*	*26.1%*	*26.1%*	*26.1%*	*26.1%*	*26.0%*
Other Retirement Costs	$1.0	$1.0	$1.0	$1.0	$1.1	$1.1
Total General Fund	**$297.6**	**$314.8**	**$329.4**	**$346.4**	**$358.7**	**$352.2**
Total All Funds	**$386.8**	**$405.6**	**$419.6**	**$442.8**	**$458.0**	**$453.7**

* City budgetary rates differ from the Federated and Police and Fire Retirement Boards approved rates to reflect the application of the City's methodology to fund the Board approved UAL amounts and the application of a pre-payment of Federated, Police, and Fire Tier 1 member contributions.
** In accordance with the passage of Measure F, Tier 2C members were moved to Tier 1.

Source: 2017-2018 Modified Budget; Cheiron Letters dated February 15, 2018 (Federated) and February 16, 2018 (Police and Fire) and Cheiron presentation slides dated February 15, 2018 (Federated) and March 1, 2018 (Police and Fire).

TABLE 2 – 2019-2023 BOARD APPROVED CITY CONTRIBUTION RATES

Retirement Plan	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Fed. Ret. System Tier 1 – Pension	94.0%	99.2%	111.3%	127.1%	143.1%	158.7%
Fed. Ret. Syst. Tier 1 – Ret. Healthcare*	9.4%	6.7%	6.7%	6.7%	6.7%	6.7%
Fed. Retirement Plan Tier 1 – Total	**103.4%**	**105.9%**	**118.0%**	**133.8%**	**149.8%**	**165.4%**
Fed. Ret. System Tier 2A – Pension	6.3%	8.3%	8.4%	8.4%	8.4%	8.3%
Fed. Ret. Syst. Tier 2A – Ret. Healthcare*	9.4%	7.4%	7.2%	7.3%	7.0%	7.2%
Fed. Retirement Plan Tier 2A – Total	**15.7%**	**15.7%**	**15.6%**	**15.7%**	**15.4%**	**15.5%**
Fed. Ret. System Tier 2B – Pension	6.3%	8.3%	8.4%	8.4%	8.4%	8.3%
Fed. Ret. Syst. Tier 2B – Ret. Healthcare*	12.7%	7.4%	7.2%	7.3%	7.0%	7.2%
Fed. Retirement Plan Tier 2B – Total	**19.0%**	**15.7%**	**15.6%**	**15.7%**	**15.4%**	**15.5%**
Fed. Ret. System Tier 2C – Pension	6.3%	8.3%	8.4%	8.4%	8.4%	8.3%
Fed. Ret. Syst. Tier 2C – Ret. Healthcare*	12.9%	7.4%	7.2%	7.3%	7.0%	7.2%
Fed. Retirement Plan Tier 2C – Total	**19.2%**	**15.7%**	**15.6%**	**15.7%**	**15.4%**	**15.5%**
Police Ret. Plan Tier 1 – Pension	95.3%	97.6%	107.2%	120.9%	134.1%	132.0%
Police Ret. Plan Tier 1 – Ret. Healthcare**	10.3%	11.3%	11.3%	11.3%	11.3%	11.3%
Police Retirement Plan Tier 1 – Total	**105.6%**	**108.9%**	**118.5%**	**132.2%**	**145.4%**	**143.3%**
Police Retirement Plan Tier 2 – Pension	11.3%	13.7%	13.6%	13.6%	13.6%	13.7%
Police Ret. Plan Tier 2 – Ret. Healthcare**	10.3%	11.3%	11.3%	11.3%	11.3%	11.3%
Police Retirement Plan Tier 2– Total	**21.6%**	**25.0%**	**24.9%**	**24.9%**	**24.9%**	**25.0%**
Fire Retirement Plan Tier 1 – Pension	96.1%	98.5%	107.6%	120.8%	133.2%	139.7%
Fire Ret. Plan Tier 1 – Ret. Healthcare**	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Fire Retirement Plan Tier 1 – Total	**106.7%**	**109.1%**	**118.2%**	**131.4%**	**143.8%**	**150.3%**
Fire Retirement Plan Tier 2 – Pension	11.8%	15.1%	15.1%	15.1%	15.1%	15.0%
Fire Ret. Plan Tier 2 – Retiree Healthcare**	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Fire Retirement Plan Tier 2 – Total	**22.4%**	**25.7%**	**25.7%**	**25.7%**	**25.7%**	**25.6%**

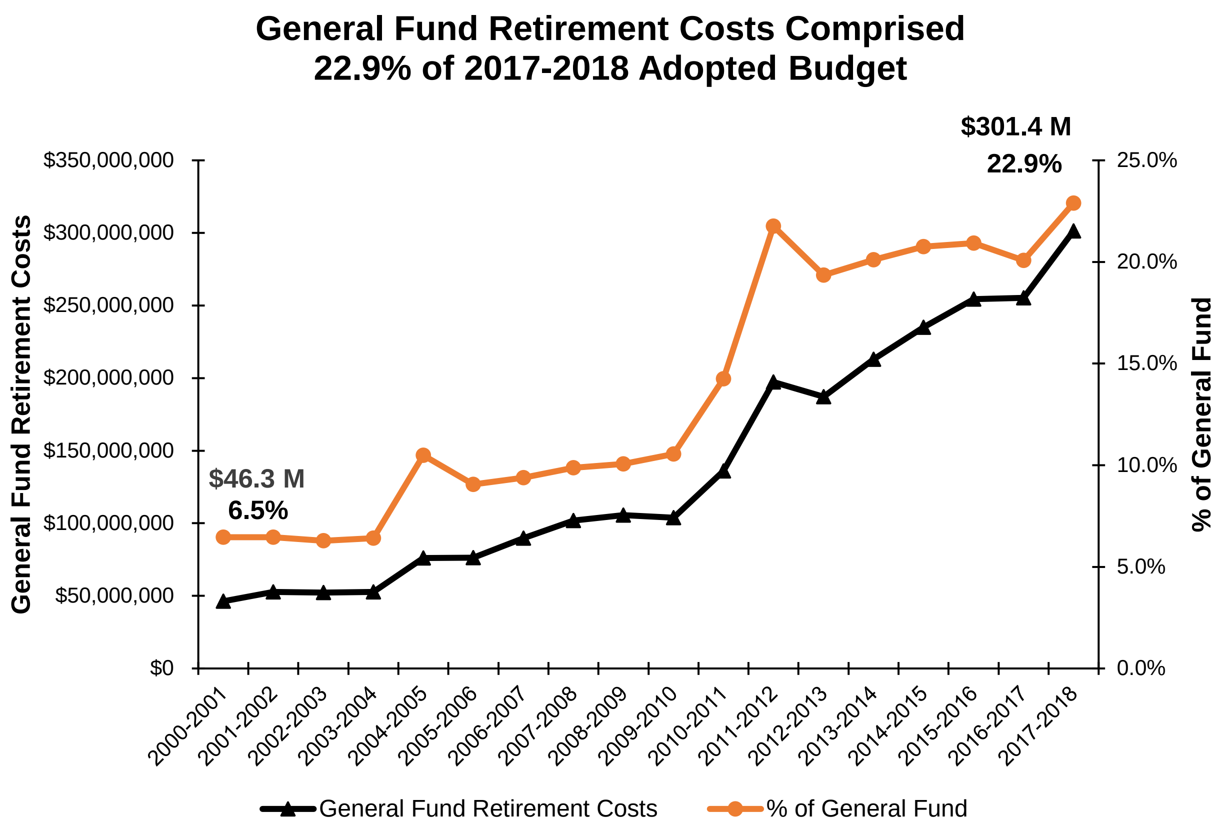
* The Federated Retirement Board approved an annual contribution amount for Retiree Healthcare over a 20-year amortization period. This amount has been converted into percentages as shown above for display purposes.

** The Police and Fire Retirement Board approved an annual contribution amount for Retiree Healthcare over a 25-year amortization period. The amount has been converted into percentages as shown above for display purposes.

Source: Cheiron Letters dated February 15, 2018 (Federated) and February 16, 2018 (Police and Fire) and Cheiron presentation slides dated February 15, 2018 (Federated) and March 1, 2018 (Police and Fire).

EXPENDITURE FORECAST

It is important to note that retirement costs continue to account for a growing share of the total General Fund budget as shown in the chart below. In 2001-2002, retirement costs of $46.3 million accounted for 6.5% of the General Fund, while in 2017-2018, those costs totaled 22.9% of the General Fund Adopted Budget.



__Health and Other Fringe__:

A projected health rate increase of 5.0% is included in the 2018-2019 Forecast effective January 2019 based on national and City trend information received from the City's Human Resources Department benefits consultant. The annual health increase assumptions are held constant at 5.0% annually for the out-years of the forecast.

Based on actuarial information from the Human Resources Department and an evaluation of funding levels in the Dental Insurance Fund, a dental rate increase of 5.0% is anticipated in 2018-2019. For the out-years, the Forecast assumes annual dental rate increases of 3% based on City trends and actuarial analysis. There are no changes to the life insurance rates in this Forecast based on projected provider charges. For the payment of unemployment benefit claims, the City is self-insured. Based on actual claims experienced in 2017-2018, current funding available in the Unemployment Insurance Fund, and projected future claims, an unemployment insurance rate of 0.08% is included in this Forecast.

EXPENDITURE FORECAST

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total $114.0 million in 2018-2019. In general, the process used by the City Manager's Budget Office to calculate this amount includes: adjusting each department's current year budget to eliminate one-time cost allocations, annualizing all partial-year reductions or additions approved for 2017-2018, projecting increases or decreases for specific large non-personal/equipment allocations (e.g., utilities, contractual services, vehicle maintenance and operations costs, and Police Department vehicle replacement) and reviewing past spending patterns and needs. The resulting 2018-2019 estimates represent a decrease of $10.0 million from the 2017-2018 Modified Budget level of $124.0 million, primarily due to the elimination of rebudgeted or carryover projects.

Departmental gas and electricity funding for 2018-2019 totaling $14.5 million has been adjusted in this Forecast to reflect projected rate increases, full year costs of new facilities coming online, and consumption changes. Major non-personal/equipment increases are included, primarily in the Information Technology Department for Microsoft Office 365 licenses ($656,000), Parks, Recreation and Neighborhood Services Department for changes in water costs ($538,000), and Library Department for the anticipated increased costs associated with the cost share agreement with San José State University ($340,000). Vehicle maintenance and operations costs in the General Fund, including fuel, inventory, and fleet staffing, total $14.1 million and reflect an increase of $448,000 from the 2017-2018 Adopted Budget, primarily due to increased consumption and fuel costs. The 2018-2019 non-personal/equipment base includes an adjustment for the scheduled replacement of marked, covert, and unmarked Police fleet vehicles from the Adopted Budget level of $3.7 million to $4.9 million based on the current replacement schedules and projected costs for these vehicles. Police vehicle replacement costs are expected to increase in the remaining years of the Forecast, based on the anticipated replacements that will be necessary in those years. Over the five-year period, police vehicle replacement costs are expected to total $23.3 million.

For the out-years of the Forecast, growth rates ranging from 1.1% to 3.0% have been assumed from the 2018-2019 non-personal/equipment base levels in each of the four years, adjusted for police vehicle replacement costs in those years. Excluding the police vehicle replacement cost adjustment, the average growth rate for the non-personal/equipment category is 2.0% annually.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

City-Wide

City-Wide Expenses in the first year of the Forecast (2018-2019) total $68.4 million, a decline from the 2017-2018 Modified Budget of $267.5 million. This large reduction primarily reflects the impact of deleting the $150.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits; eliminating one-time allocations that were rebudgeted to 2017-2018 ($28.2 million); deleting the Convention Center lease payment of $15.2 million to reflect the recent Successor Agency to the Redevelopment Agency (SARA) bond refunding (offset by a corresponding reduction in the reimbursement from SARA for this payment); and eliminating one-time budget actions ($6.7 million).

The line-items in this category are primarily made up of cross-departmental, large grant, and general city-wide expenditures. The 2018-2019 allocation includes anticipated cost adjustments based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2018-2019 allocations in the City-Wide Expenditures category include: Workers' Compensation Claims ($20.2 million); San José BEST and Safe Summer Initiative Programs ($5.7 million); General Liability Claims ($5.0 million); Sick Leave Payments Upon Retirement ($5.0 million); ESCO Debt Service ($3.1 million); FMC Debt Service Payments ($2.9 million); Banking Services ($2.2 million); Elections and Ballot Measures ($1.9 million); Property Tax Administration Fee ($1.8 million); Sidewalk Repairs ($1.8 million); Public, Educational and Government Access Facilities – Capital ($1.6 million); Homeless Response Team ($1.5 million); Property Leases ($1.5 million); Workers' Compensation State License ($1.2 million); and Tech Museum of Innovation Subsidy ($1.0 million).

In 2019-2020, City-Wide Expenses increase by approximately $4.5 million to $72.9 million, primarily due to the reestablishment of the annual $4.0 million General Fund contribution for Homeless Rapid Rehousing as approved by the City Council with the adoption of the 2017-2018 budget. The Homeless Rapid Rehousing Program is funded by the Multi-Source Housing Fund for two years. In the out-years of the Forecast, City-Wide Expenses are projected to increase minimally at a growth rate range of 1-2%. While the majority of the individual line-items are expected to remain at 2018-2019 levels over this period, there are some categories that are expected to experience growth over the five years, including Workers' Compensation Claims (from $21.2 million to $24.4 million), Elections and Ballot Measures (from $1.9 million to $2.1 million), the Property Tax Administration Fee (from $1.9 million to $2.1 million), Property Leases (from $1.6 million to $1.7 million), and Insurance Premiums (increase from $739,000 to $807,000). Debt service of this five-year period remain stable, with both ESCO and FMC debt service remaining at approximately $3 million annually. Funding for many non-grant related City-Wide expenses has stabilized, including ongoing allocations for the San José BEST and Safe Summer Initiative Programs that includes a 3% COLA applied in each year ($5.9 million to $6.4 million).

EXPENDITURE FORECAST

The General Fund **Capital Projects** category totals $5.6 million in 2018-2019 and remains at this level in each of the out-years of the Forecast. The largest item in this category is fire apparatus replacement ($4.0 million annually), increased from the previous $3.4 million allocation due to an updated analysis of replacement schedules, replacement costs, and apparatus changes to meet safety needs. It also assumes that the Fire Construction and Conveyance Tax Fund will contribute $400,000 annually for these costs over the five-year period. The Capital Projects category also includes the continuation of annual allocations for unanticipated maintenance of City facilities ($900,000), fuel tanks and methane monitoring control and replacement ($350,000, previously at $400,000), annual capital expenditures ($200,000) to maintain sufficient power backup for the City Hall and the 9-1-1 Police Communications Building, and Arena repairs ($100,000).

The **Transfers** category totals $33.2 million in 2018-2019 and averages $34.2 million in the remaining years of the Forecast. The transfer to the City Hall Debt Service Fund to cover the General Fund portion of the debt service costs for the construction of City Hall is the largest line-item in this category at $21.5 million in 2018-2019 ($21.7 million in each of the remaining years of the Forecast). Other large transfers include the following: funding to cover a portion of the debt service payments and operating costs for the Hayes Mansion Conference Center ($3.5 million in 2018-2019 and $3.4 million - $3.9 million in the remaining years of the Forecast) and Rancho del Pueblo and Los Lagos Golf Courses ($2.7 million in each year of the Forecast); transfers for Arena capital rehabilitation and enhancements in accordance with the San José Arena Management agreement extension at $2.3 million annually; a transfer to the Vehicle Maintenance and Operations Fund for general fleet replacement ($1.2 million annually); and a transfer to the Construction and Conveyance Tax Fund – Communications to support the Silicon Valley Regional Interoperability Authority ($1.0 million in 2018-2019, rising to $1.3 million at the end of the Forecast).

All of the debt service and maintenance and operations costs for the Hayes Mansion Conference Center and golf courses are funded in the Community Facilities Revenue and Municipal Golf Course Funds, respectively; however, revenues in those funds are not projected to be sufficient to completely cover these costs. The transfer from the General Fund for the Hayes Mansion Conference Center in 2018-2019 remains at 2017-2018 levels of $3.5 million, and averages $3.6 million throughout the remaining four years primarily based on projected debt service payments for that facility. The transfer for the golf course subsidy also remains steady with 2017-2018 levels of $2.7 million annually throughout the Forecast.

The payments for Arena capital rehabilitation and enhancements are in compliance with the San José Arena Management Agreement Extension from 2009-2018. In accordance with the term sheet with Sharks Sports and Entertainment approved in May 2015 that alters the City's capital transfer obligations, annual funding increases from $750,000 in 2017-2018 to $2.3 million through 2024-2025.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

This Forecast includes transfers to the Service Yards Construction and Conveyance Tax (C&C) Fund to cover Central Service Yards Phase 1 debt service payments ($500,000 annually starting in 2019-2020) as there is not sufficient revenue in that fund to cover all required costs.

The Transfers category also includes payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas ($898,000 to $1.0 million annually).

The **Earmarked Reserves** category totals $1.9 million in 2018-2019 and decreases to $1.1 million in 2019-2020 and throughout the Forecast. This category includes the Deferred Infrastructure and Maintenance Reserve of $800,000 in 2018-2019 to fund critical capital maintenance or address urgent technology needs; these resources will be allocated as part of the 2018-2019 Proposed Budget. The annual allocation to the Cultural Facilities Maintenance Reserve remains at a constant annual contribution of $450,000 throughout the Forecast in accordance with City Council direction included in the 2017-2018 Adopted Operating Budget. In addition, annual funding of $240,000 is allocated to the General Plan Update Reserve to set aside fees collected by developers toward the future update or revision of the General Plan.

The Forecast does not include a number of Earmarked Reserves that may remain unspent in 2017-2018 and later recommended for rebudget or use in 2018-2019. Some of the larger current Earmarked Reserves include the Development Fee Program Reserves, Budget Stabilization Reserve, Workers' Compensation/General Liability Catastrophic Reserve, Retiree Healthcare Solutions Reserve, Sick Leave Payments Upon Retirement Reserve, Salaries and Benefits Reserve, and Cultural Facilities Capital Maintenance Reserve.

Per City Council policy, the **Contingency Reserve** ($36.5 million) is projected at the level necessary to comply with the City Council policy to maintain a minimum 3% Contingency Reserve and allows for anticipated rebudget adjustments that will be incorporated into the 2018-2019 budget. This amount would be sufficient to cover approximately one pay period of payroll costs (two weeks). This amount steadily increases each year of the Forecast, ending at $41.0 million in 2022-2023 to remain in compliance with the reserve policy.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Committed Additions to the Base General Fund Forecast

In this Forecast, projected additions to the base expenditure level have been included as **Committed Additions**. Although all are subject to further review during the budget process, Committed Additions are additional expenditures to which the City is considered to be committed by prior City Council action, such as the costs related to maintaining and operating capital projects previously approved by the City Council. The Forecast Base Case, considered most likely to occur, includes ongoing program costs plus Committed Additions. Committed Additions total $619,000 in 2018-2019 and increase to approximately $1.7 million by 2022-2023. These Committed Additions, as well as a discussion of General Fund Capital Operating and Maintenance/Budget Principle #8, are explained in more detail in Section III of this document.

The approved bond measure from the November 2000 election for parks (Measure P) includes the Arcadia Softball Complex that will require additional maintenance and operations funding ($381,000 in 2018-2019, increasing to approximately $790,000 in 2022-2023).

Also included in the Committed Additions are maintenance and operations costs associated with non-bond projects such as new parks and recreation facilities and new traffic infrastructure assets. The non-bond projects committed additions costs in the Forecast range from $238,000 in 2018-2019 to $904,000 by 2022-2023.

General Fund Capital Operating and Maintenance/Budget Principle #8

Budget Principle #8 states that Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding $100,000 without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including operations and maintenance costs, will not require a decrease in existing basic neighborhood services. Consistent with that direction, this Forecast includes a detailed list and discussion of capital projects that were previously certified by the City Council with annual operating and maintenance costs in the General Fund greater than $100,000. Capital funding for these projects have been included as part of approved Capital Improvement Programs or approved by City Council in 2017-2018. It should be noted that the maintenance and operations costs for the Arcadia Softball Complex (previously titled Softball Complex are estimated to exceed $100,000; however, this projects was established prior to the adoption of Budget Principle #8 and did not need to be certified by the City Council.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

The operating margin reflects the variance between the projected General Fund revenues and expenditures for each year of the Forecast, assuming the Base Case with Committed Additions. In 2018-2019, a deficit of $7.3 million is projected, followed by additional deficits through 2021-2022: $15.5 million in 2019-2020, $8.9 million in 2020-2021, and $10.5 million in 2021-2022. In the final year of the forecast period, 2022-2023, a surplus of $10.8 million is projected. Base Case expenditures, including committed additions, increase from $1.1 billion in 2018-2019 to $1.3 billion in 2022-2023, for an average annual growth rate of approximately 3.3%. The sources of revenue total $1.12 billion in 2018-2019 and grow to $1.25 billion in 2022-2023, increasing at a slightly lower average annual growth rate of 2.9%.

The following table shows how the projected surpluses and shortfalls have changed in the most recent forecasts. It is assumed that each preceding surplus or shortfall is addressed completely with ongoing solutions in the year it appears. Each year of the February 2018 Forecast is compared to the corresponding year in the February 2017 Forecast.

2019-2023 General Fund Forecast
Changes in Operating Margin
($ in Millions)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
February 2017 Incremental Surplus/(Shortfall)	**($34.8)**	**($11.5)**	**($17.4)**	**($12.8)**	**N/A**
June 2017 Incremental Surplus/(Shortfall)	$0.4	N/A	N/A	N/A	N/A
February 2018 Incremental Surplus/(Shortfall)	**($7.3)**	**($15.5)**	**($8.9)**	**($10.5)**	**$10.8**

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2017-2018; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

For the February 2018 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2018-2019 and the remaining four years of the forecast period. The 2018-2019 projected deficit of $7.3 million reflects an increase from the $416,000 budget deficit projected in June 2017 (2017-2018 Adopted Budget). This change is the net result of numerous revenue and expenditure changes as described in this document.

Elements of The General Fund Forecast

Operating Margin

In the out-years of this Forecast, the General Fund position is better than that presented in the previous Forecast with shortfalls ranging from a deficit of $15.5 million to a surplus of $10.8 million annually. Major factors contributing to this improvement are lower retirement costs and higher growth in several revenue categories, including Property Tax and Business Tax. These margins are extremely narrow when put into context of the size of the projected General Fund budget of over $1 billion.

Five-Year Economic Forecast and Revenue Projections

2019-2023

BASE CASE

February 2018 Forecast

REVENUE SUMMARY

REVENUE SUMMARY	MODIFIED BUDGET 2017-2018	FORECAST 2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
PROPERTY TAX	288,990,000	317,600,000	333,988,000	350,955,000	366,713,000	382,188,000
		9.90%	5.16%	5.08%	4.49%	4.22%
SALES TAX	224,000,000	232,100,000	238,506,000	244,969,000	249,967,000	253,891,000
		3.62%	2.76%	2.71%	2.04%	1.57%
TRANSIENT OCCUPANCY TAX	18,720,000	19,600,000	20,374,000	21,097,000	21,638,000	22,174,000
		4.70%	3.95%	3.55%	2.56%	2.48%
FRANCHISE FEES	50,813,083	50,230,000	51,149,000	51,932,000	50,790,000	49,580,000
		(1.15%)	1.83%	1.53%	(2.20%)	(2.38%)
UTILITY TAX	101,320,000	102,400,000	103,700,000	105,339,000	107,088,000	109,197,000
		1.07%	1.27%	1.58%	1.66%	1.97%
TELEPHONE TAX	20,000,000	20,000,000	20,040,000	20,076,000	20,110,000	20,142,000
		0.00%	0.20%	0.18%	0.17%	0.16%
BUSINESS TAX	63,385,000	67,000,000	67,607,000	68,147,000	68,643,000	69,103,000
		5.70%	0.91%	0.80%	0.73%	0.67%
LICENSES AND PERMITS	59,669,916	58,530,000	60,344,000	62,758,000	64,955,000	67,098,000
		(1.91%)	3.10%	4.00%	3.50%	3.30%
FEES, RATES, AND CHARGES	49,431,983	45,779,000	47,198,000	49,086,000	50,804,000	52,481,000
		(7.39%)	3.10%	4.00%	3.50%	3.30%
FINES, FORFEITURES & PENALTIES	15,336,284	14,283,000	14,430,000	14,688,000	14,740,000	14,883,000
		(6.87%)	1.03%	1.79%	0.35%	0.97%
MONEY & PROPERTY	5,705,000	6,779,000	6,948,000	7,171,000	7,379,000	7,637,000
		18.83%	2.49%	3.21%	2.90%	3.50%
REVENUE FROM LOCAL AGENCIES	23,741,738	10,822,000	11,199,000	11,589,000	11,951,000	12,307,000
		(54.42%)	3.48%	3.48%	3.12%	2.98%
REVENUE FROM THE STATE OF CALIFORNIA	14,182,228	10,590,000	10,590,000	10,590,000	10,590,000	10,590,000
		(25.33%)	0.00%	0.00%	0.00%	0.00%
FEDERAL REVENUE	5,661,954	0	0	0	0	0
		(100.00%)	N/A	N/A	N/A	N/A
OTHER REVENUE	183,958,167	9,298,000	8,789,000	8,837,000	8,900,000	8,963,000
		(94.95%)	(5.47%)	0.55%	0.71%	0.71%
GAS TAX	17,300,000	17,300,000	16,703,000	16,489,000	17,118,000	17,712,000
		0.00%	(3.45%)	(1.28%)	3.81%	3.47%
TOTAL GENERAL REVENUES	1,142,215,353	982,311,000	1,011,565,000	1,043,723,000	1,071,386,000	1,097,946,000
		(14.00%)	2.98%	3.18%	2.65%	2.48%

BASE CASE

February 2018 Forecast REVENUE SUMMARY	MODIFIED BUDGET 2017-2018	FORECAST 2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
TRANSFERS & REIMBURSEMENTS						
OVERHEAD REIMBURSEMENTS	45,467,418	48,522,000	49,978,000	51,477,000	53,021,000	54,612,000
TRANSFERS	24,981,465	24,457,000	25,173,000	25,861,000	26,478,000	26,573,000
REIMBURSEMENTS FOR SERVICES	670,000	731,000	753,000	776,000	799,000	823,000
TOTAL TRANSFERS & REIMBURSEMENTS	71,118,883	73,710,000	75,904,000	78,114,000	80,298,000	82,008,000
		3.64%	2.98%	2.91%	2.80%	2.13%
TOTAL GENERAL FUND REVENUES	1,213,334,236	1,056,021,000	1,087,469,000	1,121,837,000	1,151,684,000	1,179,954,000
		(12.97%)	2.98%	3.16%	2.66%	2.45%
BEGINNING FUND BALANCE	241,172,873	65,644,000	67,632,000	68,070,000	68,472,000	68,865,000
GRAND TOTAL SOURCES	1,454,507,109	1,121,665,000	1,155,101,000	1,189,907,000	1,220,156,000	1,248,819,000
		(22.88%)	2.98%	3.01%	2.54%	2.35%

BASE CASE

February 2018 Forecast EXPENDITURE SUMMARY	MODIFIED BUDGET 2017-2018	FORECAST 2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
PERSONAL SERVICES						
Salaries and Other Compensation	473,466,433	497,206,000	520,840,000	539,070,000	557,937,000	577,465,000
Retirement	301,440,205	314,761,000	329,400,000	346,398,000	358,718,000	352,174,000
Health and Other Fringe Benefits	57,235,454	56,755,000	59,707,000	62,191,000	64,916,000	67,895,000
TOTAL PERSONAL SERVICES	832,142,092	868,722,000	909,947,000	947,659,000	981,571,000	997,534,000
		4.40%	4.75%	4.14%	3.58%	1.63%
TOTAL NON-PERSONAL/EQUIPMENT	124,019,581	114,007,000	115,266,000	118,732,000	121,968,000	122,059,000
		(8.07%)	1.10%	3.01%	2.73%	0.07%
CITY-WIDE						
CITY-WIDE EXPENSES	267,544,922	68,411,000	72,902,000	73,705,000	75,408,000	77,043,000
CAPITAL PROJECTS	46,158,854	5,580,000	5,580,000	5,580,000	5,580,000	5,580,000
TRANSFERS	32,476,596	33,239,000	33,837,000	34,357,000	34,683,000	34,210,000
EARMARKED RESERVES	115,665,064	1,880,000	1,080,000	1,080,000	1,080,000	1,080,000
CONTINGENCY RESERVE	36,500,000	36,500,000	38,000,000	39,000,000	40,500,000	41,000,000
TOTAL CITY-WIDE	498,345,436	145,610,000	151,399,000	153,722,000	157,251,000	158,913,000
		(70.78%)	3.98%	1.53%	2.30%	1.06%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,454,507,109	1,128,339,000	1,176,612,000	1,220,113,000	1,260,790,000	1,278,506,000
		(22.42%)	4.28%	3.70%	3.33%	1.41%

OPERATING MARGIN

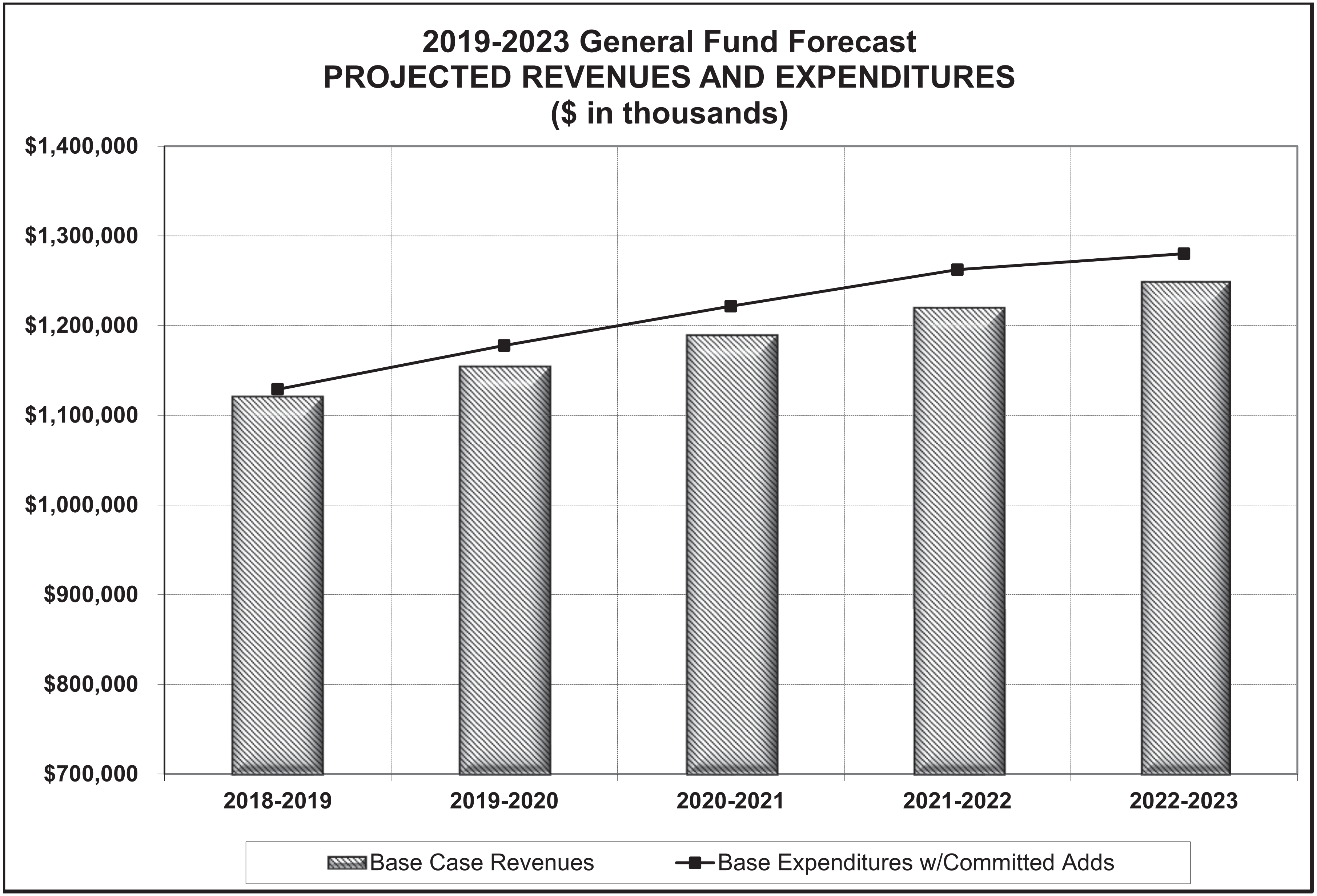
BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	MODIFIED BUDGET 2017-2018	FORECAST 2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
GRAND TOTAL REVENUE	1,454,507,109	1,121,665,000	1,155,101,000	1,189,907,000	1,220,156,000	1,248,819,000
GROWTH RATE		(22.88%)	2.98%	3.01%	2.54%	2.35%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,454,507,109	1,128,339,000	1,176,612,000	1,220,113,000	1,260,790,000	1,278,506,000
GROWTH RATE		(22.42%)	4.28%	3.70%	3.33%	1.41%
OPERATING MARGIN CHANGE *From Prior Year*		(6,674,000)	(14,837,000)	(8,695,000)	(10,428,000)	10,947,000

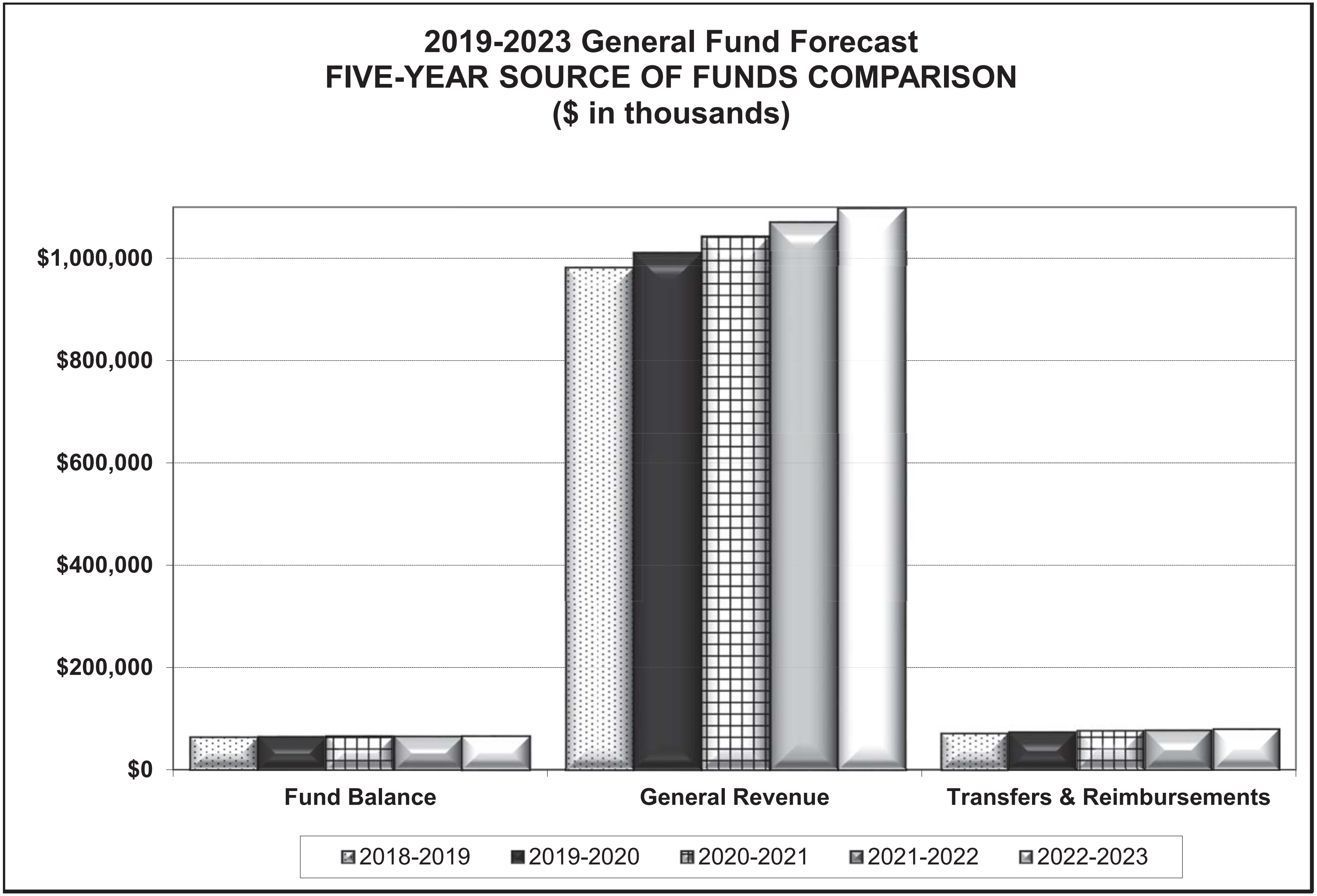
BASE CASE

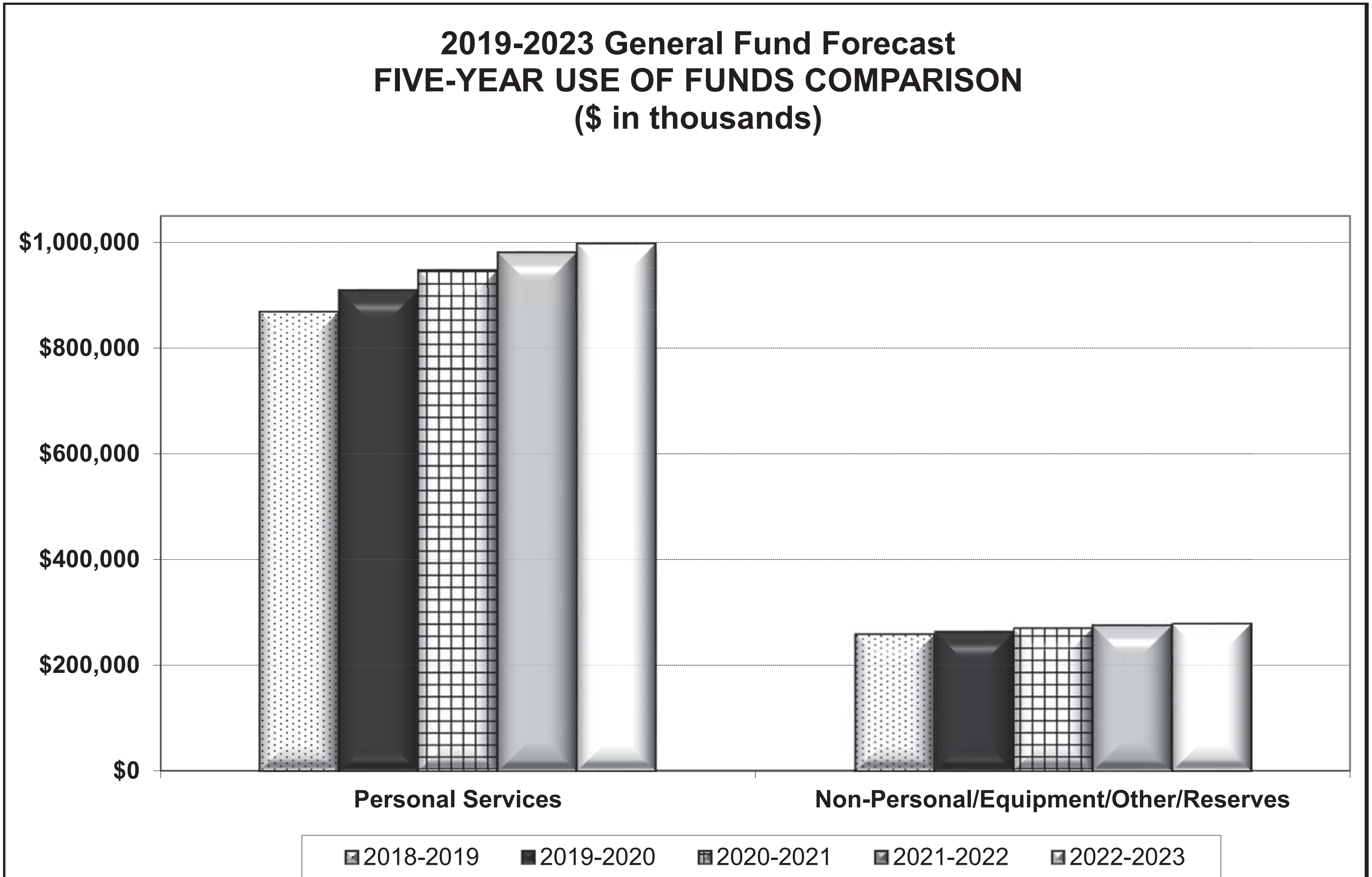
February 2018 Forecast	MODIFIED BUDGET	FORECAST				
EXPENDITURE SUMMARY	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
COMMITTED ADDITIONS:						
New Parks and Recreation Facilities Maintenance and Operations		216,000	523,000	667,000	725,000	809,000
New Traffic Infrastructure Assets Maintenance and Operations		22,000	45,000	69,000	82,000	95,000
Measure P (Parks) Maintenance and Operations		381,000	677,000	715,000	755,000	790,000
TOTAL COMMITTED ADDITIONS		619,000	1,245,000	1,451,000	1,562,000	1,694,000
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,454,507,109	1,128,958,000	1,177,857,000	1,221,564,000	1,262,352,000	1,280,200,000
		(22.38%)	4.33%	3.71%	3.34%	1.41%

OPERATING MARGIN

BASE EXPENDITURES (w / COMMITTED ADDITIONS)	MODIFIED BUDGET 2017-2018	FORECAST 2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
GRAND TOTAL REVENUE	1,454,507,109	1,121,665,000	1,155,101,000	1,189,907,000	1,220,156,000	1,248,819,000
GROWTH RATE		(22.88%)	2.98%	3.01%	2.54%	2.35%
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,454,507,109	1,128,958,000	1,177,857,000	1,221,564,000	1,262,352,000	1,280,200,000
GROWTH RATE		(22.38%)	4.33%	3.71%	3.34%	1.41%
ONGOING OPERATING MARGIN CHANGE		(7,293,000)	(15,463,000)	(8,901,000)	(10,539,000)	10,815,000
From Prior Year						


2019-2023 General Fund Forecast
PROJECTED REVENUES AND EXPENDITURES
($ in thousands)
$1,400,000
$1,300,000
$1,200,000
$1,100,000
$1,000,000
$900,000
$800,000
$700,000
2018-2019
2019-2020
2020-2021
2021-2022
2022-2023
Base Case Revenues
Base Expenditures w/Committed Adds


2019-2023 General Fund Forecast
FIVE-YEAR SOURCE OF FUNDS COMPARISON
($ in thousands)
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
Fund Balance
General Revenue
Transfers & Reimbursements
2018-2019
2019-2020
2020-2021
2021-2022
2022-2023



Note: Committed Additions ranging from $619,000 to $1.7 million annually during this Forecast are not displayed.

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Five-Year Economic Forecast and Revenue Projections

2019-2023

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

As has been the practice, potential future-year program expenses in the General Fund have been included in a "**Committed Additions**" section of the General Fund Forecast.

Committed Additions involve expense changes for projects that have been previously approved by the City Council and deemed relatively unavoidable. The largest item included in this category is the Arcadia Softball Complex as part of the Measure P (Parks) Bond funds. The remaining items included in this category are additional maintenance and operating expenses that will be required to operate and maintain approved capital projects scheduled for completion or will open within the five-year horizon of this forecast. These expenses are related to the maintenance and operations of new parks and recreational facilities and new traffic infrastructure assets. It should be noted that the estimated costs included in this category have been submitted by the various departments involved, but have not yet been fully analyzed by the Budget Office. It can be anticipated that refinements of these estimates will be performed prior to bringing them forward for consideration by the City Council in any given year.

A summary of the committed additions included in this Forecast is provided below and detailed in Chart A at the end of this section. In addition, based on the City Council's adoption of Budget Principle #8 during the 2008-2009 budget process, a **General Fund Capital Operating and Maintenance/Budget Principle #8** discussion is included in this section. Capital projects with maintenance and operating costs over $100,000 that have been previously certified by the City Council, or are recommended for certification in the future, are identified in Chart A of this section. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast, that have not been previously approved by the City Council, may be recommended for certification as part of the 2019-2023 Proposed Capital Improvement Program. If certified by the City Council, the maintenance and operating costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

Following is a summary of Committed Additions included in the General Fund Five-Year Forecast. Projections factor in an inflation escalator for the out-years of the forecast and are displayed in a cumulative, not incremental, cost method.

Committed Additions Summary

New Parks and Recreation Facilities Maintenance and Operations – This category reflects the projected additional costs of maintaining and operating new and expanded parks and recreation facilities included in the City's Five-Year Capital Improvement Program. Several parks are scheduled to come online over the next five years include, but are not limited to, Alum Rock Avenue and 31st Street Park (Dog Park), Cannery Park, Communications Hill II – Hillsdale Fitness Staircase and Turnkey Park, Japantown Square Turnkey Park, Mercado Park, Newbury Park, Pellier Park, Rincon South Park, San Pedro Square Urban Park, and Tramien Park Phase II. The forecast also includes operating cost estimates for trail sections along Coyote Creek trail, including Singleton, Story to Phelan and Phelan to Tully. Funding continues to be set aside for Future Trail Projects to help meet the City's goal to expand the City's trail system to 100 miles by the year 2022. The City currently has approximately 60 miles of trails.

2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
216,000	523,000	667,000	725,000	809,000

Committed Additions To The Base General Fund Forecast

New Traffic Infrastructure Assets Maintenance and Operations – This category reflects the anticipated additional costs that are necessary to operate and maintain transportation-related projects included in the City's Five-Year Capital Improvement Program. Funding to operate and maintain new traffic signals, landscaping, street lighting, pavement markings, and other traffic infrastructure is assumed in this category. Most of the included projects are related to traffic safety enhancements for pedestrians and bicyclists, such as the 2018 Bikeways Program, McKee Road Safety Corridor Improvements, St. James Station at Basset Bike and Ped Improvements, and Tully Road Safety Corridor Improvements. Other project maintenance elements include landscaping, storm water mitigation (bioretention), and street lighting.

2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
22,000	45,000	69,000	82,000	95,000

Measure P (Parks) Maintenance and Operations – This category reflects the projected maintenance and operations costs of new and expanded parks and community facilities that were included as part of a bond measure approved by the voters in November 2000. The only project included in this forecast is the Arcadia Softball Complex scheduled to open in the summer of 2019. This project has an annualized net operating cost of $677,000, though $381,000 is scheduled in 2018-2019 for initial staffing and other startup operating costs prior to the facility's official opening. It should be noted that the maintenance costs for the Arcadia Softball Complex are fairly aligned with prior reported Forecasts, adjusted for the revised completion date.

The Soccer Complex, which is the other Measure P project that has not yet been completed, is not reflected in the forecast because the operating and maintenance costs associated with that facility were factored into the budget in a prior year based on a previous project schedule. Those costs have since been removed and are currently being evaluated for inclusion in a future budget based on the status of the project.

2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
381,000	677,000	715,000	755,000	790,000

General Fund Capital Operating and Maintenance/Budget Principle #8

In March 2008, the City Council adopted City of San José Budget Principles as part of the approval of the Mayor's 2008-2009 March Budget Message. Budget Principle #8 is as follows:

> Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding $100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire project, including maintenance and operations costs, will not require a decrease in existing basic neighborhood services.

Chart A details a list of all project maintenance and operations costs assumed in this Forecast. Funding for these projects has been included as part of the approved Capital Improvement Program, approved by the City Council in 2017-2018, or align with previous City Council direction. All capital projects that were previously approved for certification by the City Council with annual maintenance and operating costs in the General Fund greater than $100,000 have been denoted in the chart with an asterisk. As denoted by a double asterisk in the chart, the maintenance and operations costs for the Arcadia Softball Complex (previously titled Softball Complex) were established prior to the adoption of Budget Principle #8 and did not need to be certified by City Council. By 2022-2023, the costs to maintain and operate all City Council approved projects expected to come online during the five-year period are estimated at approximately $1.7 million annually, of which approximately $790,000 is related to the Arcadia Softball Complex.

As always, maintenance and operating costs for new capital facilities will continue to be closely scrutinized to ensure that costs for any newly built or expanded infrastructure are supported on an ongoing basis without a decrease in existing basic neighborhood services. All project maintenance and operating costs will be evaluated on an annual basis for inclusion in subsequent Five-Year General Fund Forecasts. A careful evaluation of the project schedules and/or staffing necessary to maintain and operate these facilities will be performed prior to bringing them forward for consideration by the City Council in any given year.

CHART A - 2019-2023 GENERAL FUND FORECAST
Net Operating Impact of Committed Additions

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
Alum Rock Avenue and 31st Street Park Phase II (Dog Park)	16,000	32,000	33,000	33,000	34,000
Branham Park Courts (Branham Park Improvements)	4,000	7,000	7,000	8,000	8,000
Cannery Park	17,000	34,000	35,000	35,000	36,000
CD 6 Land Acquisition (Alameda Parcel)	3,000	3,000	3,000	3,000	3,000
Communications Hill II - Hillsdale Fitness Staircase	0	57,000	79,000	86,000	88,000
Flea Market Park #1	0	53,000	81,000	83,000	84,000
Communications Hill II - Turnkey Park (William Manly Park)	48,000	49,000	50,000	51,000	52,000
iStar Turnkey Park	0	0	34,000	47,000	49,000
Japantown Square Turnkey Park	36,000	38,000	40,000	40,000	42,000
Mercado Park	0	51,000	79,000	80,000	82,000
Midfield Avenue Park	13,000	40,000	41,000	42,000	43,000
Newbury Park	0	1,000	1,000	1,000	1,000
Pellier Park	0	0	0	2,000	27,000
Rincon South Park	0	15,000	36,000	37,000	38,000
Santana Park	0	0	0	9,000	16,000
San Pedro Square Urban Park	29,000	67,000	71,000	75,000	80,000
St. James Park Interim Improvements	2,000	9,000	9,000	9,000	9,000
Tamien Park Phase II	48,000	67,000	68,000	70,000	72,000
TRAIL: Coyote Creek - Singleton	0	0	0	0	5,000
TRAIL: Coyote Creek - Story to Phelan	0	0	0	14,000	19,000
TRAIL: Coyote Creek - Phelan to Tully	0	0	0	0	21,000
TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	**216,000**	**523,000**	**667,000**	**725,000**	**809,000**
NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS					
Bicycle & Pedestrian Facilities (2018 Bikeways)	22,000	45,000	47,000	48,000	49,000
Renascent Place at Senter Bike/Ped Improvements (AHSC)	0	0	6,000	6,000	6,000
Senter Road Pedestrian Safety Improvements (HSIP)	0	0	6,000	7,000	7,000
White Road Pedestrian Safety Improvements (HSIP)	0	0	1,000	1,000	1,000
St. James Station at Basset Bike and Ped improvements (AHSC)	0	0	9,000	11,000	11,000
Mckee Road Safety Corridor Improvements (OBAG)	0	0	0	4,000	9,000
Tully Road Safety Corridor Improvements (OBAG)	0	0	0	2,000	5,000
W. San Carlos Urban Villages (OBAG)	0	0	0	3,000	7,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS	**22,000**	**45,000**	**69,000**	**82,000**	**95,000**
MEASURE P (PARKS) MAINTENANCE AND OPERATIONS					
Arcadia Softball Complex**	381,000	677,000	715,000	755,000	790,000
TOTAL MEASURE P (PARKS) MAINTENANCE AND OPERATIONS	**381,000**	**677,000**	**715,000**	**755,000**	**790,000**
TOTAL OPERATING IMPACT OF COMMITTED ADDITIONS	**619,000**	**1,245,000**	**1,451,000**	**1,562,000**	**1,694,000**

*Capital Projects with operating and maintenance costs in the General Fund greater than $100,000 annually that have been previously certified by the City Council.

**These projects were established prior to the adoption of Budget Principle #8 and did not need to be certified by City Council.

Five-Year Economic Forecast and Revenue Projections

2019-2023

Section 4

Alternate Forecast Scenarios

2019-2023 General Fund Forecast
PROJECTED FIVE-YEAR OPERATING MARGINS
Alternate Forecast Scenarios

BASE CASE

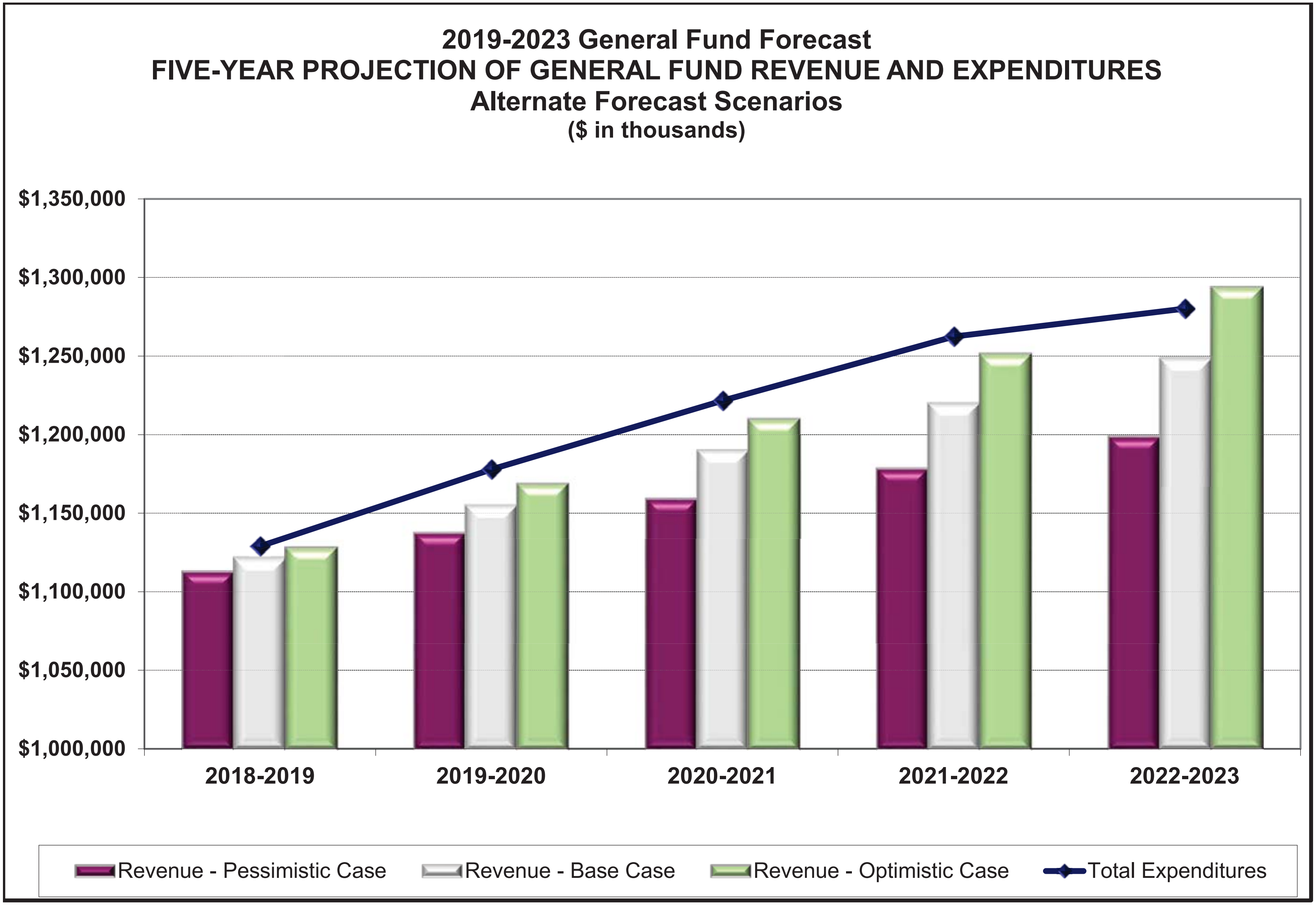
	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
TOTAL REVENUES ($)	1,121,665,000	1,155,101,000	1,189,907,000	1,220,156,000	1,248,819,000
GROWTH RATE		2.98%	3.01%	2.54%	2.35%
TOTAL EXPENDITURES ($)	1,128,958,000	1,177,857,000	1,221,564,000	1,262,352,000	1,280,200,000
GROWTH RATE		4.33%	3.71%	3.34%	1.41%
OPERATING MARGIN - BASE	**(7,293,000)**	**(15,463,000)**	**(8,901,000)**	**(10,539,000)**	**10,815,000**

OPTIMISTIC CASE

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
TOTAL REVENUES ($)	1,128,637,000	1,169,031,000	1,210,179,000	1,251,323,000	1,293,850,000
GROWTH RATE		3.58%	3.52%	3.40%	3.40%
TOTAL EXPENDITURES ($)	1,128,958,000	1,177,857,000	1,221,564,000	1,262,352,000	1,280,200,000
GROWTH RATE		4.33%	3.71%	3.34%	1.41%
OPERATING MARGIN - OPTIMISTIC	**(321,000)**	**(8,505,000)**	**(2,559,000)**	**356,000**	**24,679,000**

PESSIMISTIC CASE

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
TOTAL REVENUES ($)	1,113,013,000	1,137,843,000	1,159,430,000	1,178,677,000	1,199,015,000
GROWTH RATE		2.23%	1.90%	1.66%	1.73%
TOTAL EXPENDITURES ($)	1,128,958,000	1,177,857,000	1,221,564,000	1,262,352,000	1,280,200,000
GROWTH RATE		4.33%	3.71%	3.34%	1.41%
OPERATING MARGIN - PESSIMISTIC	**(15,945,000)**	**(24,069,000)**	**(22,120,000)**	**(21,541,000)**	**2,490,000**


2019-2023 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
($ in thousands)
$1,350,000
$1,300,000
$1,250,000
$1,200,000
$1,150,000
$1,100,000
$1,050,000
$1,000,000
2018-2019
2019-2020
2020-2021
2021-2022
2022-2023
Revenue - Pessimistic Case
Revenue - Base Case
Revenue - Optimistic Case
Total Expenditures

Five-Year Economic Forecast and Revenue Projections

2019-2023

Section 5

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 and property resale-related Capital Program revenues are generally tracking at or above expectations for 2017-2018, and in many instances are anticipated to end the year near the high levels experienced in 2016-2017. While property resale-related performance will positively influence future years, construction activity in the following five years is expected to moderate, with overall revenue estimates matching the amounts assumed in the 2018-2022 Adopted CIP ($364.9 million). The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this Forecast with the 2018-2022 Adopted CIP.

FORECAST COMPARISON SUMMARY
($ in Thousands)

	2018-2022 CIP	2019-2023 Forecast	Difference	% Change
Construction and Conveyance Tax	$176,000	$182,000	$6,000	3%
Building and Structure Construction Tax	78,000	76,000	(2,000)	(3%)
Construction Excise Tax	105,000	101,000	(4,000)	(4%)
Municipal Water System Fees	375	375	0	0%
Residential Construction Tax	1,000	1,000	0	0%
Sanitary Sewer Connection Fee	3,500	3,500	0	0%
Storm Drainage Connection Fee	1,000	1,000	0	0%
TOTAL	**$364,875**	**$364,875**	**$0**	**0%**

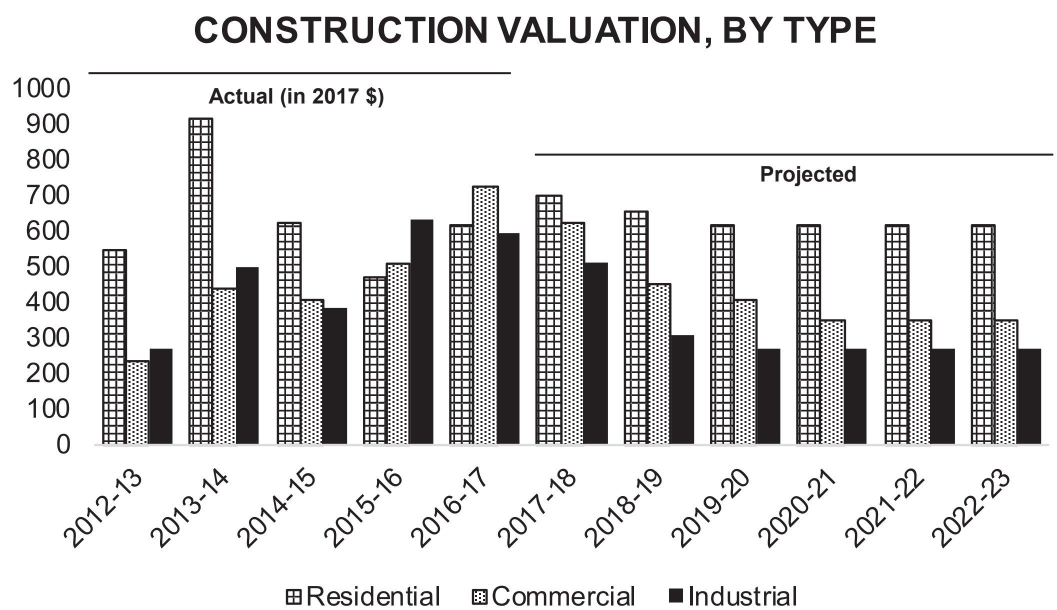
A discussion of major construction activity trends and anticipated performance in each of the revenue categories is included in more detail on the following pages.

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 the PBCE Department provides projections of construction activity related to residential, commercial, and industrial development. The valuation figures have been adjusted to 2017 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 (2019-2023)", which is included as Appendix C.

Based on projections provided by the PBCE Department, though performing stronger than originally anticipated, construction activity valuation is anticipated to be lower than the prior year: $1.8 billion for 2017-2018, a 5% decrease compared to $1.9 billion in 2016-2017. This level of activity is expected to decrease to $1.4 billion in 2018-2019 due to a decrease in commercial and industrial alterations activity, $1.3 billion in 2019-2020, and drop to approximately $1.2 billion annually in 2020-2023 as projects move through the development pipeline.

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



CONSTRUCTION ACTIVITY PROJECTIONS

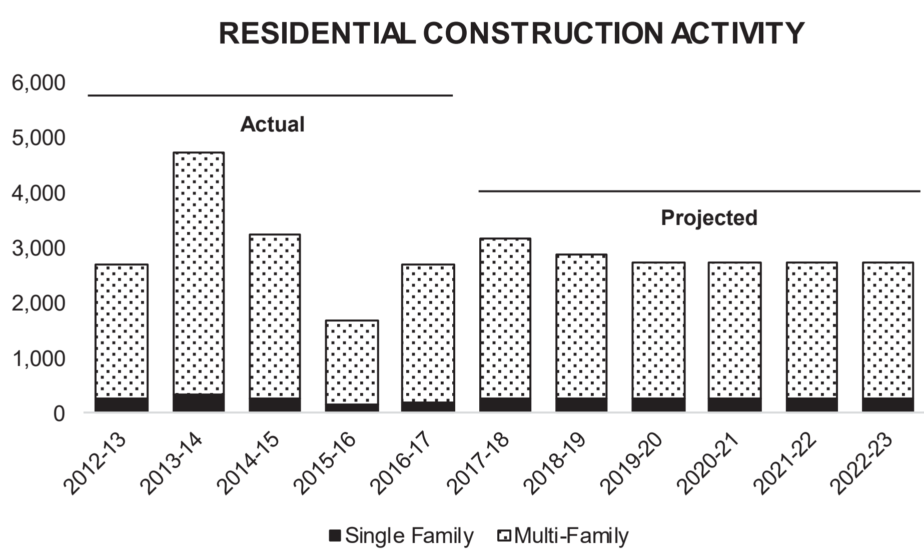
A summary of the PBCE Department construction activity projections and the corresponding revenue estimates are provided below. It should be noted that due to the highly volatile nature of the construction market, the reliability of the estimates can be expected to change over the period of the forecast. 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 dwelling units, decreased to 1,692 dwelling units in 2015-2016, rebounded to 2,712 new dwelling units in 2016-2017, and is expected to reach 3,175 new dwelling units in 2017-2018, an increase from the prior year of 17%.

The total value of residential construction activity projected in this Forecast is $3.1 billion, up just slightly from the projected valuation included in the 2018-2022 Forecast. The PBCE Department expects residential construction activity to generate an estimated 2,875 new units in 2018-2019 and 2,725 new units, annually, in 2019-2020 through 2022-2023. This represents an average of 2,755 units per year or 13,775 units over the forecast period. The activity level has increased by 2% compared to the 13,550 units included in the 2018-2022 Forecast.

This forecast expects a total of 12,400 multi-family dwelling units or approximately 90% of all dwelling units (single-family and multi-family) to be constructed. This represents a 2% increase compared to the projections in the 2018-2022 Forecast. New single-family dwelling units are anticipated at 1,375 during this forecast period, which is 2% lower than the projections in the 2018-2022 Forecast. The following chart shows the number of new units, by housing type, anticipated in San José through 2022-2023.



CONSTRUCTION ACTIVITY PROJECTIONS

B. Commercial Construction Activity

In 2016-2017, commercial construction activity totaled $722 million, an increase of 45% from 2015-2016. In 2017-2018, the PBCE Department expects commercial activity to decrease 13% to $625 million in total permit valuation due to slower construction activity in the first half of the fiscal year. Going forward, commercial activity is expected to decrease as projects move through the development pipeline and construction is completed.

The total commercial construction valuation projected in this Forecast is $1.9 billion, an increase of 12% from the previous five-year forecast at $1.7 billion primarily driven by new commercial construction. As discussed in the attached report provided by the PBCE Department, construction began on the Capitol Toyota in South San José, Fairfield Inn & Suites in Alviso, and various retail projects. The Forecast assumes that new commercial construction activity will taper off somewhat in the out years as existing projects move through the development pipeline. Information provided by real estate trade groups for the 4th Quarter 2017 indicated that the San José office and research and development (R&D) vacancy rate was 9.3% and the retail vacancy rate was 4.1%[1].

C. Industrial Construction Activity

In 2016-2017, industrial activity totaled $590 million, a decrease of 7% from 2015-2016 due to a drop off in industrial construction. The PBCE Department expects valuation to decrease to $510 million in 2017-2018, then drop to $310 million in 2018-2019, and further decrease to $270 million annually for the remainder of the forecast, to reflect a more moderate level of activity. Information provided by real estate trade groups for the 3rd Quarter 2017 indicated that the San José vacancy rate for industrial space was 4.8%[1].

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. In December 2016, the Downtown High-Rise Residential Development Incentive Program was extended and waives 50% of construction taxes for any residential tower in the downtown area that breaks ground by July 2018 and is completed by December 2020. In addition, a partial suspension is currently in effect for construction taxes for building projects that fall under the land use definition of Office, Research and Development and Data Center. How these incentive programs are applied to the Building and Structure Construction Tax and the Construction Excise Tax are discussed in the following pages.

[1] Cushman and Wakefield, MarketBeat Reports

CONSTRUCTION ACTIVITY PROJECTIONS

Major Development Activity Data

As part of the attached Development Activity Highlights and Five-Year Forecast (2019-2023) document prepared by the PBCE Department, 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 submitted since January 1, 2008 are provided, except for the 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.

CONSTRUCTION AND CONVEYANCE TAX

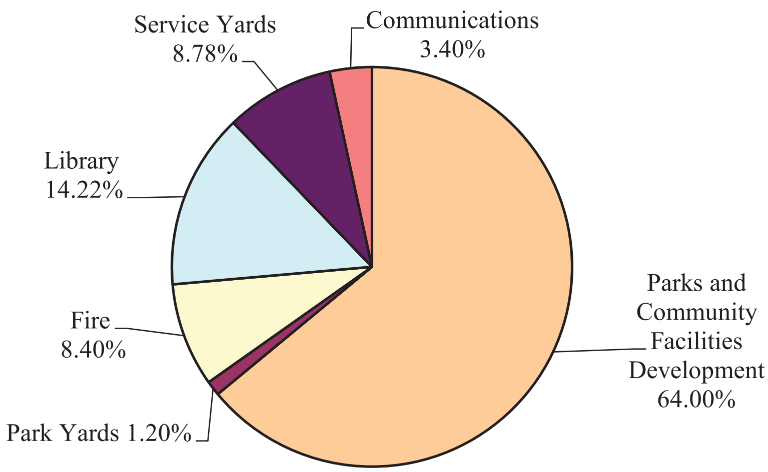
The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from $75 per unit located in a building containing at least 20 dwelling units to $150 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.

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

CONSTRUCTION AND CONVEYANCE TAX

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 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 city-wide 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 $182 million, which is higher than the estimate of $176 million used to develop the 2018-2022 Adopted 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. After

CONSTRUCTION AND CONVEYANCE TAX

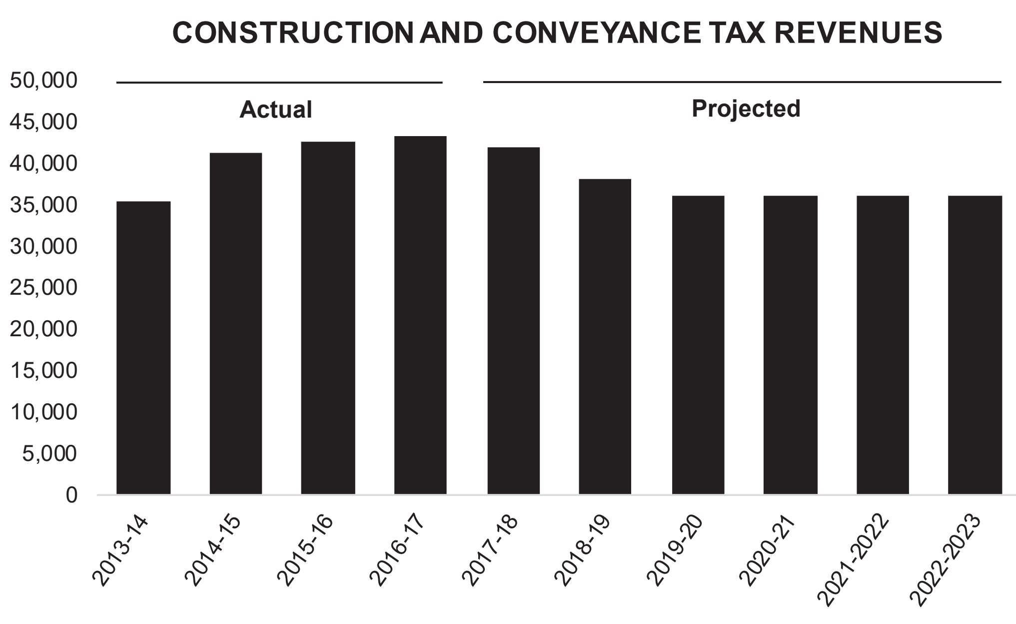
reaching a record setting high of $49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to $20.5 million in 2008-2009. However, collections have rebounded in recent years with revenues expected to end 2017-2018 at $42.0 million.

The local real estate market is seeing growth in home prices compared to prior year levels. The median single-family home price in December 2017 totaled $1.1 million, which is an increase of 32.1% from the $863,000 median single-family home price in December 2016. The number of new listings for single-family and multi-family dwellings has also increased (27.7%), from 235 listings in December 2016 to 300 listings in December 2017. In addition, it took less time to sell these homes, with the average days on the market for single-family and multi-family dwellings in December 2017 totaling 16 days, a 49.2% decrease from December 2016 totaling 34 days.

However, the December 2017 number of property transfers totaled 467, a decrease of 16.8% compared to the 561 sales that occurred in December 2016. In 2017, a total of 7,791 property transfers occurred, which was down 1% from the 7,849 property transfers in 2016.

Due to increased home prices coupled with lower inventory and property transfers, collections in 2017-2018 are projected to end the year at $42 million. This collection level is 3% below the actual receipts received in 2016-2017 ($43.3 million), but is substantially higher than the $36 million estimated in the 2018-2022 Adopted CIP. Based on recent collection trends and real estate activity, collections in this extremely volatile revenue category are forecasted to drop to $38 million in 2018-2019, decrease to $36 million in 2019-2020, and remain constant through the remainder of the forecast period

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 three 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 at its meeting on April 4, 2017.

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 % (of 88% of valuation)	2.75 % (of 88% of valuation)	4.5% (of 88% of valuation)
Commercial	1.5%	3.0%	4.5%
Industrial	1.0%	-	1.0%

Tax Rates with Partial Suspension from April 1, 2017 through March 31, 2019:

	Percentage Tax Based on Building Official's Valuation		
Category	**Building and Structure Construction Tax**	**Construction Excise Tax**	**Combined Tax Rate**
Residential	1.75 % (of 88% of valuation)	2.75 % (of 88% of valuation)	4.5% (of 88% of valuation)
Commercial	1.5%	3.0%	4.0%
Office, Research and Development	1.0%	-	1.0%
Data Centers	1.0%	-	1.0%
Industrial	1.0%	-	1.0%

CONSTRUCTION VALUATION TAX RATES

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 % (of 88% of valuation)	2.75 % (of 88% of valuation)	4.5% (of 88% of valuation)
Commercial	1.5%	3.0%	4.0%
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%

In addition to the partial suspensions listed above, a separate program, the Downtown High-Rise Residential Development Incentive Program, waives 50% of construction taxes for any residential tower in the downtown area that breaks ground by July 2018 and is completed by December 2020. It is anticipated that several major residential projects in Downtown will be started in 2017-2018.

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. 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 2017-2018, Building and Structure Construction Tax receipts through January totaled $13.9 million, down 4% from the $14.5 million collected through the same period last year, and on target to exceed the 2017-2018 Adopted Budget estimate of $18 million. Based on strong collections through January, tax receipts are anticipated to end the fiscal year at least $20 million, exceeding the current budget estimate by $2 million.

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 total $76 million, slightly below the estimate included in the 2018-2022 Adopted Capital Improvement Program (CIP). It is projected that collections will drop from the 2017-2018

BUILDING AND STRUCTURE CONSTRUCTION TAX

estimate of $20 million to $16 million in 2018-2019 and to $15 million for the remainder of the forecast period as projects are completed and activity levels slightly decrease.

In 2005, the City Council adopted the North San José Area Development Policy (Policy), which established a policy framework to guide the ongoing development of the area as an important employment center for San José. In order to provide public infrastructure requirements and to fund roadway improvements to mitigate the impacts of increased traffic generated by new development under the Policy, the City Council adopted the North San José Traffic Impact Fee to fund these improvements. In January 2012, the City Council adopted the North San José Traffic Impact Fee Incentive Program which reduced the traffic impact fee imposed on industrial development projects. This Program was amended in February 2013 and again in December 2013, further reducing the traffic impact fee to entice commercial/job-oriented development in North San José. With the lowering of the impact fees and the loss of San Jose Redevelopment Agency contributions, a large traffic infrastructure funding gap was created. In June 2014, as part of the Mayor's June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, Manager's Budget Addendum #8 described a new funding strategy to address the funding gap. The approved funding strategy dedicates future Building and Structure Construction Tax revenues generated from new development in North San José to be held in reserve for North San José transportation projects. It is anticipated that there will be several new major projects under construction in the North San José area during the 2019-2023 forecast period. As the budget for the 2019-2023 Traffic Capital Program is developed, an estimate of the tax revenue from these projects will be set aside so that funding is available for the construction of North San José and Route 101/Mabury Road transportation improvement projects.

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

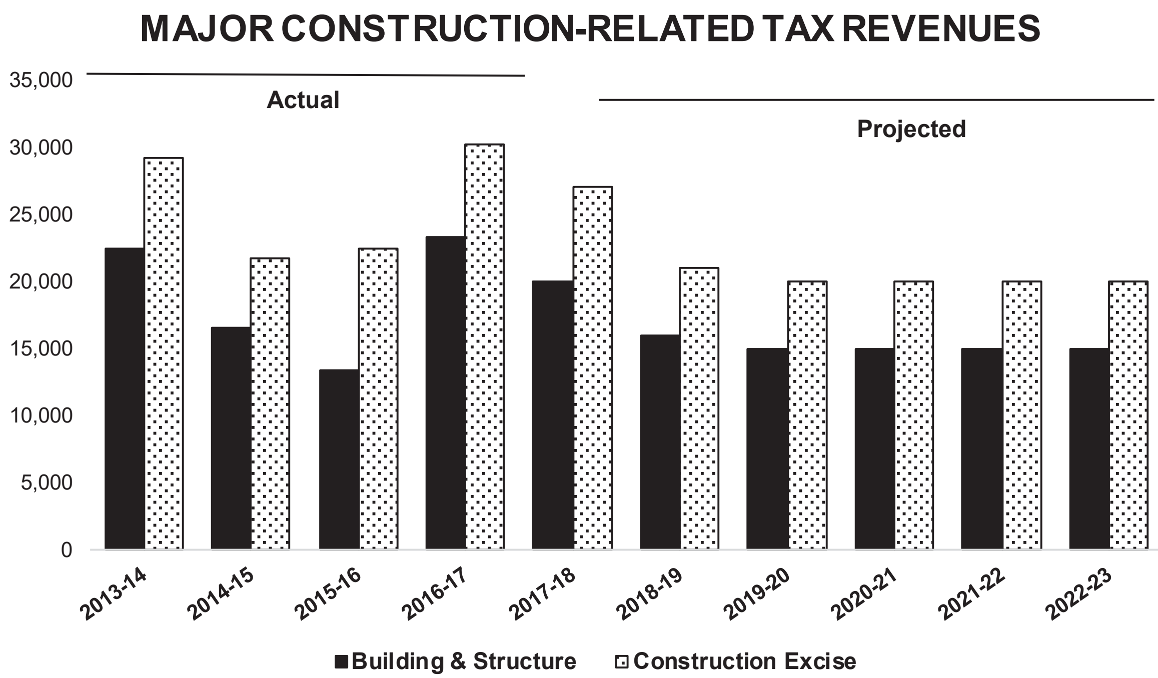
The Construction Excise Tax (also referred to as the Commercial-Residential-Mobile Home Park Building Tax) is imposed upon the construction, alteration, repair or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. This general 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 has also been used as a budget balancing solution to address General Fund shortfalls in prior years.

In 2017-2018, tax receipts through January for the Construction Excise Tax Fund totaled $18.9 million, 2% below the $19.3 million collected through the same period last year and on target to exceed the 2017-2018 Adopted Budget estimate of $24 million. Based on collections through

CONSTRUCTION EXCISE TAX

January, collection levels are anticipated to end the fiscal year at $27 million, exceeding the current budgeted estimate by $3 million.

Based upon the construction projections provided by the PBCE Department and actual collections on this tax, Construction Excise Tax collections are projected to total $101 million over the five-year forecast period, with proceeds estimated at $21 million in 2018-2019, and decreasing to $20 million in 2019-2020 through 2022-2023. This collection level represents a slight decrease of $4 million (4%) from the 2018-2022 Adopted CIP. A comparison of the five-year forecast with actual collections in previous years for the Construction Excise Tax is shown in the chart that follows.



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 remain at $375,000 over the Forecast period. These fees are detailed in the chart below.

MUNICIPAL WATER SYSTEM FEES

MUNICIPAL WATER SYSTEM FEES
($ in Thousands)

	2018-2022 CIP	2019-2023 Forecast	Difference	% Change
Advance System Design Fee	125	125	-	0%
Meter Installation Fee	125	125	-	0%
Service Connection Fee	125	125	-	0%
TOTAL	**375**	**375**	**-**	**0%**

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 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 2017-2018, receipts are projected to total $200,000 based on year-to-date activity levels. This collection level is on target to meet budget of $200,000 due strong residential development activity. Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, collections are expected to remain at $200,000 in the forecast as a result of development remaining strong. A total of $1 million is expected over the five-year period of this forecast, which is equal to the total in the 2018-2022 Adopted CIP of $1 million.

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 2017-2018, receipts are projected to total $700,000 based on year-to-date activity levels, which is equal to the budgeted estimate of $700,000. Annual collections are expected to remain at $700,000 in the forecast. The 2019-2023 Forecast projection for this fee is $3.5 million, which is equal to the 2018-2022 Adopted CIP estimate of $3.5 million.

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 2017-2018, receipts are projected to total $200,000 based on year-to-date activity levels, which is equal to the budgeted estimate of $200,000. The five-year forecast for Storm Drainage Connection Fees totals $1 million, with annual receipts of $200,000 for the period from 2018-2019 to 2022-2023. This collection level is equal to the estimate included in the 2018-2022 Adopted CIP of $1 million.

ATTACHMENT A

CONSTRUCTION-RELATED REVENUE
2019-2023 FORECAST
(in $ thousands)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	5 Yr Total
Construction and Conveyance Tax							
2018-2022 Adopted CIP	36,000	35,000	35,000	35,000	35,000	N/A	176,000
2019-2023 FORECAST	42,000	38,000	36,000	36,000	36,000	36,000	182,000
Difference	6,000	3,000	1,000	1,000	1,000	N/A	6,000
Building and Structure Construction Tax*							
2018-2022 Adopted CIP	18,000	15,000	15,000	15,000	15,000	N/A	78,000
2019-2023 FORECAST	20,000	16,000	15,000	15,000	15,000	15,000	76,000
Difference	2,000	1,000	-	-	-	N/A	(2,000)
Construction Excise Tax*							
2018-2022 Adopted CIP	24,000	21,000	20,000	20,000	20,000	N/A	105,000
2019-2023 FORECAST	27,000	21,000	20,000	20,000	20,000	20,000	101,000
Difference	3,000	-	-	-	-	N/A	(4,000)
Municipal Water Advance System Design Fee							
2018-2022 Adopted CIP	25	25	25	25	25	N/A	125
2019-2023 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Municipal Water Meter Installation Fee							
2018-2022 Adopted CIP	25	25	25	25	25	N/A	125
2019-2023 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Municipal Water Service Connection Fee							
2018-2022 Adopted CIP	25	25	25	25	25	N/A	125
2019-2023 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Residential Construction Tax							
2018-2022 Adopted CIP	200	200	200	200	200	N/A	1,000
2019-2023 FORECAST	200	200	200	200	200	200	1,000
Difference	-	-	-	-	-	N/A	-
Sanitary Sewer Connection Fee							
2018-2022 Adopted CIP	700	700	700	700	700	N/A	3,500
2019-2023 FORECAST	700	700	700	700	700	700	3,500
Difference	-	-	-	-	-	N/A	-
Storm Drainage Connection Fee							
2018-2022 Adopted CIP	200	200	200	200	200	N/A	1,000
2019-2023 FORECAST	200	200	200	200	200	200	1,000
Difference	-	-	-	-	-	N/A	-
TOTAL							
2018-2022 Adopted CIP	79,175	72,175	71,175	71,175	71,175	N/A	364,875
2019-2023 FORECAST	90,175	76,175	72,175	72,175	72,175	72,175	364,875
Difference	11,000	4,000	1,000	1,000	1,000	N/A	-
% Change from 2018-2022 CIP	14%	6%	1%	1%	1%	N/A	0%

* Please refer to the Capital Revenue Forecast for Development of the 2019-2023 Capital Improvement Program memorandum for additional information regarding these development-related construction taxes.

Five-Year Economic Forecast and Revenue Projections

2019-2023

Appendix A

CITY OF SAN JOSE BUDGET PRINCIPLES

The Mission of the City of San José is to provide quality services, facilities and opportunities that create, sustain and enhance a safe, livable and vibrant community for its diverse residents, businesses and visitors. The General Fund Budget shall be constructed to support the Mission.

1) STRUCTURALLY BALANCED BUDGET

The annual budget for the General Fund shall be structurally balanced throughout the budget process. A structurally balanced budget means ongoing revenues and ongoing expenditures are in balance each year of the five-year budget projection. Ongoing revenues shall equal or exceed ongoing expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance. The plan to restore balance may include general objectives as opposed to using specific budget proposals in the forecast out years.

2) PROPOSED BUDGET REVISIONS

The annual General Fund Proposed Budget balancing plan shall be presented and discussed in context of the five-year forecast. Any revisions to the Proposed Budget shall include an analysis of the impact on the forecast out years. If a revision(s) creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

3) USE OF ONE-TIME RESOURCES

Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures. One time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the Council.

4) BUDGET REQUESTS DURING THE YEAR

New program, service or staff requests during the year that are unbudgeted shall be considered in light of the City's General Fund Unfunded Initiatives/Programs List and include a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net-zero effect on the budget.

5) RESERVES

All City Funds shall maintain an adequate reserve level and/or ending fund balance as determined annually as appropriate for each fund. For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, shall be maintained. Any use of the General Fund Contingency Reserve would require a two-thirds vote of approval by the City Council. On an annual basis, specific reserve funds shall be reviewed to determine if they hold greater amounts of funds than are necessary to respond to reasonable calculations of risk. Excess reserve funds may be used for one-time expenses.

Original City Council Approval 03/18/2008
Revised 09/09/08

6) DEBT ISSUANCE
The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

7) EMPLOYEE COMPENSATION
Negotiations for employee compensation shall focus on the cost of total compensation (e.g., salary, step increases, benefit cost increases) while considering the City's fiscal condition, revenue growth, and changes in the Consumer Price Index (cost of living expenses experienced by employees.)

8) CAPITAL IMPROVEMENT PROJECTS
Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding $100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including the operations and maintenance costs, will not require a decrease in existing basic neighborhood services.

9) FEES AND CHARGES
Fee increases shall be utilized, where possible, to assure that fee program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

10) GRANTS
City staff shall seek out, apply for and effectively administer federal, State and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs with the exception of pilot projects to determine their suitability for long-term funding.

11) GENERAL PLAN
The General Plan shall be used as a primary long-term fiscal planning tool. The General Plan contains goals for land use, transportation, capital investments, and service delivery based on a specific capacity for new workers and residents. Recommendations to create new development capacity beyond the existing General Plan shall be analyzed to ensure that capital improvements and operating and maintenance costs are within the financial capacity of the City.

12) PERFORMANCE MEASURES
All requests for City Service Area/departmental funding shall include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.

13) FIRE STATION CLOSURE, SALE OR RELOCATION
The inclusion of the closure, sale or relocation of a fire station as part of the City Budget is prohibited without prior assessment, community outreach, and City Council approval on the matter.

Original City Council Approval 03/18/2008
Revised 09/09/08

Service Delivery Framework

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Five-Year Economic Forecast and Revenue Projections

2019-2023

Appendix B

General Fund Revenue Descriptions

PROPERTY TAX

On June 6, 1978, California voters approved Proposition 13, which added Article XIIIA to the State Constitution and placed restrictions on the valuation of real property and on the imposition of ad valorem property tax. Under current law, all taxable real and personal property is subject to a tax rate of one percent of the assessed value. (In June 1986, California voters approved a Constitutional Amendment, which provides for an exception to the one-percent limitation. The Amendment allows local governments and school districts to raise property taxes above one percent to finance general obligation bond sales. A tax increase can only occur if two-thirds of those voting in a local election approve the issuance of bonds.) The assessed value of real property that has not changed ownership adjusts by the change in the California Consumer Price Index up to a maximum of two percent per year. Property which changes ownership, property which is substantially altered, newly-constructed property, State-assessed property, and personal property are assessed at the full market value in the first year and subject to the two percent cap, thereafter.

In 1979, in order to mitigate the loss of property tax revenues after approval of Proposition 13, the State Legislature approved Assembly Bill 8 (AB 8). This action was approved to provide a permanent method for allocating the proceeds from the one percent property tax rate, by allocating revenues back to local governments based on their historic shares of property tax revenues. AB 8 shifted approximately $772 million of school district property tax revenue to local governments and backfilled schools' lost revenue with subsidies from the State General Fund. Actions taken by the State in order to balance the 1992-1993 and 1993-1994 State budgets partially reversed the AB 8 formula. The 1992-1993 action reduced the City's Property Tax proceeds by nine percent, and shifted this funding to schools in order to reduce the amount of State backfill required. As part of the State's 1993-1994 Budget, the AB 8 formula was again altered requiring another ongoing shift in City Property Tax revenue to K-12 schools and community colleges.

In November 1993, the City Council elected to participate in the Teeter Plan, which is an alternative method for County property tax apportionment. Under this alternative method authorized by the State Legislature in 1949, the County apportions property tax on the basis of the levy without regard for delinquencies. With the adoption of the Teeter Plan in 1993-1994, the City received a one-time buy out of all current, secured property tax delinquencies as of June 30, 1993, which totaled $3.5 million. Under this system, the City's current secured tax payments are increased for amounts that typically were delinquent and flowed to the secured redemption roll, but the City gave up all future penalties and interest revenue derived from the delinquencies.

In 2004-2005, the State budget included a permanent reduction of the Motor Vehicle In-Lieu (MVLF) tax rate from 2% to 0.65% (its current effective rate). As part of the State budget action, the loss of MVLF was approved to be replaced with a like amount of property tax revenue, on a dollar-for-dollar basis, which now grows based on assessed valuations.

SALES AND USE TAX

The Sales Tax is an excise tax imposed on retailers for the privilege of selling tangible personal property. The Use Tax is an excise tax imposed on a person for the storage, use, or other consumption of tangible personal property purchased from any retailer. The local Sales and Use Tax is collected and administered by the State Board of Equalization and is authorized by the Uniform Local Sales and Use Tax Law and the Bradley-Burns Uniform Local Sales and Use Tax Law. The proceeds of sales and use taxes imposed within the boundaries of San José are distributed by the State to various agencies, with the City of San José receiving one percent.

The current distribution of the sales tax proceeds is outlined below, which includes a voter-approved 1/4 percent local transaction and use tax enacted by the City of San José effective October 1, 2016 (limited to 15 years) to fund essential City services such as: improving police response to reduce violent crimes and burglaries; improving 911/emergency medical and fire response times; repairing potholes and streets; expanding gang prevention; and maintaining the City's long-term financial stability. Other recent changes to the distribution percentage include a 1/8 percent increase enacted by the Santa Clara Valley Transportation Authority (VTA) on July 1, 2012 (limited to 30 years) to fund operating and maintenance expenses and capital reserve contributions for the Silicon Valley Rapid Transit Project Extension; a Santa Clara County 1/8 percent increase effective April 2013; and a VTA 1/2 percent increase effective April 1, 2017 (limited to 30 years) to enhance transit, highways, expressways, and active transportation (bicycles, pedestrians, and complete streets).

On November 2, 1993, Proposition 172 was approved allowing for the permanent extension of the half-cent State sales tax that was originally imposed on July 15, 1991, and was to sunset on June 30, 1993. (On July 1, 1993, a six-month extension of the tax was granted by the State in order to provide a source of one-time funding for cities and counties to partially offset 1993-1994 ongoing property tax reductions.) The passage of the Proposition 172 legislation, effective January 1, 1994, required that the proceeds from the half-cent tax be diverted from the State to counties and cities on an ongoing basis for funding public safety programs.

Agency	Distribution Percentage
State of California	5.500%
City of San José	1.000%
City of San José (Local Tax)	0.250%
Santa Clara County	0.875%
Santa Clara Valley Transportation Authority	1.125%
Public Safety Fund (Proposition 172)	0.500%
Total Sales Tax	**9.250%**

Major items, such as services, are exempt from the tax code. As part of a 1991-1992 legislative action, tax exemptions were removed from candy and snack foods, bottled water, newspapers and periodicals, and fuel and petroleum products sold to certain carriers. The removal of these exemptions became effective July 1991. On November 3, 1992, however, the voters approved Proposition 163, which partially repealed the prior action, re-establishing the exemption for snack food, candy, and bottled water effective December 1, 1992.

SALES AND USE TAX

It should be noted that, as part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), starting July 1, 2004, 0.25% of the City's one percent Bradley-Burns sales tax was temporarily suspended and replaced dollar-for-dollar with property tax revenue (primarily Educational Revenue Augmentation Funds). This action remained in effect until the State's bond obligations were satisfied with a final payment in August 2016. The City, however, continued to record the replacement property tax revenues as sales tax receipts because the growth formula for these receipts was tied to sales tax and because this action was temporary. This mechanism ceased in 2015-2016 with the final triple flip payment.

TRANSIENT OCCUPANCY TAX

The Transient Occupancy Tax is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is 30 days or less. The tax rate is currently ten percent, six percent of which is placed in the Transient Occupancy Tax Fund and four percent of which is deposited in the General Fund. The tax is authorized by Title 4 of the Municipal Code, Section 4.74, Ordinance number 21931.

The expenditure of the Transient Occupancy Tax Fund portion of the revenues (six percent of room rent) is restricted by Title 4 of the Municipal Code, Section 4.72, Ordinance number 23481 to the following uses:

1) Funding for the Convention and Visitors Bureau (approximately 25%);

2) Funding for the cultural grant program and fine arts division programs, including funding of cultural grants and expenses of the fine arts division, including, but not limited to, personal and non-personal/equipment expenses, fringe benefits, and overhead (approximately 25%); and

3) Funding for the City's operating subsidy to the convention and cultural facilities of the City of San José (approximately 50%).

The General Fund portion, or 40% of the Transient Occupancy Tax, was enacted as a general tax. The other 60% of the Transient Occupancy Tax is restricted for use in cultural development, supporting a convention and visitors bureau, and supporting the convention and cultural facilities of San José. Although not specifically related to the Transient Occupancy Tax, many hotels in San José also belong to the Convention Center Facilities District, which assesses an additional special tax on daily room rates of 4%. Revenues from the Convention Center Facilities District are restricted for debt service payments or capital improvements related to the Convention Center. Of the approximately 14% total tax assessed on room rates at most hotels, only the 4% portion of the Transient Occupancy Tax is deposited into the General Fund.

FRANCHISE FEES

The City collects compensation from Pacific Gas and Electric Company (PG&E) for the use of City streets in the distribution of natural **gas** and **electricity**. PG&E is assessed 2.0% of the gross receipts representing its sale of electricity and natural gas for a calendar year within the City limits. The taxes are authorized by Title 15 of the Municipal Code, Chapter 15.32, and no authorized exemptions exist.

On February 9, 2010, the City Council approved ordinances amending the franchises with PG&E for the sale of natural gas and the sale of electricity. These amendments added a franchise fee surcharge of 0.3%, resulting in a total franchise fee remitted to the City of 2.3% of gross receipts from the sale of gas and electricity in the City through 2021. The 0.3% surcharge was approved by the California Public Utilities Commission (CPUC) effective May 5, 2010. Implementation of the surcharge began in September 2010.

From the sale of **nitrogen gas**, the City collects an annual fee of $0.119/linear foot of gas-carrying pipe installed within public streets. In addition, each customer is required to pay an annual per connection fee of $118.76 multiplied by the inside diameter of pipe expressed in inches at the property line. A minimum of $1,000 total franchise fees per calendar year is required. The fee is authorized by City Ordinance number 20822 and amended by Ordinance number 25054; there are no authorized exemptions.

On July 1, 1996, **Commercial Solid Waste** (CSW) collection franchise fees were converted to a volume basis. This revision amended the previous structure (which had been in effect since January 1, 1995) that assessed a franchise fee equal to 28.28% of gross receipts in excess of $250,000. With that change, fees were set at $1.64 per cubic yard per collection for cubic yards in excess of 43,000 (the cubic yard basis is tripled if the waste has been compacted) in a fiscal year, and were assessed on any commercial business engaged in the collection, transportation, or disposal of garbage and/or rubbish (solid waste) accumulated or generated in the City of San José. In December 1997, the City Council increased the rate to $2.41 effective on January 1, 1998. In 1999-2000, this fee was increased to $2.84 per cubic yard. In 2002-2003, a three-year gradual shift in the revenue distribution between the CSW and AB 939 fees (also known as the "commercial source reduction and recycling fee" collected and deposited in the Integrated Waste Management Fund) was approved, which increased the amount collected for CSW to $3.34 per cubic yard in 2004-2005. In 2005-2006, the City Council increased the fee by 4.5% ($0.15 per cubic yard) to $3.49 per cubic yard. In 2006-2007, an additional 5.0% increase was approved by the City Council, which brought the fee to $3.67 per cubic yard. In 2009-2010, the elimination of the fee exclusion for the first 20,000 cubic yards hauled in the fiscal year was approved.

On October 19, 2010, the City Council amended the CSW fee to a fee for franchises based on geographic collection districts rather than volume. The base fee of $5.0 million per year for each of two geographic collection districts, plus a supplemental fee of $1.0 million for the right to conduct CSW services in both the North District and the South District became effective July 1, 2012, and is subject to an annual Consumer Price Index (CPI) adjustment. The CSW fee is authorized by Title 9 of the Municipal Code, Chapter 9.08. For 2017-2018, CSW fees are estimated to total $11.5 million and includes a CPI increase of 1.26%.

FRANCHISE FEES

The City collects a **Cable Television Franchise Fee** from any company that provides cable television (Municipal Code, Title 15, Chapter 15.34). The current fee requires each State video franchise holder to pay the city a franchise fee that is five percent of gross revenues derived from subscriptions. Excluded from the gross receipts are amounts derived from installation, late charges, advertising, taxes, line extensions, and returned check charges.

The **Water Franchise Fee** was established in 1995-1996 (effective July 27, 1995, Title 15 of the Municipal Code, Section 15.40). The assessment of the fee is allowable under State law, which asserts that a city can collect a franchise fee from a water utility company for laying pipelines and operating them in public right-of-ways. The fee is equal to the greater of either: 1) two percent of the utility's gross annual receipts arising from the use, operation, or possession of facilities located in public streets within the City limits established on or after October 10, 1911, or 2) one percent of all gross receipts derived from the sale of water within the City limits. Those portions of the water company's system that are established in private right-of-ways or utility easements granted by private developers are exempted from the franchise fee assessment. It should be noted that the City is not assessing a Water Franchise Fee on the San Jose Water Company due to a Santa Clara Superior Court ruling that states San José cannot impose a franchise fee on that company.

UTILITY TAX

The Utility Tax is charged to all users of a given utility (electricity, gas, water, and telephone) other than the corporation providing the utility (i.e., a utility company's consumption of all utilities used in the production or supply of their service is not taxed). For the electricity, gas, and water categories, consumers pay 5.0% of their utility charges to the utility company that acts as a collection agent for the City. For the telephone utility tax, consumers pay 4.5% on all intrastate, interstate, and international communication services regardless of the technology used to provide such services. Private communication services, voice mail, paging, and text messaging are treated the same as traditional telephone services. In November 2008, voters approved Measure K that reduced the telephone utility rate from 5.0% to 4.5% and broadened the base for the tax and the definition of technologies covered by the tax. The tax is not applicable to State, County, or City agencies. Also, per State regulations, insurance companies and banks are exempted from the tax. This tax is authorized by Title 4 of the Municipal Code, Section 4.68.

TELEPHONE LINE TAX

In November 2008, voters approved Measure J that replaced the Emergency Communication System Support (ECSS) Fee with a tax in an amount that is 10% less than the ECSS Fee. The tax amount is $1.57 per telephone line per month and $11.82 per commercial type trunk line. The City ceased collecting the fee and began collecting the tax by April 1, 2009. The tax is collected from telephone users on their telephone bills. Exemptions to the tax include low-income seniors and disabled persons who receive lifeline telephone service.

BUSINESS TAXES

The **General Business Tax** was first adopted on July 15, 1963. The methodology used for calculating the Business Tax (Chapter 4.76 of the San José Municipal Code) was adopted in 1984 and adjusted in 1986. In November 1996, the rates were increased to reflect an annual inflation factor as part of the New Realities Task Force recommendations contingent on voter approval. Because the voters did not approve the continuation of the increase in November 1998, the rates were returned to the levels prior to November 1996. Those rates stayed into effect until San José voters approved the Business Tax Modernization measure on November 8, 2016. The approved changes, which became effective July 1, 2017, included:

- Increasing the base tax;
- Increasing the incremental tax and making it more progressive;
- Increasing the cap (the maximum amount of the tax affecting large businesses);
- Updating the application of the tax to more classes of businesses; and
- Adding inflation-based adjustments for future tax rates.

The following charts present the structure of the business tax rates before and after the Business Tax Modernization that was effective July 1, 2017.

Employee Count

Businesses	1986 – July 2017	Effective July 1, 2017
Base Tax	$150	$195
Employee Count*	FTE or EDD	FTE or EDD
Incremental Tax: 1-2	$0	$0
Incremental Tax: 3-35**	$18 (9+)	$30
Incremental Tax: 36-100	$18	$40
Incremental Tax: 101-500	$18	$50
Incremental Tax: 501+	$18	$60
Cap	$25,000	$150,000

*Continue to allow businesses to choose between calculating the number of employees based on Full-Time Equivalent (FTE) or based on the number employers report to the California Employment Development Department (EDD).

**Commence the employee rate at the third employee rather than the ninth employee.

Commercial (Non-Residential) Rental Property Units

Commercial Landlords	1986 – July 2017	Effective July 1, 2017
Base Tax	$150	$195
Tax per Square Foot*	$0.01 (15,000+)	$0.025
Cap	$5,000	$150,000

*Commence the square-foot rate at the first square-foot rather than the 15,001st square-foot.

BUSINESS TAXES

Residential Rental Property Units

Residential Landlords: Rental Units*	1986 – July 2017	Effective July 1, 2017
Base Tax	$150	$195
Incremental Tax: 1-2**	N/A (Not Counted)	$0 (Base Tax applied)
Incremental Tax: 3-35***	$5 (31+)	$10
Incremental Tax: 36-100	$5	$15
Incremental Tax: 101-500	$5	$20
Incremental Tax: 501+	$5	$25
Cap	$5,000	$150,000

*Maintains the exemption for rental housing owned by nonprofit organizations.

**Commence paying the base tax at the first rental unit rather than the third unit.

***Commence the unit rate at the third unit rather than the 31st unit.

Mobile Home Parks Rental Units

Mobile Home Parks – Rental Units	1986 – July 2017	Effective July 1, 2017
Base Tax	$150	$195
Flat Incremental Tax*	$5 (31+)	$10
Cap	$5,000	$150,000

*Commence the unit rate at the third unit rather than the 31st unit.

Water Meter Connections

Water Companies	1986 – July 2017	Effective July 1, 2017
Base Tax*	N/A	$195
Flat Incremental Tax**	$0.10-0.30 per connection	$1.00 per connection
Cap	$20,000	$150,000

*Apply the Base Tax.

** Rate changed from a range of connections to a per-connection rate.

There are several exclusions (by federal or State regulations) or exemptions (by the City Council) from the General Business Tax. The major types of exempt organizations include banks and insurance companies, charitable and non-profit organizations, interstate commerce, and low revenue generation businesses. On June 8, 1993, the City Council deleted the sunset provision of a business tax exemption for certain artists and craftpersons selling their wares at one location.

BUSINESS TAXES

On May 26, 1987, the City Council enacted a new **Disposal Facility Tax,** which became effective July l, l987. The rate structure is based on the weight of solid waste disposed. On July 1, 1992, the City Council increased the Disposal Facility Tax from $3.00 per ton of disposed waste to $13.00 per ton. This tax is assessed on landfills located in the City of San José. Beginning 2002-2003, waste previously classified as alternate daily cover was made subject to the Disposal Facility Tax. After a legal challenge, the City reinstated the alternate daily cover exemption in August 2005.

During 1991-1992, the City Council approved the establishment of a Cardroom Ordinance, which contained the provision of a **Cardroom Business Tax** to tax gross receipts from cardrooms located in the City. On June 9, 1992, the City Council approved an ordinance amending the San José Municipal Code, increasing the tax rate schedule and expanding the permissible games authorized.

A gross receipt monthly tax schedule was established with taxes ranging from 1% to 13% of gross receipts. In 1993-1994, the City Council approved a revision to the Cardroom Ordinance, instituting a flat 13% gross receipts tax for all cardrooms located in the City with annual gross revenues in excess of $10,000. In June 2010, voters approved a ballot measure that increased the tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98.

On November 2, 2010, San José voters approved Ballot Measure U, which allows the City to tax all marijuana businesses (medical and non-medical; legal and illegal) at a rate of up to 10% of gross receipts. On December 13, 2010, the City Council approved Ordinance number 28867 which sets the **Marijuana Business Tax** at 7%, and on June 4, 2013, the City Council approved Ordinance number 29262 to increase the rate to 10% effective on July 1, 2013. Details of the Marijuana Business Tax are provided in Municipal Code Chapter 4.66. The Marijuana Business Tax became effective on March 1, 2011.

LICENSES AND PERMITS

The City requires payment for the issuance of Building Permits, Fire Permits, and miscellaneous health and safety-related licenses and permits. For most licenses and permits, the various fees charged by a given department are based on full recovery of the estimated costs for providing each service. For example, the City requires fire safety inspections of all commercial property. The fee provides for inspection charges and a number of special charges. Authorized exceptions include the addition and/or alteration of under 20 sprinkler heads and the installation of portable extinguishers. The fee is authorized by Title 17 of the Municipal Code, Chapter 17.12. Where appropriate, license and permit fees take into consideration approved exceptions to the City Council's full cost recovery policy, as well as applicable State laws. Specific prices and rates are determined by ordinance and each of the charges is fully explained in the City's Fees and Charges Report, which is released in May of each year.

FINES, FORFEITURES, AND PENALTIES

The City receives a portion of the fines collected in connection with violations of the State Vehicle Code on city streets. Various fines may be assessed in addition to those imposed by the Santa Clara County bail schedule and judges' sentences. The County court system collects the fines as authorized by the State Vehicle Code and makes monthly remittances to the City. Only "on call" emergency vehicles are exempt from Vehicle Code street laws. State legislative action in 1991-1992 reduced the amount (by approximately 50%) of Vehicle Code fine and forfeiture revenue forwarded to the City. On October 10, 1997, however, the Governor signed Assembly Bill 233 (AB 233), which became effective on July 1, 1998. AB 233 changed how the State and its counties and cities share in traffic citation fine revenues. This legislation essentially resulted in the doubling of the City's revenue collections in this area, reversing the impact of the 1991-1992 State legislative action.

The City receives fines and forfeitures of bail resulting from violation of State Health and Safety Codes and City Ordinances. These fees, authorized by the State Criminal Code and City Ordinances, are collected by the County and remitted to the City on a monthly basis. The City also receives revenue collected in connection with violations of the City's vehicle parking laws. These fines vary according to the nature of the violation. The City pays an agency to process and collect the fines. The only authorized exemption is for "on call" emergency vehicles.

USE OF MONEY AND PROPERTY

The City invests idle funds in order to earn interest. The total income varies with the market rates for interest and the funds available to invest. The City has established a formalized and conservative investment policy with objectives emphasizing safety and liquidity. This policy provides guidelines for the type, size, maturity, percentage of portfolio, and size of security issuer (among others) of each investment. In addition, the policy statement outlines several responsibilities of the City Council, City Manager, City Auditor, and Finance Director. These policy and monitoring units interact and produce investment performance reports and an annually updated investment policy. All reports and policies must be reviewed and approved by both the City Manager and City Council. Investment of funds is authorized by the City Charter, Section 8066. Revenue is also received from the rental of City-owned property.

REVENUE FROM LOCAL AGENCIES

This revenue category includes revenue received from a variety of other local government agencies. For example, the City receives payments from the Central Fire District for fire services provided to District residents by the San José Fire Department.

REVENUE FROM THE STATE OF CALIFORNIA

The City receives revenue from the State of California in a number of different forms. While the State provides the City with funds through grants and contracts for services, by far the largest source of funds is the Tobacco Settlement payments.

On November 23, 1998, the attorneys general of most states and the major United States tobacco companies signed a Master Settlement Agreement (MSA) to settle more than 40 pending lawsuits brought by states against the tobacco industry. In exchange for the states dropping their lawsuits, and agreeing not to sue in the future, the tobacco companies agreed to pay, in perpetuity, various annual payments to the states to compensate them for some of the medical costs of caring for persons with smoking-related illnesses. Further, the companies have restricted their marketing activities and established new efforts to curb tobacco consumption. The City, along with the other states and local government entities, joined in the settlement. In the MSA, the Original Participating Manufacturers agreed to pay a minimum of $206 billion over the first twenty-five years of the agreement.

The City has also previously received Motor Vehicle In-Lieu (MVLF) Tax revenues, which are license fees collected by the California Department of Motor Vehicles (DMV). Until 1998-1999, the annual license fee was two percent of the market value of the vehicle as determined by the DMV. In 1998-1999, the State reduced the license fees by 25%, but agreed to backfill local jurisdictions for the loss in revenue, which represented 67.5% of MVLF revenues received by the City at the time. In 2004-2005, as part of State budget actions, the MVLF rate was permanently reduced from 2% to 0.65% and all future receipts of the backfill were approved to be in the form of increased Property Tax receipts and are reflected in that category. Thus, the backfill amount due to the City has permanently become property tax revenue that now grows based on assessed valuations. The State withholds a portion of these fees for the support of the DMV. The remaining fees are divided equally between counties and cities, and their aggregate shares are distributed in proportion to the respective populations of the cities and counties of the State. The exemptions authorized by the State Constitution, Article 13, include vehicles owned by insurance companies and banks, publicly owned vehicles, and vehicles owned by certain veterans with disabilities. The tax is authorized by the State Revenue and Taxation Code. In late June 2011, the State Legislature approved SB 89, which shifted over $130 million in annual General Fund Motor Vehicle In-Lieu revenue from cities to support State law enforcement grants effective July 1, 2011. State legislative action in 1992-1993 eliminated local Trailer Coach In-Lieu Tax revenues. These funds were shifted to the State General Fund.

REVENUE FROM THE FEDERAL GOVERNMENT

Federal grants account for a significant portion of federal revenues. Grant programs must be specifically outlined and proposed for federal sponsorship. Due to the grant process, the volume of grants and level of revenue has been and will be sporadic.

FEES, RATES, AND CHARGES

Fees, Rates, and Charges are comprised of fees charged for services, which are primarily provided by the following departments: Planning, Building and Code Enforcement; Police; Public Works; Transportation; Library; and Parks, Recreation and Neighborhood Services. The Planning, Building and Code Enforcement Department, for example, charges specific fees for various development fee programs. The fees in this category are determined by ordinance and described in the City's annual Fees and Charges Report. In addition, it should be noted that the fees assessed by the Parks, Recreation and Neighborhood Services Department can be found on the internet (www.sanjoseca.gov/prns).

OTHER REVENUE

This revenue category contains revenue received from a variety of miscellaneous sources. Significant sources of revenue include reimbursement related to Finance Department staff in the Investment Program, sale of surplus property receipts, one-time and/or varied levels of reimbursements, and miscellaneous revenues associated with the Office of the City Attorney.

TRANSFERS AND REIMBURSEMENTS

The Transfers and Reimbursements revenue category is used to account for funds received by the General Fund from other City funds through a combination of means, including operating and capital fund overhead charges, transfers, and reimbursements for services rendered.

Overhead charges are assessed to recover the estimated fair share of indirect General Fund support services costs (staff and materials) that benefit other City program and fund activities. Examples of support activities included in the charges are services provided by the following departments: Finance, Human Resources, Information Technology, Mayor and City Council, the Office of the City Manager, and the Office of the City Attorney. Each year the charges are calculated using Finance Department developed overhead rates applied to projected salary costs in most City funds. The most significant sources of overhead reimbursements are the Treatment Plant Operating Fund, the Sewer Service and Use Charge Fund, the Airport Maintenance and Operation Fund, and the Integrated Waste Management Fund.

Transfers consist of both one-time and ongoing revenue sources to the General Fund. Ongoing transfers include capital fund transfers for maintenance and operating expenses incurred by the General Fund. One-time transfers occur on a sporadic basis and have included the disposition of uncommitted fund balances in several special funds and the transfer of monies to fund a variety of City projects.

Reimbursements from other funds represent the cost to the General Fund for services provided on behalf of the other City funds. This category also includes the State Gas Tax funds that are used to reimburse the General Fund for eligible expenditures. The State Gas Tax is described in the following section.

STATE GAS TAX

A portion of the State Gas Tax is shared with cities and counties under separate sections of the Streets and Highways Code. The 1964 Gas Tax (Section 2106) provides for a $0.0104 charge on every gallon of gasoline. Revenue is then allocated according to the following formula:

County Allocation :	**a**	No. of Registered Vehicles in County
	÷ b	No. of Registered Vehicles in State
	x c	$0.0104
	x d	Gallons of Gas Sold
City Allocation:	**a**	Incorporated Assessed Value in County
	÷ b	Total Assessed Value in County
	x c	County Allocation
Individual City Allocation:	**a**	Population in City
	÷ b	Population of all Cities in County
	x c	City Allocation

The 1943 Gas Tax (Section 2107) authorized a per gallon charge of $0.00725. The State allocates part of these revenues for snow removal; the balance is distributed by calculating the portion of the State population represented by the city's population.

As a result of the passage of Proposition 111, gas and diesel taxes were increased $0.05 per gallon on August 1, 1990, and increased by $0.01 per gallon each January 1 until and including January 1, 1994. For the 1990 Gas Tax (Section 2105), cities are apportioned a sum equal to the net revenues derived from 11.5% of highway users taxes in excess of $0.09 per gallon in the proportion that the total city population bears to the total population of all cities in the State.

Five-Year Economic Forecast and Revenue Projections

2019-2023

Appendix C

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

Development Activity Highlights and Five-Year Forecast (2019-2023)

Prepared by:

City of San Jose
Department of Planning, Building and Code Enforcement
February 2018

Development Activity Highlights and Five-Year Forecast (2019-2023)

For more information, please contact:

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This report in color and other information can be found on the Planning Division website at:

http://www.sanjoseca.gov/index.aspx?NID=2050

Development Activity Highlights and Five-Year Forecast (2019-2023)

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Development Activity Highlights and Five-Year Forecast (2019-2023)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2019-2023)* is a report issued annually by the Department of Planning, Building and Code Enforcement. The report serves three important functions, as follows:

1. Assists the Office of the City Manager in estimating future construction-related tax revenues that generate funds for the City's Capital Improvement Program;
2. Provides City policymakers and staff with key data for periodic assessment of the rate, type, and location of development activity in San José; and,
3. As a tool for distributing information on major development projects to the public.

II. SUMMARY

New industrial developed significantly slowed in fiscal year 2016/2017, while new residential and new commercial development remained strong. New commercial development has now steadily increased for four consecutive years.

After two historic years of residential development in fiscal years 2013/2014 and 2014/2015, construction of new units in fiscal year 2015/2016 considerably declined but rebounded in fiscal year 2016/2017.

New residential units are forecasted to continue to rebound during the forecast period based on building permits issued during current fiscal year (2017/2018) and existing project approvals. During the first six months of fiscal year 2017/2018, over 1,800 building permits were issued for new residential units. Additionally, as of February 2018, there were approximately 6,000 new residential units that have received entitlements, but have not yet started construction.

New construction of single-family units reached 201 units in 2016/2017, however, many of the new units are secondary "granny" units. In 2016 the City Council approved a secondary unit ordinance that loosed existing zoning code regulations to comply with state law. As a result, more people are able to build secondary units which are classified as single-family units in Table 2 of the Five-Year Forecast.

Valuation of new commercial construction, $399 million, in fiscal year 2016/2017 is a 16-year high with various large hotel and retail project contributing to a strong year of commercial growth.

Retail vacancy rates in San José have remained low. As of the fourth quarter of 2017, the overall retail vacancy rate in San José dropped to approximately 4.1%, slightly less than the San José Metro Area (approximately 4.2%). During the first six months of the current fiscal year (2017/2018) valuation of new commercial construction has reached over $290 million, and is forecasted to reach $400 million. The month of October 2017 was substantially higher than typical at $130 million, buoyed by issuance of building permits for the Valley Fair Shopping Mall expansion. Additionally, over 1.2 million square feet of commercial projects have been entitled but have not yet started construction. Due to these factors commercial construction activity is forecasted to remain relatively strong over the next couple fiscal years. Lack of available land for large retail centers and national retail trends, however, may result in a decline in new commercial construction in the future.

New industrial construction activity significantly slowed down in 2016/2017 with $106 million compared to the previous year high of $319 million. New industrial construction incorporates new construction for office buildings and industrial manufacturing and warehouse space. This is reflective of overall vacancy rates in Silicon Valley, as they continued to climb during the fourth quarter of 2017 to 11.4%, an increase from 2016 vacancy rate of 7.5%. However, through the first six months of the current fiscal year (2017/2018) valuation of new industrial construction has reached over $170 million, and is forecasted to reach $300 million.

The office vacancy rate in downtown San José in the fourth quarter of 2017 was 13.2% slightly higher than the 11.4% average. However, out of 1.2 million square feet of available space, only about 480,000 square feet of that is Class A space, in which the vacancy rate is down to 5.8%. Large blocks of space are non-existent, with nothing available over 30,000 square feet. Sublease space is down to normal levels, at 23.9% by year end with large deals involving WeWork, Amazon, Applied Materials and Lyft. Further, Downtown San José had several large investment transactions in the fourth quarter; RiverPark Towers was purchased by Divco/Rockpoint Group, the Towers on 2nd, and the Bank of Italy were also purchased.

North San José, currently has the most R&D space available, at 19.89% in the fourth quarter of 2017 with an average asking rate of $2.24 per foot. Industrial/manufacturing and warehouse vacancy rates remain low in San José but has slightly increased to 3.8% for the same period. As a result, new construction of industrial uses is estimated to remain robust over the next couple years.

The following summary discusses current development activity and trends for each major land use category (residential, commercial, and industrial), providing some insight as to what may occur over the forecast period (2019-2023).

Residential Development

- *New residential development rebounded from a dip in fiscal year 2015/2016 and is forecasted to continue to be strong based on existing project entitlements. The dip in fiscal year 2015/2016 could be a due to a temporary trough in the entitlement and construction cycle, or reflection of lack of labor supply and high construction costs.*

- *Rising rents have spurred calls for action for many Bay Area communities, inciting a constant discussion of displacement, gentrification and affordability. The five-year rental rate growth was 34.1% in Santa Clara County. Following multiple years of steep increases, rents in Silicon Valley have leveled off. San José rents were up 2.9% year-over-year (YOY) from 2016. The median single-family home price in San José reached $1.1 million by the end of 2017, four times the U.S. Figure and up 57% since 2011.*

- *Currently, there are over 5,500 residential units with approved entitlements in San José that have not yet started construction. Because the market has largely absorbed new homes, it is anticipated that the number of new units and associated valuations will remain relatively strong over the forecast period.*

- *In November 2014, the City Council adopted a resolution that established an Affordable Housing Impact Fee (AHIF) of $17.00 per net livable square foot on new market rate rental housing developments of three or more units in San José. Through the pipeline exemption process of the AHIF, projects receiving development permit approval as of June 30, 2016, and receiving a Certificate of Occupancy by January 31, 2020 maybe exempted from the fee. The AHIF exemption is expected to incentivize construction of rental projects prior to January 2020. As a result, this may contribute to keeping valuations for new residential construction strong through fiscal year 2018-2019.*

Commercial Development

- *New commercial construction remained strong in fiscal year 2016/2017, accounting for four straight years of producing more than one million square feet of new commercial space. In the last year, construction began on Capitol Toyota (260,000 square feet) in South San José, Fairfield Inn & Suites in Alviso, and various retail projects. Total valuation for new commercial construction in 2016/2017 was $399 million, compared to the average of approximately $175 million over the preceding decade. Valuation for new construction in 2017/2018 is estimated to reach $400 million based on the first six months of the current fiscal year, which have been particularly strong.*

- *Commercial alterations also remained strong in fiscal year 2016-2017, and accounted for almost half of the total valuation for the year. This reflects the low retail vacancy rates in the south bay, and strong economy overall.*

- *A lack of large vacant sites and the influx of new commercial development could reduce the demand for large commercial shopping centers. Generally, most retail development in Silicon Valley consists of expansions or redevelopment of existing centers due in part to competition for land with office and residential development.*

- *On the national level, demand for retail space is shifting due to competition from online sales, and investors are more focused on smaller retail centers, including lifestyle/entertainment, food/beverage or grocery-anchored, and niche power centers.*

- *The five-year forecast reflects regional and national trends. New commercial construction is estimated to remain above average for the next two fiscal years, and then modestly abate over the last half of the forecast period.*

Industrial Development

- *New industrial construction activity significantly slowed down in 2016/2017 but is forecasted to rebound in fiscal year 2017/2018 and remain relatively strong over the forecast period, performing close to historical averages, but is to some degree reliant on the groundbreaking of several large projects. Over 7.3 million square feet of industrial space has been entitled but has not started construction.*

- *The strong demand for office and R&D in Silicon Valley, driven by growth in tech employment, has led to historically low vacancy rates and high rents in neighboring cities. As technology and related sector companies continue to expand, San José can offer several advantages for firms looking for office space including campus settings, flexible office spaces, and significant housing, retail, transit, and other amenities. This has led to increasing interest in industrial space in San Jose and resulted in strong valuations in industrial alterations and new construction over the last three fiscal years.*

- *Downtown San José availability of Class A office space is limited with an availability rate of 5.8% as of the fourth quarter 2017. While sublease space is down to normal levels, at 23.9% for the same period.*

- *Further, there have been notable large transactions Downtown that may result in an increase of commercial alteration.*

III. FIVE-YEAR FORECAST (2019-2023)

The Department of Planning, Building and Code Enforcement's five-year forecast of development activity is summarized in Tables 1 and 2 (next page). Construction valuation in fiscal year 2017/2018 is expected to exceed the previous five-year average, aided by a particularly strong year in new commercial and residential construction, and industrial alterations. Future development is predicted to be driven by mixed-use residential projects, and certain commercial and industrial sectors as described above. San José is poised to capitalize on on-going demand for office and warehouse space for expanding companies that has led to low vacancy rates and high rents in neighboring cities. Additional connectivity with the expansion of the BART (Bay Area Rapid Transit) into the Berryessa area and with plans for future expansion to Downtown is another positive indication for future development in San José.

Table 1
Construction Valuation: FY 12/13 to FY 22/23

Fiscal Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
	Actual Valuation[1] (in millions)					Projected Valuation (in millions)					
New Construction											
Residential	$451	$795	$491	$348	$507	$590	$546	$518	$518	$518	$518
Commercial	76	192	253	255	399	400	250	225	175	175	175
Industrial	66	283	201	319	106	300	120	120	120	120	120
Subtotal	$592	$1271	$944	$922	$1012	$1290	$916	$863	$813	$813	$813
Alterations											
Residential	$92	$117	$127	$120	$108	$110	$110	$100	$100	$100	$100
Commercial	155	243	151	249	323	280	200	180	175	175	175
Industrial	204	216	182	314	484	210	190	150	150	150	150
Subtotal	$451	$576	$459	$683	$915	$600	$500	$430	$425	$425	$425
Grand Total (Taxable)	**$1043**	**$1846**	**$1404**	**$1605**	**$1927**	**$1890**	**$1416**	**$1293**	**$1238**	**$1238**	**$1238**

[1]Valuation figures adjusted to 2017 dollars, per Bureau of Labor Statistics Consumer Price Index (CPI), San Jose-San Francisco-Oakland, all items index.

Table 2
Residential Units and Non-Residential Square Footage: FY 12/13 to FY 22/23

Fiscal Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
	Actual[1]					Projected					
Residential (Units)											
Single-Family	284	341	254	152	201	275	275	275	275	275	275
Multi-Family	2,418	4,383	2,987	1,540	2,511	2,900	2,600	2,450	2,450	2,450	2,450
TOTAL	2,702	4,724	3,241	1,692	2,712	3,175	2,875	2,725	2,725	2,725	2,725
Non-Residential (sq.ft., in thousands)											
Commercial	500	1,400	2,000	1,854	1,911	3,500	2,000	1,800	1,400	1,400	1,400
Industrial	790	1,200	1,000	2,068	1,452	2,400	1,000	1,000	1,000	1,000	1,000
TOTAL	1,290	2,600	3,000	3,922	3,363	5,900	3,000	2,800	2,400	2,400	2,400

[1]NOTE: Data on residential units based on the Building Division's *Permit Fee Activity Report*.
Data on non-residential square footage estimated based on construction valuation in the Building Division's *Permit Fee Activity Report*.

IV. CONSTRUCTION TAXES

The City of San Jose imposes a series of construction-related taxes that are generally used to finance the construction and improvement of facilities and infrastructure systems that provide capacity beyond the needs attributed to a particular development. These taxes are in addition to cost-recovery fees charged for processing and reviewing applications for development approvals and permits. The largest construction-related tax revenue sources are described below.

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 (except for authorized exemptions- see below). The proceeds from this tax are restricted in use to the provision of traffic capital improvements on major arterials and collectors, the acquisition of lands and interest in land, and the construction, reconstruction, replacement, widening, modification and alteration (but not maintenance) of City streets.

Construction Excise Tax

The Construction Excise Tax is imposed upon construction, alteration, repair, or improvement of any residential or commercial structure (except for authorized exemptions- see below). The tax does not apply to industrial development. This is a general purpose tax that may be used for any "usual current expenses" of the City. The City Council has historically used the majority of these funds for traffic infrastructure improvements.

Residential Construction Tax

The Residential Construction Tax is imposed upon any construction of a one-family dwelling unit or multi-family units or any mobile home lot in the City. This tax is collected and placed in a fund used to reimburse private entities that have constructed a portion of an arterial street that is wider than what is normally required in connection with residential development. The funds are also used to construct median landscaping and other street improvements.

V. MAJOR DEVELOPMENT ACTIVITY DATA

Planning staff has collected a significant amount of data on development activity, which is the foundation for the five-year forecast contained in Section III of this report. This data focuses on recent "major" projects with the highest likelihood to have the most significant impact on the forecast. Major projects are defined as residential projects greater than 50 dwelling units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet.

The development activity data on the following pages is first divided into three major land use categories-- residential, commercial, and industrial. Then, individual projects are divided into four subcategories based on project status— projects completed, projects under construction, approved projects (construction not yet commenced), and projects pending City approval.

Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/14

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
Projects Completed									
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	MF	256	SM	3/21/08
PD11-011	3/14/11	Metropolitan Apts	477-23-021	E/s Monterey Rd, 700' nly Tully Rd	South	MF	102	LX	7/15/11
PD12-028	6/26/12	Cottle Station Mixed Use (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	234	JB	11/19/12
PD13-023	6/25/13	Newbury Park Mixed Use	254-04-076	NW/c King Rd & Dobbin Dr	Alum Rock	MF	230	EL	1/2/13
Total							**822**		
Projects Under Construction									
CP15-078	11/16/15	2500 Senter Road	497-41-098	Ely Side of Senter, 560' sly Tully	South	MF	162	JP	4/27/2016
H12-020	1/16/13	San Pedro Square	259-32-044	SE/c Bassett & Terraine	Central	MF	406	BR	2/24/14
H13-041	10/31/13	Silvery Towers Apts	259-32-004	SW/c W. St. James & N. San Pedro	Central	MF	643	KT	2/26/14
H14-010	2/28/14	Marshall Square	467-21-018	SE/c 1st & E St. John	Central	MF	190	RB	2/25/15
H14-037	11/5/14	NSP3 Tower	259-24-008	Block W/ Terraine Street btwen Basset & Julian	Central	MF	313	ES	8/5/15
H15-007	1/23/15	Modera	259-35-042	W/s N San Pedro, 300' nly Santa Clara	Central	MF	204	ES	5/20/15
H16-036	10/4/16	The Graduate	467-46-005	SW/c of S 2nd St & E San Carlos St	Central	MF	260	EL	3/22/17
PD12-008	3/1/12	Murano at Montecito Vista	455-09-060	W/s Monterey Rd, 300' sly Umbarger	South	SF	100	JR	6/7/13
PD14-012	2/28/14	Fairfield at West San Carlos	264-15-062	SE/c W San Carlos & Sunol	Central	MF	315	EL	10/28/14
PD14-022	4/17/14	505 Lincoln	264-09-063	W/s Lincoln 500' sly Auzerais	Central	MF	190	LS	11/5/14
PD14-029	6/23/14	Onyx	254-04-080	Nly/s Dobbin, 800' ely N King	Alum Rock	MF	131	ES	1/21/15
PD14-031	6/27/14	Balbach Condos	264-30-067	S/s Balbach, 100' ely Almaden	Central	MF	101	RB	12/27/14
PD14-051	10/30/14	777 Park Ave	261-36-062	NE/C Laurel Grove & Park Ave	Central	MF	182	LS	3/18/15
PD15-003	1/27/15	787 Modera The Alameda	261-01-003	N/s The Alameda, 400' wly Stockton	Central	MF	168	JT	6/23/15
PD15-004	2/2/15	Hanover Cannery	249-09-001	NW/c N 10th St & E Taylor	Central	MF	403	JP	12/15/15
PD15-014	4/16/15	1807 Almaden Rd	455-21-050	W/s Almaden, 660' Sly Willow Glen	South	MF	96	ES	10/7/15
PD15-061	12/4/15	Diridon TOD	259-38-036	SW/c of W. Santa Clara & Delmas	Central	MF	325	JT	5/24/16
PD15-067	12/22/15	The Reserve	299-26-059	NW/c of S. Winchester Blvd & Williams Rd	West Valley	MF	640	LH	4/27/2016
PD16-002	1/21/16	Berryessa Flea Market (KB)	241-04-011	N/s Berryessa Road, W of Railroad Tracks	Berryessa	SF	162	JT	5/18/16
PD16-005	2/4/16	Istar/Great Oaks	706-08-008	W/s of Great Oaks Blvd, 1,000' nwly of Hwy 85	Edenvale	MF	301	RB	5/18/2016
PD16-006	2/5/16	Vespasi @ Diridon (Residential)	259-28-004	NE/s Stockton Ave, 300' N of W Santa Clara St	Central	MF	164	JT	5/25/2016
PD16-025	8/16/16	The Orchard (Residential)	254-06-042	SW/c of N. Capitol Ave & Gimelli Way	Alum Rock	MF	188	JT	1/24/17
PDA07-094-01	1/13/15	2nd Street Studio	477-01-082	SE/c S 2nd St & Keyes	Central	MF	135	JP	3/4/15
PDA08-029-01	9/13/12	Virginia Terrace Apts	472-18-063	E. Virgina, Martha St, S 5th Street and S. 6th	Central	MF	238	RM	1/14/09
PDA12-031-01	11/13/15	Berryessa Flea Market (Market Park)	241-04-011	N/s Berryessa Road, W of Railroad Tracks	Berryessa	MF	551	JT	4/13/16

Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/14

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PDA12-035-01	3/18/13	Ascent Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	650	JB	5/3/13
PDA14-035-01	8/21/14	Communication Hill (Phase 1)	455-28-017	Comm Hill & CalTrain Railway	South	SF	314	MD	3/18/15
SPA17-009-01	9/7/17	SJSC Towers	467-20-086	Nwly/c of E Santa Clara St & N 5th St	Central	MF	630	EL	12/13/17
Total							**8,162**		

Approved Projects (Construction Not Yet Commenced)

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
CPA11-034-01	5/10/11	North San Pedro Apts	259-23-016	NE/c Hwy 87 & Bassett	Central	MF	135	LX	12/14/11
H14-009	2/18/14	Parkview Tower	467-01-008	NE/c 1st & St James	Central	MF	220	EL	5/13/15
H14-034	10/2/14	First and Reed	472-26-030	N/s Reed, 167' ely 1st	Central	MF	105	EL	10/7/15
H15-046	9/25/15	363 Delmas Avenue	264-26-006	Wly/s Delmas, 290' nly Auzerias	Central	MF	120	JP	6/21/16
H15-047	9/28/15	Gateway Tower	264-30-089	NE/c S Market & E William	Central	MF	300	TT	12/616
H15-055	11/17/15	6th Street Project	467-19-059	SW/c of N 6th & St. John	Central	MF	126	LS	6/29/16
SP17-031	6/30/16	Museum Place (Residential)	259-42-023	NW/C of W San Carlos St & S. Market St	Central	MF	334	LS	8/29/17
PD12-013	3/29/12	Ohlone Mixed Use (Block A)	264-14-131	SW/c W. San Carlos & Sunol	Central	MF	263	LX	12/16/15
PD13-027	7/1/13	Vicenza at Montecito Vista	455-09-062	W/s Monterey, 300' sly Umbarger	South	MF	162	AA	11/22/13
PD14-044	9/3/14	King & Dobbin Transit Vilage Lot E	254-04-079	N/s Dobbin, 600' ely N King	Alum Rock	MF	67	ES	7/29/15
PD14-054	11/12/14	King & Dobbin Transit Vilage Lot H	254-55-010	N/s Dobbin, 718' ely King	Alum Rock	SF	105	ES	7/29/15
PD14-055	1/13/15	Lee Ave Apartments	284-32-014	SE/c Southwest & Leigh	Willow Glen	MF	64	JP	3/18/15
PD15-013	4/3/15	Arcadia/Evergreen Part 1	670-29-002	S/s Quimby, 1200' wly of Capitol Expway	Evergreen	SF	250	LS	11/30/15
PD15-035	7/9/15	Ohlone Block C	264-14-024	NW/c Auzerais & Sunol	Central	MF	268	JT	12/16/15
PD15-036	7/9/15	Ohlone Block B	264-14-024	W/s Sunol, 340' SW/c W San Carlos & Sunol	Central	MF	253	JT	12/16/15
PD15-042	9/11/15	Montgomery 7	259-47-068	NE/c Int of S Montgomery and W San Carlos	Central	MF	54	JT	6/21/16
PD15-044	9/11/15	Sparta	467-16-076	Nely/c of E. Santa Clara St & N 11th St	Central	MF	85	LH	9/20/16
PD15-055	11/4/15	Japantown Corp. Yard	249-39-039	Bounded by N 6th, E Taylor, 7th, Jackson	Central	MF	520	LS	5/25/16
PD15-059	6/23/16	Volar (Residential)	277-33-003	E/s of S Winchester, 590' sly Stevens Creek	West Valley	MF	330	LS	6/13/17
PD15-066	12/21/15	Santana Row Lot 12	277-40-017	NW/c of Hatton & Olsen	West Valley	MF	258	JT	8/16/16
PD15-068	12/22/15	Santana Row Lot 17	277-38-003	NE/c of Dudley and Tisch	West Valley	MF	110	JT	5/25/16
PD16-001	1/15/16	Scotia Apartments	455-21-043	W/s of Almaden, 410' s of Willow Glen Wy	South	MF	68	PK	5/17/16
PD16-013	4/7/16	777 West San Carlos St	261-39-045	E/s Sunol St 120' N of W San Carlos St	Central	MF	149	PD	6/21/16
PD16-026	8/11/16	7th & Empire	249-38-042	W/c of N 7th St & Empire St	Central	MF	92	EL	4/11/17
SP16-016	3/8/16	Park Delmas	259-46-040	S/s Park Ave, btwn Sonoma St & Delmas Ave	Central	MF	123	TT	6/29/16
SP16-021	4/11/16	Greyhound Residential	259-40-012	SE/c of Post St & S Alamaden Ave	Central	MF	781	LS	5/23/17
SP17-023	5/17/17	Aviato	259-23-006	NE/c of Bassett St & Terraine St	Central	MF	302	SM	11/17/17
SP17-031	6/30/16	Museum Place (Residential)	259-42-023	NW/C of W San Carlos St & S. Market St	Central	MF	334	LS	7/12/17
Total							**5,978**		

Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/14

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
Projects Pending City Approval									
CP17-052	11/17/17	1936 Alum Rock Avenue	481-19-003	S/s of Alum Rock Ave, 420' w of S Sunset Ave	Alum Rock	MF	94	LH	---
H16-033	9/13/16	Block Three	467-22-160	Sly/s of 3rd St, 410' ely of E San Fernando St	Central	MF	393	LH	---
H17-019	4/25/17	Spartan Keyes Senior Housing	472-25-092	NW/C of Virginia St & S 7th St	Central	MF	301	JT	---
H17-022	4/24/17	425 Auzerais Avenue	264-26-017	N/s of Auzerais Ave & W of Delmas Ave	Central	MF	130	TT	---
H17-027	6/5/17	S 1st Street Ross Residential	259-40-043	W/s of S 1st St, 130' sly E Santa Clara St	Central	MF	342	SM	---
H17-050	8/29/17	City View Plaza	259-41-067	NE/c of Park Ave & Almaden Blvd	Central	MF	259	JT	---
H17-063	12/14/17	543 Lorraine Ave Mixed Use	259-47-069	N/s of Lorraine Ave, 140' e of Bird Ave	Central	MF	70	CG	---
HA14-023-02	12/6/17	Post & San Pedro Tower	259-40-088	NW/c of Post St & S San Pedro St	Central	MF	228	RD	---
PD15-022	5/19/15	740 W San Carlos	264-15-024	S/s W San Carlos, 500' ely Sunol	Central	MF	95	RBS	---
PD16-031	9/27/16	750 West San Carlos	264-15-003	S/s of W San Carlos St, 500' E of Sunol St	Central	MF	56	TT	---
PD17-002	2/6/17	Garden City Signature Project	303-25-044	SE/c of Stevens Creek Blvd & Saratoga Ave	West Valley	MF	871	TT	---
PD17-014	4/25/17	Stevens Creek Lopina Signature Project	296-38-013	Sly side of Stevens Creek & Lopina Wy	West Valley	MF	499	TT	---
PD17-027	12/14/17	Saratoga Ave Mixed Use	299-37-024	E/s of Saratoga Ave, btw Blackford Ave & Manzanita Dr	West Valley	MF	300	CV	---
PD17-028	12/13/17	Dupont St Mixed Use	267-39-035	SE/c of Park Ave & McEvoy Ave	Central	MF	458	NS	---
PD17-029	12/15/17	Julian/Stockton Mixed Use	261-01-030	NW/c of W Julian St & Stockton Ave	Central	MF	228	NS	---
PDA14-035-05	4/10/17	Communication Hill Village Center	455-28-017	Junction Communications Hill	South	MF	490	SF	---
SP17-027	6/26/17	Roosevelt Park Apartments	467-12-001	W/s of 21st St, 250' N of E Santa Clara St	Central	MF	80	JT	---
SP17-037	9/1/17	Page Street Housing	277-20-044	W/s of Page Street, 210' sly of W San Carlos St	Central	MF	82	RR	---
SP18-001	1/9/18	1st St and Reed Tower	472-26-090	SE/c of S 1st & E Reed St	Central	MF	285	CV	---
SP18-009	1/31/18	Davidson Plaza Towers	678-93-015	SW /c of W Julian St & Terraine St	Central	MF	653	RC	---
Total							**5,914**		
GRAND TOTAL							**20,876**		

File Number Prefixes: PDC= Planned Development Rezoning; PD= Planned Development Permit; SP= Special Use Permit; H= Site Development Permit; CP= Conditional Use Permit: HA, SPA, CPA, PDA = Amendment to Original Permit

Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/14

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
Projects Completed									
H14-011	3/7/2014	Homewood Suites	015-39-053	NW/c Hwy 237 & N 1st	Alviso	106,000	145	RB	9/24/14
H13-039	10/4/2013	Signature Flight Support Terminals	230-03-101	Mineta Airport	North	278,500		PK	1/17/14
PD15-002	1/27/2015	iStar Costco	706-08-023	W/s Greak Oak 1000' nly Hwy 85	Edenvale	148,000		RB	7/15/15
PD15-008	2/24/2015	1040 E Brokaw Road	237-03-080	SW/c E Brokaw & Old Oakland	Berryessa	145,000		ES	6/24/15
Total						**677,500**	**145**		
Projects Under Construction									
H13-048	12/16/2013	Hampton Inn/Holiday Inn	237-17-067	E/s N. 1st, opp. Karina	North	173,000	284	PK	9/3/16
H14-006	1/22/2014	Hyatt Place	101-05-002	Sly term. Karina	North	206,000	329	EL	5/7/14
HA06-027-02	6/10/2013	Valley Fair Shopping Center	274-43-035	NW/c Hwy 17 & Stevens Creek	West Valley	525,000		RB	10/30/13
PD07-007	1/10/2007	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	30,000		SM	3/21/08
PD13-049	12/13/2013	Bay 101 Casino/Hotel	235-01-020	NE/c N 1st & Matrix	North	245,000	174	RB	9/2/15
PD15-064	12/16/2015	Sun Garden (Restaurant)	477-07-018	E/s of Monterey RD, 300' s of E Alma Ave	Central	25,045		PK	1/20/16
PD16-006	2/5/2016	Vespaio @ Diridon (Commercial)	259-28-004	NE/s of Stockton Ave, 300' n of W Santa Clara	Central	37,500		JT	5/25/16
PD16-015	4/7/2016	Fairfield Inn & Suites	015-45-013	E of nly terminus of American Center Crt	Alviso	161,112	261	LS	6/21/16
PD16-017	5/23/2016	Santana Row Commercial (Lot 9)	277-40-030	Sly/s of Olsen Drive	West Valley	30,000		LS	11/9/16
PD16-025	8/16/16	The Orchard (Commercial)	254-06-042	SW/c of N. Capitol Ave & Gimelli Way	Alum Rock	38,000		JT	1/24/17
PDA14-037-02	8/22/16	Almaden Ranch Hotel	458-17-032	SE/c of Almaden Expyway & Cherry Ave	Cambrian/Pioneer	56,032	115	JP	2/8/17
SP14-032	7/24/2014	Capitol Toyota	459-05-019	NE/c Capitol Expy & Pearl	South	261,286		LS	1/28/15
SP17-009	2/22/17	SJSC Towers	467-20-086	NE/c or E Santa Clara St & N 5th St	Central	39,074		TT	3/15/17
Total						**1,827,049**	**1,163**		
Approved Projects (Construction Not Yet Commenced)									
CP16-029	6/16/16	Oakmond Residential Care	659-04-015	Ely/s of San Felipe Road, 360' nly of Folwer Rd	Evergreen	91,714		EL	4/26/17
CP16-048	8/31/16	Enzo Behavioral Hospital	678-05-063	NW/s of Enzo Dr & Eden Park Pl	Edenvale	80,000		SF	3/28/17
H15-023	5/4/2015	Holiday Inn	497-38-013	600' NW/c Monterey & Umbarger	South	48,100	81	JT	7/13/16
H16-010	2/29/2016	Boutique Hotel	277-34-014	SE/c of Stevens Creek Blvd & S. Clover Ave	West Valley	173,043	175	RB	12/7/16
SP17-031	6/30/16	Museum Place	259-42-023	NW/c of W San Carlos St and S Market St	Central	81,395	143	LS	8/29/17
H17-018	3/20/17	Mel Cotton's	264-14-017	SE/c of W San Carlos St & Race St	Central	29,575		JT	6/28/17
PD08-001	1/7/2008	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	30,000		RM	10/10/08
PD14-035	3/15/2013	Communications Hill	455-09-040	Hill bet Hwy 87 & Monterey, nly Hillsdale	South	68,000		BR	11/21/14

Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/14

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
PD15-013	4/3/2015	Evergreen Square	670-29-020	W/s Capitol, 1500' sly Quimby	Evergreen	310,000		LS	11/30/15
PD16-034	4/14/17	Top Golf	015-39-026	SE/c of N 1st St & Liberty St	Alviso	182,000	200	JT	12/13/17
PD16-039	1/5/17	Creative Center for the Arts	249-39-044	NE/c of Jackson St and N 7th St	Central	60,000		JP	10/11/17
PDA12-031-01	11/13/2015	Berryessa Flea Market (Market Park)	241-04-011	N/s Berryessa Road, W of Railroad Tracks	Berryessa	37,000		JT	4/13/16
Total						**1,190,827**	**599**		

Projects Pending City Approval

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
CP17-046	10/26/17	Holden Assisted Living on Bascom	282-11-014	W/s of S Bascom Ave, 150' sly of Lindaire Ave	Willow Glen	156,022		RR	---
CP17-047	10/20/17	Williams Rd Residential Care Facility	299-18-147	S/o Williams Rd, 180' E of Oakmont Pl	West Valley	31,801		SF	---
CP17-052	11/17/17	1936 Alum Rock Avenue	481-19-003	S/s of Alum Rock Ave, 420' w of S Sunset Ave	Alum Rock	39,000		LH	---
H15-014	3/30/15	Tropicana Shopping Center	486-10-091	SW/c Story & S King	Alum Rock	31,744		RB	---
H15-059	12/4/15	Scandinavia	359-34-006	SW/c of S. De Anza & Rollingdell	West Valley	39,410		DF	---
H16-032	9/7/16	Hampton Inn (De Anza Blvd)	372-25-015	NE/c of Via Vico and S De Anza Blvd	West Valley	51,279	90	RR	---
H16-040	10/17/16	Holiday Inn Express & Suites (Bark Ln)	372-24-033	Nly/s of Bark Lane, 200' ely of S De Anza Blvd	West Valley	45,306	86	JT	---
H16-042	10/18/16	Tribute Hotel	259-42-079	W/s of S 1st St, 340' nly of W San Carlos St	Central	186,426	274	JT	---
H17-023	5/18/17	AC Hotel Stevens Creek Blvd	375-12-017	SE/c of Stevens Creek Blvd & Stern Ave	West Valley	62,868	168	RR	---
H17-043	8/18/17	Stockton Ave Hotel	261-07-001	NW/c of Stockton Ave & Schiele Ave	Central	34,698	54	TT	---
H17-044	9/2/17	Hilton Garden Inn	235-03-002	NE/c of E Gish Rd & Kerley Dr	North	91,460	150	TT	---
H17-059	10/28/17	Hotel Clariana Addition	467-23-088	SE/c of E Santa Clara St & S 3rd St	Central	51,573	60		---
H18-002	1/9/18	Silver Creek Valley Rd Hotel	678-93-015	SE/s of Silver Creek Valley Rd 400 ft Swly of Hellyer Ave	Edenvale	73,862	127	RS	---
PD17-002	2/6/17	Signature Project Garden City	303-25-044	SE/c of Stevens Creek Blvd & Saratoga Ave	West Valley	473,043		TT	---
PD17-014	4/25/17	Stevens Creek Promenade / Fortbay	296-38-013	SE/s of Stevens Creek & Lopina Way	West Valley	243,000		TT	---
PD17-029	12/15/17	Julian/Stockton Mixed Use	261-01-030	NW/c of W Julian St & Stockton Ave	Central	26,571		NS	---
SP16-034	6/28/16	North Hotel	235-09-021	E/s of N 4th St, 320' nly of E Younger Ave	Central	30,612	60	JT	---
SP18-008	1/30/18	Presentation High School Master Plan	446-38-035	E/s of Booksin Ave 550 ft Sely of Curtner Ave	Willow Glen	106,248		RC	---
Total						**1,774,923**	**1,069**		
GRAND TOTAL						**5,470,299**	**2,976**		

File Number Prefixes: PDC= Planned Development Rezoning; PD= Planned Development Permit; SP= Special Use Permit; H= Site Development Permit; CP= Conditional Use Permit: HA, SPA, CPA, PDA = Amendment to Original Permit

Major Industrial Development Activity
Projects of 75,000+ Square Feet, Submitted Since 1/1/14

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
Projects Completed								
H14-008	2/14/2014	A-1 Self Storage (10th St)	235-16-001	SE/c N 10th Street & Horning	Central	84,000	AA	6/25/2014
H14-020	5/20/2014	SuperMicro (Phase 1)	237-05-036	SW/c Ridder Park & Schallenberger	Berryessa	182,000	RB	9/13/2014
H15-026	5/29/2015	1850 Stone Avenue	455-23-108	E/s Stone, 650' nly Cimino	South	102,000	RS	1/27/2016
PD14-005	1/31/2014	HGST Great Oaks Campus	706-07-020	Bound Cottle, Monterey, Hwy 85 & Manassas	Edenvale	335,000	RB	6/4/2014
PD14-007	2/14/2014	Trammel Crow (Manufacture Buildings)	015-44-011	NW/c Nortech & Disk	Alviso	563,760	RB	6/17/2014
Total						**1,266,760**		
Projects Under Construction								
H14-027	7/2/2014	Silicon Valley Industrial Center	678-08-051	W/s Piercy, 2070' nly Silicon Valley	Edenvale	243,000	RB	12/17/2014
H15-005	1/9/2015	Storage Pro	254-02-065	W/c N King & Plumas	Alum Rock	101,625	PK	9/16/2015
H15-010	2/12/2015	SAF Keep Storage	237-08-084	SE terminus of Junction Ct	North	120,432	DF	12/9/2015
H15-012	2/17/2015	SuperMicro (Phase 2)	237-05-036	SW/c Ridder Park & Schallenberger	Berryessa	162,500	RB	12/16/2015
H15-036	8/12/2015	2701 Orchard Parkway	101-18-001	W/c Orchard and W Plumeria	North	99,000	LS	11/24/2016
H16-022	6/1/2016	Public Storage (Lenfest Rd)	254-02-032	Ely/s of Lenfest Rd, 260' sly of Mabury Rd	Alum Rock	85,386	RS	9/7/16
H16-031	9/10/2016	SuperMicro (Phase 3)	237-05-063	Swly/C Ridder Park & Schallenberger	Berryessa	209,320	RB	10/26/16
H17-005	1/18/2017	Piercy Warehouse	678-08-057	SW/c or Piercy Rd & Hellyer Ave	Edenvale	166,740	LS	9/13/2017
HA13-040-01	4/23/2015	Peery Arrillaga	237-16-071	SE/c Brokaw and N 1st	North	117,440	RB	12/16/2015
PD12-019	7/19/2012	Coleman Highline Office	230-46-062	NW/c Coleman & Newhall	North	683,000	JB	6/10/13
PD15-031	7/1/2015	Equinix (iStar)	706-09-117	W/s Greak Oak, 1000' nwly of HW 85	Edenvale	386,000	RB	3/9/2016
PD15-046	9/18/2015	Skyport Kaiser	230-29-115	SW/c Technology and Skyport	North	153,112	LS	6/21/2016
PD15-063	12/11/2015	Oakland Rd Storage	237-03-064	W/s of Oaklad, 235' Nwly of McKay	Berryessa	74,640	JP	4/20/2016
PD16-017	4/23/2016	Santana Row (Lot 9)	277-40-030	Sly/s of Olsen Drive	West Valley	290,000	LS	11/9/2016
PDA05-095-02	12/21/2015	Veteran Affairs Outpatient Clinic	678-07-040	SW/c of Silver Creek Rd & Silver Creek Pl	Edenvale	95,000	ES	4/6/2016
Total						**2,987,195**		
Approved Projects (Construction Not Yet Commenced)								
H14-029	8/14/2014	2890 North 1st Street Office	101-30-006	Bound N 1st, Daggett, Zanker & Plumeria	North	1,653,731	RB	12/10/2014
H15-037	8/25/2015	Boston Properties Innovation Place	097-33-116	NE/c Zanker and Montague	North	536,949	RB	2/2/2015
H15-058	11/23/2015	Senter/Alma Ministorage	477-38-014	Senter Btwn E Alma & Phelan	Central/South	91,885	ES	3/15/2017
H16-013	3/16/2016	River Corp Center III	259-24-036	Nwly/c W Julian Street & CA 87 Hwy	Central	191,397	LS	12/7/16
H16-018	4/27/2016	335 West San Fernando St	259-39-116	N/s of W San Fernando, 370' wly of Almaden Blvd	Central	700,000	RB	11/9/16
H16-035	9/27/16	Edenvale Self Storage Facility	678-93-005	N of Silver Creek Valley Rd, 210' n of Hellyer	Edenvale	155,550	LS	5/3/2017
PD15-053	10/29/2015	America Center	015-45-047	NW/c of HW 237 & Gold	Alviso	192,350	LS	1/23/2018

Major Industrial Development Activity
Projects of 75,000+ Square Feet, Submitted Since 1/1/14

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
PD15-061	12/4/2015	Diridon TOD (Office)	259-38-036	SW/c of W. Santa Clara & Delmas	Central	1,040,000	JT	5/24/2016
PD15-062	12/9/2015	Bay 101 Casino & Mixed Use	235-01-020	SE/c N. 1st & Matrix	North	234,192	RB	12/7/2016
PD16-016	4/28/2016	Winchester Commercial Mixed Use	279-01-017	E/s of S Winchester Blvd, 180' n of Magiocco	West Valley	84,000	JT	11/9/2016
PD16-023	7/22/16	Samaritian Medical Phase 1	421-37-001	N of Samaritan Dr, 700' e of Bscome Dr	Cambrian/Pioneer	350,000	LS	8/2/2017
PD16-037	11/29/16	Self-storage (King Rd)	670-12-006	W/s of S King Rd, 840' n of Aborn Rd	Evergreen	198,000	SF	4/12/2017
PDC13-050	11/13/2013	Santana Row (balance)	277-40-015	SE/c Winchester & Stevens Creek	West Valley	654,641	KT	11/15/15
SP15-031	7/1/2015	Equinix	706-02-053	W/s Via Del Oro btw San Ignacio and Great Oaks	Edenvale	579,000	RB	1/25/2017
SP16-053	11/4/16	Cilker	015-31-054	NW of Hwy 237 & McCarthy Blvd	Alviso	426,093	TT	10/24/2017
SP17-031	6/30/16	Museum Place	259-42-023	NW/c of W San Carlos St and S Market St	Central	213,820	LS	8/29/17
Total						**7,301,608**		

Projects Pending City Approval

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
H17-034	6/29/17	Panattoni Distribution Center	244-23-069	SE/c of Oakland Rd & Calle Artis	Berryessa	83,117	SF	---
H17-040	7/20/17	Monterey Rd Self Storage	456-40-004	W/s of Monterey Rd, 500' sly of Esfahan Dr	South	142,766	SF	---
H17-041	7/21/17	Knox Trojan Storage	481-39-003	S/s of Knox Ave, 650' e of Story Rd	Alum Rock	139,615	RS	---
H17-058	11/2/17	970 McLaughlin Industrial	472-10-109	E/s of McLaughlin Ave, 370' n or Story Rd	Central	223,717	NS	---
H17-064	12/15/17	Akatiff	259-29-104	NW/c of W Julian St & N Autumn St	Central	1,023,000	EL	---
PD16-027	8/29/16	Tropicana	235-18-001	NW/c of Horning St and Oakland Rd	Central	91,875	JT	---
Total						**1,704,090**		

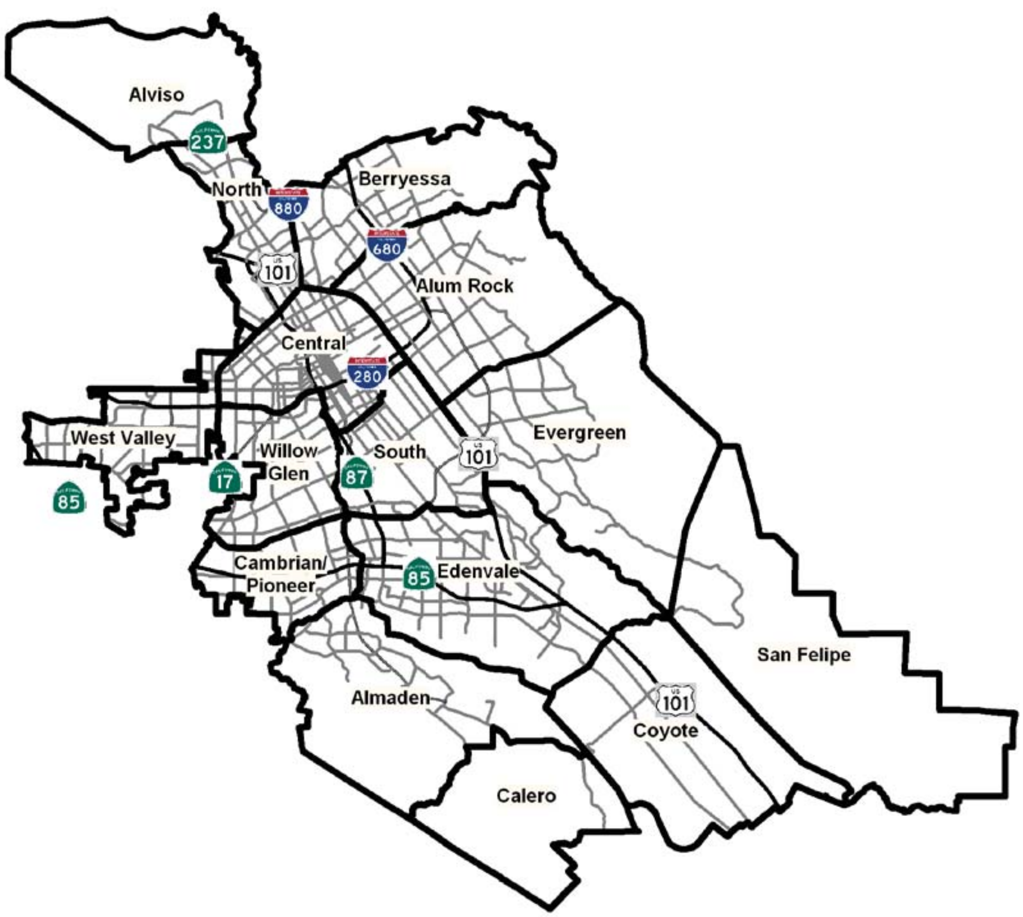
GRAND TOTAL						**13,259,653**		

File Number Prefixes: PDC= Planned Development Rezoning; PD= Planned Development Permit; SP= Special Use Permit; H= Site Development Permit; CP= Conditional Use Permit: HA, SPA, CPA, PDA = Amendment to Original Permit

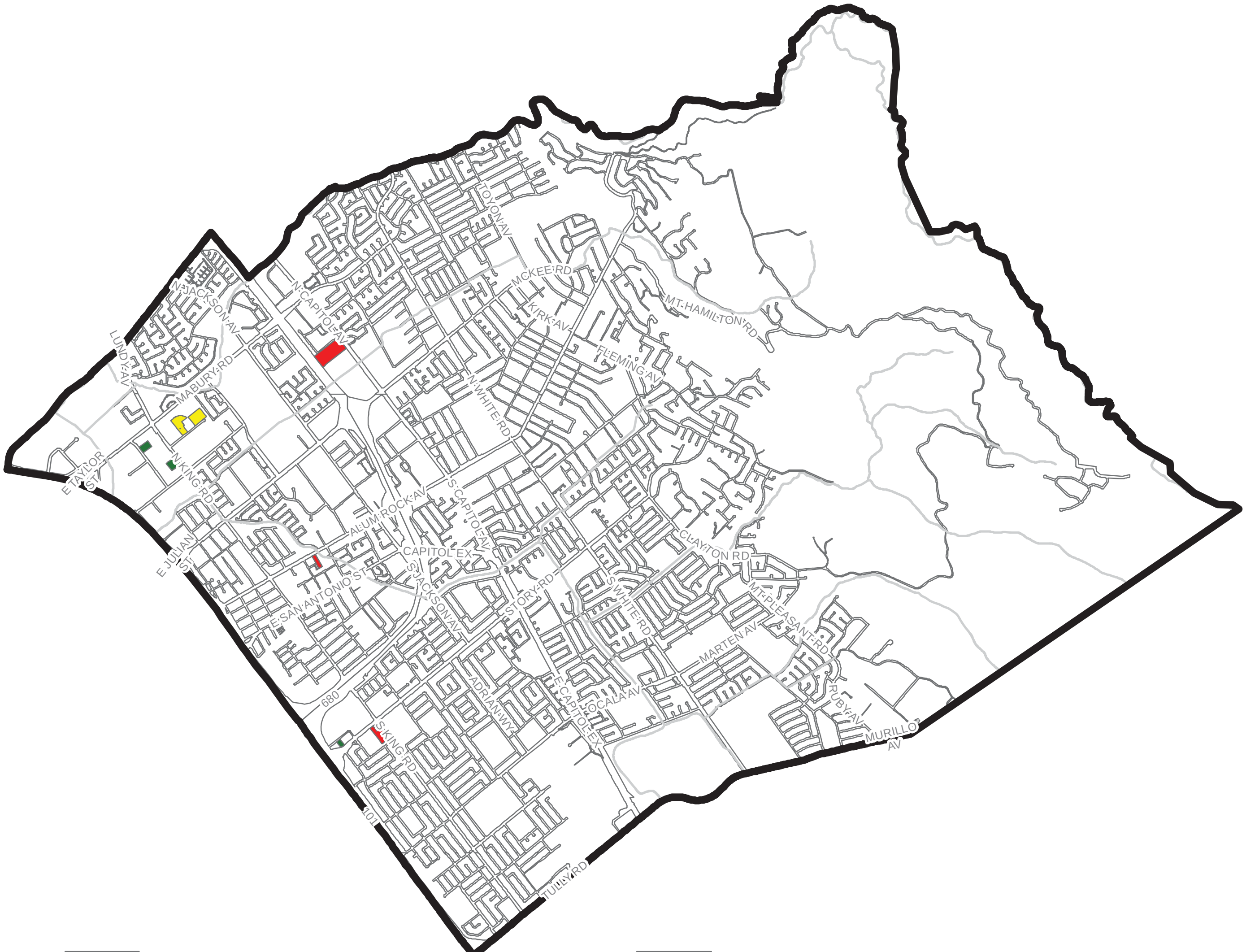
VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

San Jose is divided into a total of fifteen (15) planning areas (see Figure 1, below). The individual planning area maps that follow include projects in all status categories submitted since January 1, 2008. These maps can be used in conjunction with the data contained in Section V of this report to allow closer analysis of the rate, type, and location of major development activity in the City. (Note: map exhibits are not provided for the Calero and San Felipe planning areas, as no major development activity occurred there and/or these areas are outside the City's Urban Service Area and Urban Growth Boundary).

Figure 1: San Jose Planning Areas



Alum Rock Planning Area
Major Development Activity



Residential Projects

1. Newbury Park Mixed Use
2. Onyx
3. The Orchard (Residential)
4. King & Dobbin Transit Vilage Lot E
5. King & Dobbin Transit Vilage Lot H
6. 1936 Alum Rock Avenue

Total Dwelling Units = 815

Commercial Projects

1. The Orchard
2. 1936 Alum Rock Avenue
3. Tropicana Shopping Center

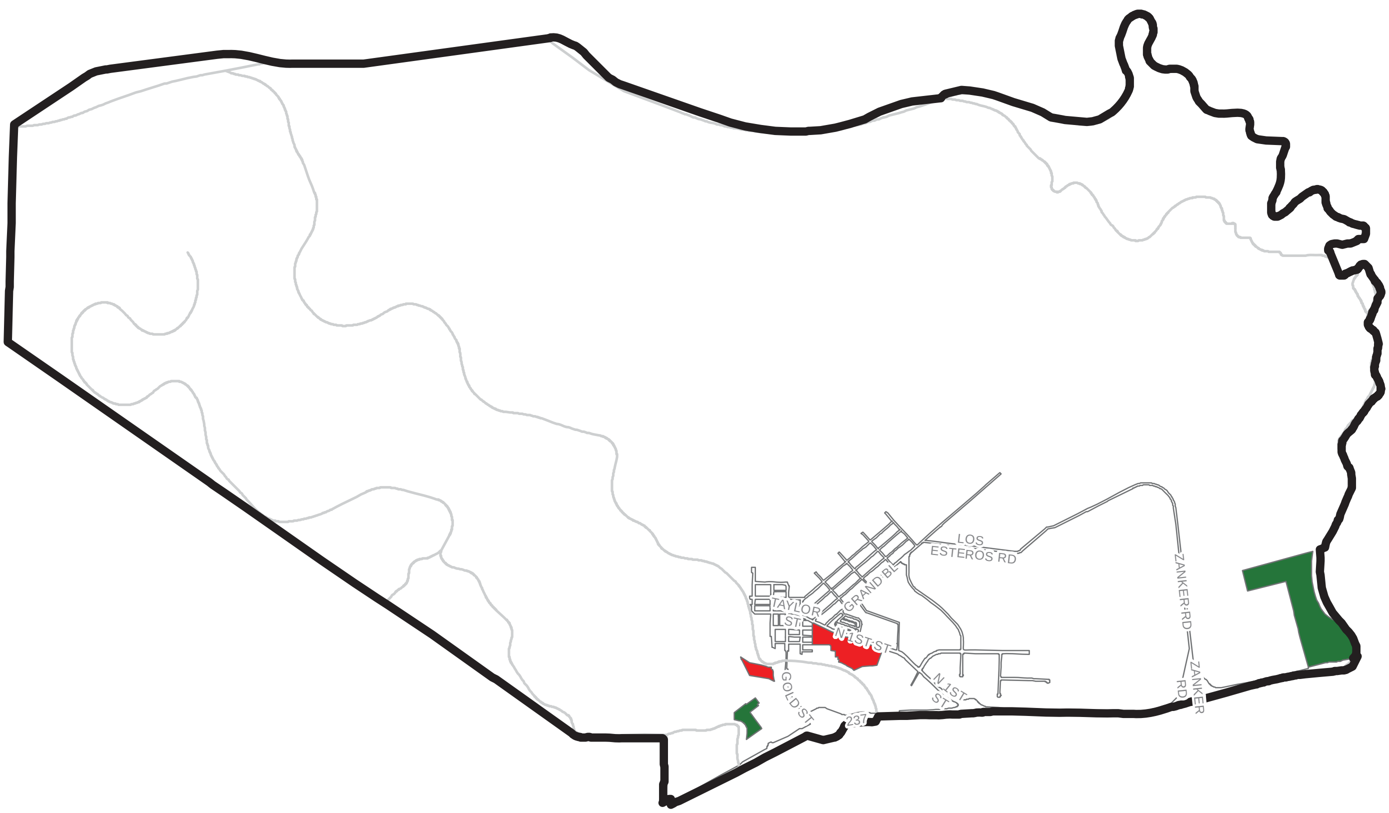
Total Commercial Square Feet = 138,744

Industrial Projects

1. Storage Pro
2. Public Storage (Lenfest Rd)
3. Knox Trojan Storage

Total Industrial Square Feet = 326,626

Alviso Planning Area
Major Development Activity



Commercial Projects

1. Homewood Suites
2. Fairfield Inn & Suites
3. Top Golf

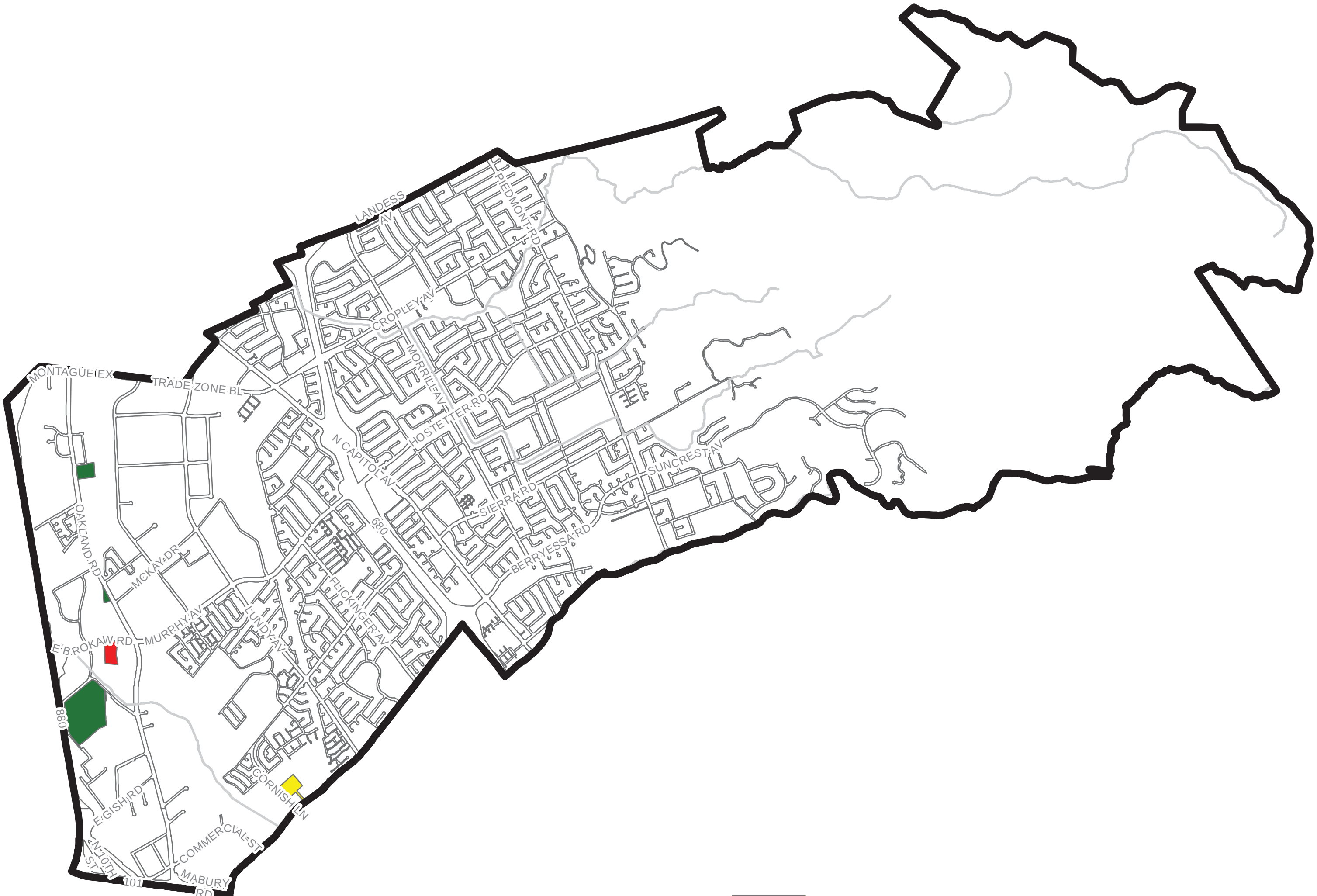
Total Commercial Square Feet = 449,112

Industrial Projects

1. Trammel Crow (Manufacture Buildings)
2. America Center
3. Cilker

Total Industrial Square Feet = 1,182,203

Berryessa Planning Area
Major Development Activity



Residential Projects

1. Berryessa Flea Market (KB)
2. Berryessa Flea Market (Market Park)

Total Dwelling Units = 713

Commercial Projects

1. 1040 E. Brokaw Road

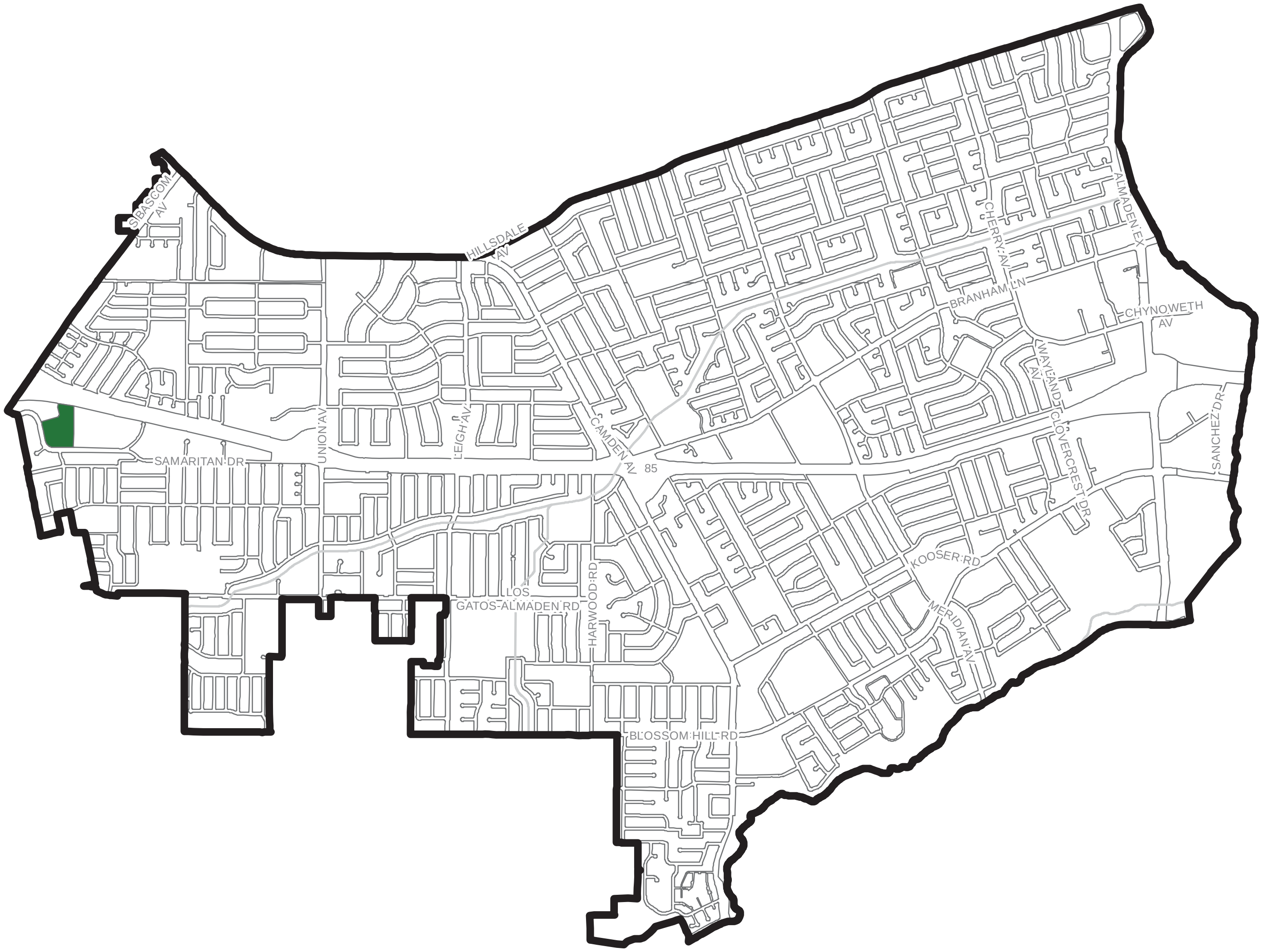
Total Commercial Square Feet = 145,000

Industrial Projects

1. SuperMicro (Phase 1)
2. SuperMicro (Phase 2)
3. SuperMicro (Phase 3)
4. Oakland Rd Storage
5. Panattoni Distribution Center

Total Industrial Square Feet = 711,577

Cambrian/Pioneer Planning Area
Major Development Activity

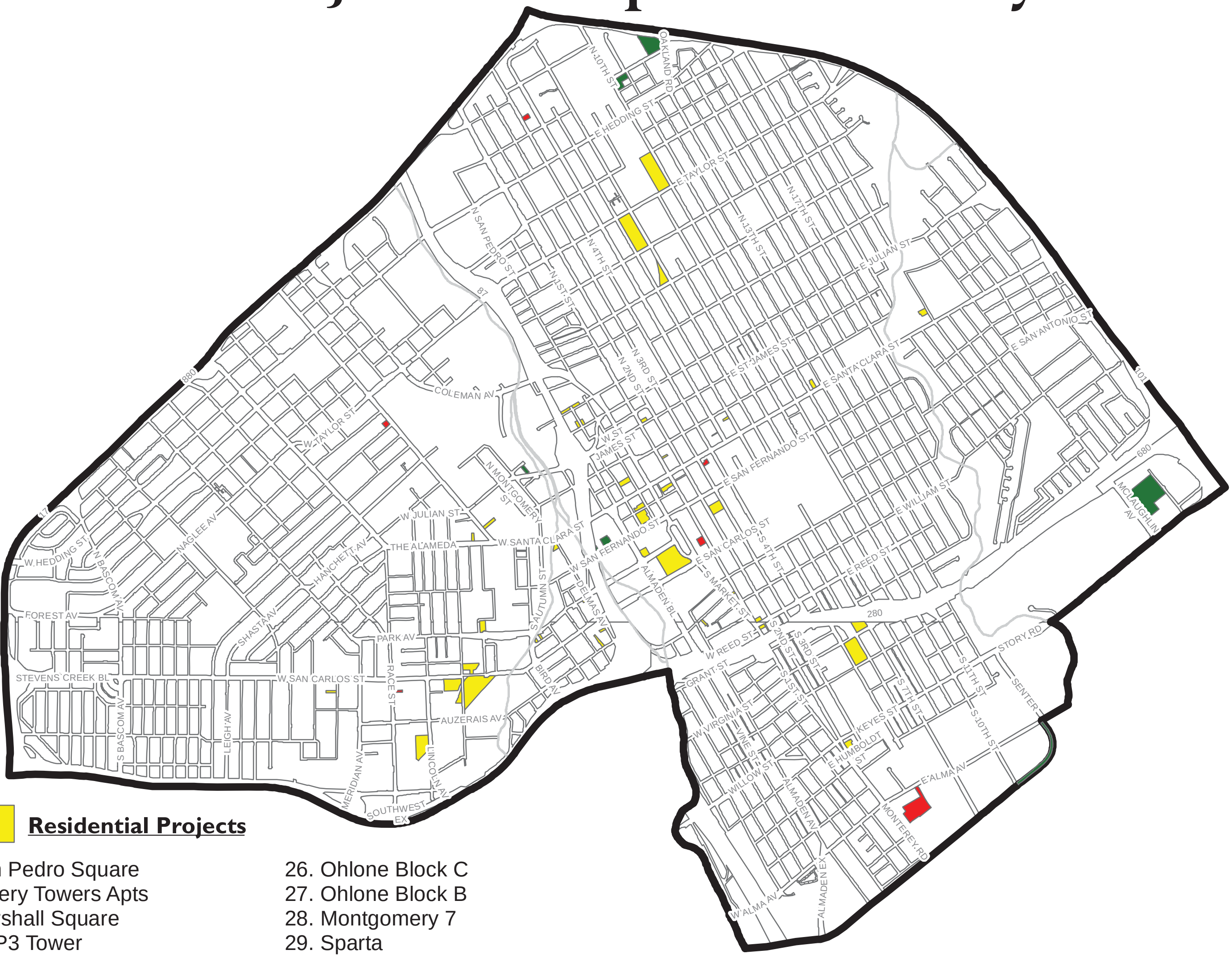


Industrial Projects

1. Samaritian Medical Phase 1

Total Industrial Square Feet = 350,000

Central Planning Area
Major Development Activity



Residential Projects

1. San Pedro Square
2. Silvery Towers Apts
3. Marshall Square
4. NSP3 Tower
5. Modera
6. The Graduate
7. Fairfield at West San Carlos
8. 505 Lincoln
9. Balbach Condos
10. 777 Park Ave
11. 787 Modera The Alameda
12. Hanover Cannery
13. Diridon TOD
14. Vespasi @ Diridon (Residential)
15. 2nd Street Studio
16. Virginia Terrace Apts
17. SJSC Towers
18. North San Pedro Apts
19. Parkview Tower
20. First and Reed
21. 363 Delmas Avenue
22. Gateway Tower
23. 6th Street Project
24. Museum Place (Residential)*
25. Ohlone Mixed Use (Block A)
26. Ohlone Block C
27. Ohlone Block B
28. Montgomery 7
29. Sparta
30. Japantown Corp. Yard
31. 777 West San Carlos St
32. 7th & Empire
33. Park Delmas
34. Greyhound Residential
35. Aviato
36. Museum Place (Residential)
37. Block Three
38. Spartan Keyes Senior Housing
39. 425 Auzerais Avenue
40. S 1st Street Ross Residential
41. City View Plaza
42. 543 Lorraine Ave Mixed Use
43. Post & San Pedro Tower
44. 740 W San Carlos
45. 750 West San Carlos
46. Dupont St Mixed Use
47. Julian/Stockton Mixed Use
48. Roosevelt Park Apartments
49. Page Street Housing
50. 1st St and Reed Tower
51. Davidson Plaza Towers

Total Dwelling Units = 13,091

Commercial Projects

1. Mel Cotton's
2. Creative Center for the Arts
3. Tribute Hotel
4. Stockton Ave Hotel
5. Hotel Clariana Addition
6. Julian/Stockton Mixed Use
7. North Hotel
8. Sun Garden (Restaurant)
9. Vespaio @ Diridon (Commercial)
10. SJSC Towers
11. Museum Place *

Total Commercial Square Feet
= 602,469

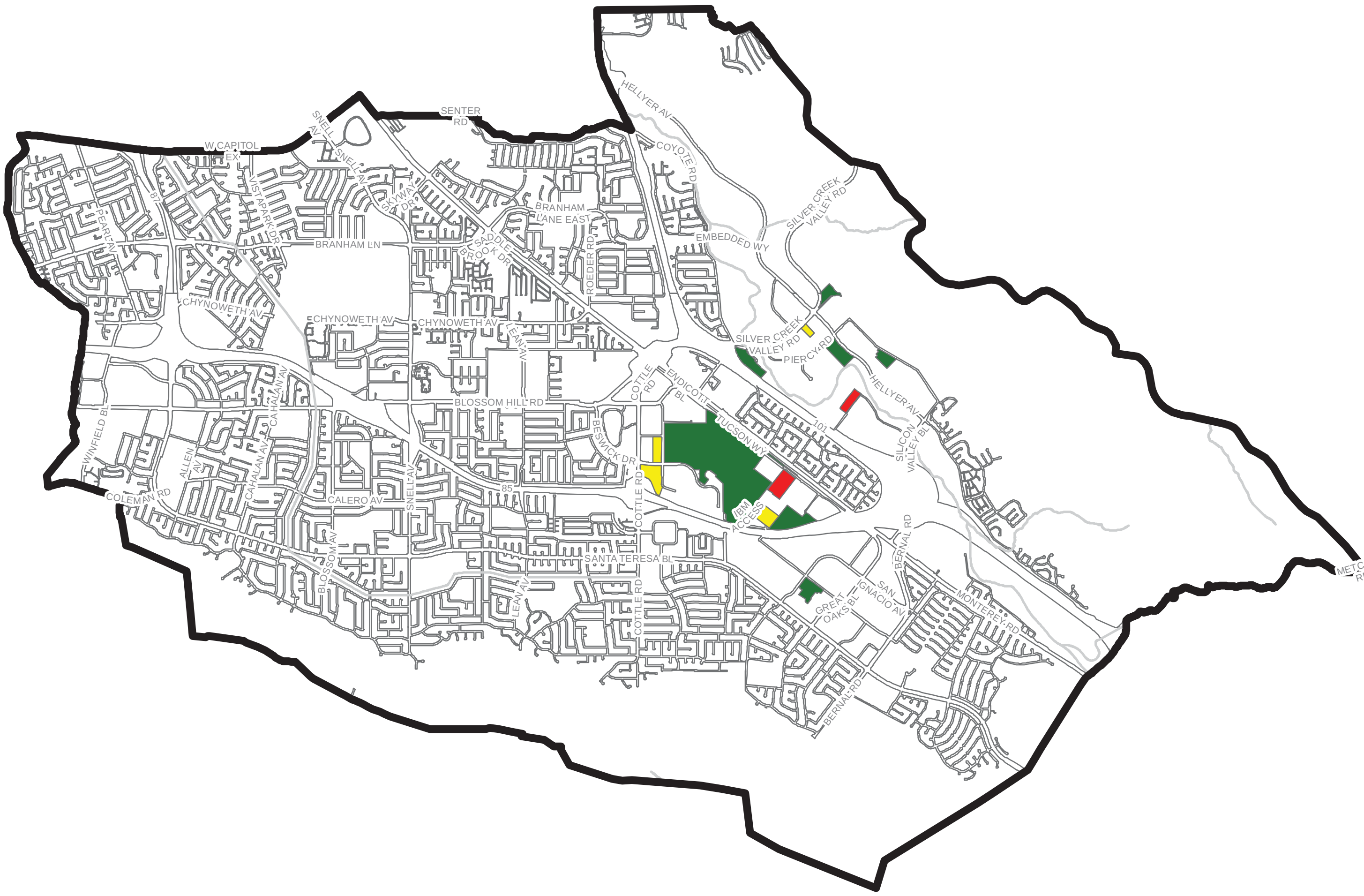
Industrial Projects

1. A-1 Self Storage (10th St)
2. River Corp Center III
3. 335 W. San Fernando St
4. Diridon TOD (Office)
5. 970 McLaughlin Industrial
6. Akatiff
7. Tropicana
8. Museum Park*

Total Industrial Square Feet
= 3,567,809

* This project incorporates all three sectors

Edenvale Planning Area
Major Development Activity



Residential Projects

1. Cottle Station Mixed Use (Hitachi)
2. Istar/Great Oaks
3. Ascent Apts (Hitachi)

Total Dwelling Units = 1,185

Commercial Projects

1. iStar Costco
2. Enzo Behvaior Hospital
3. Enzo Behvaior Hospital

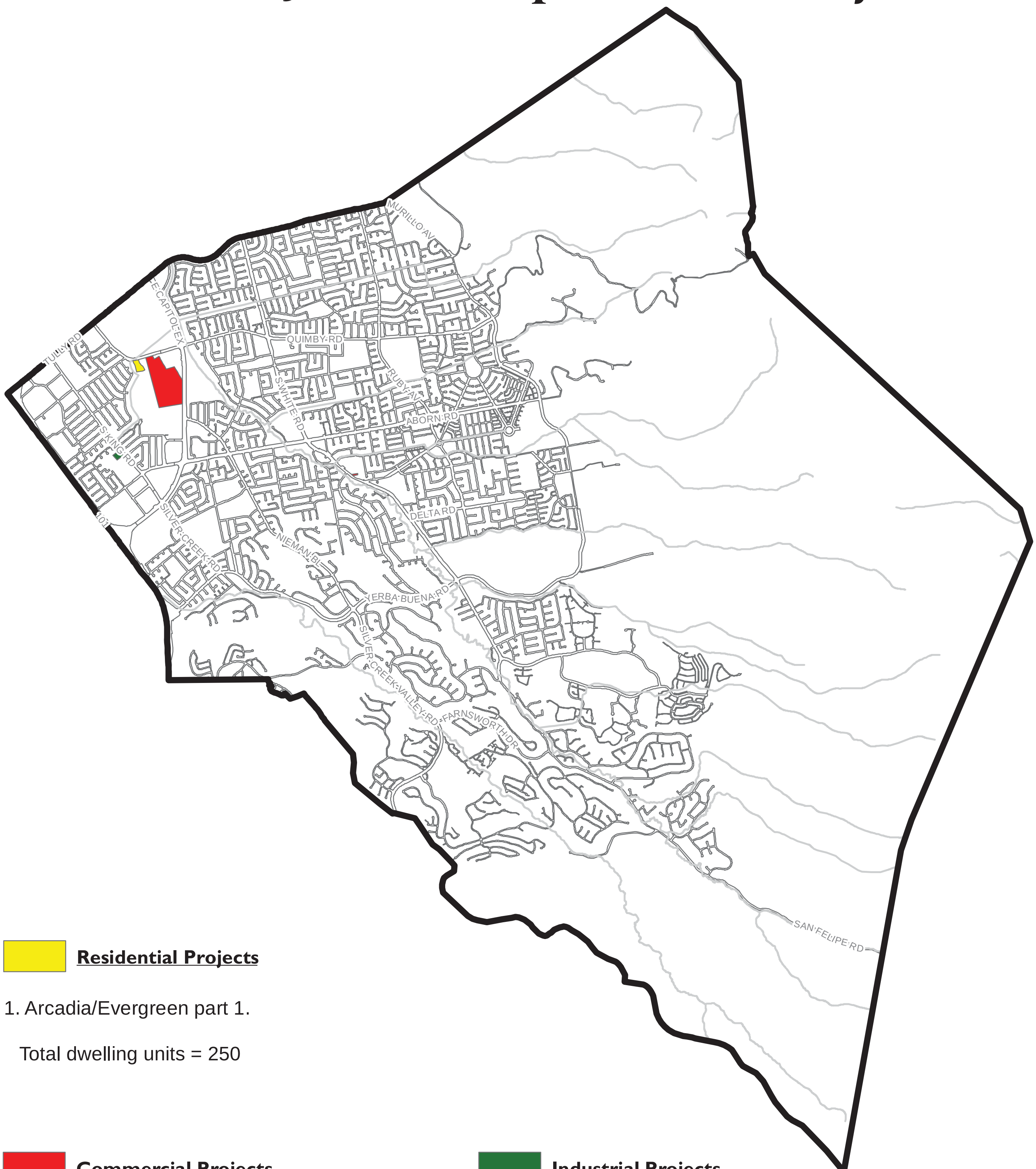
Total Commercial Square Feet = 308,000

Industrial Projects

1. HGST Great Oaks Campus
2. Silicon Valley Industrial Center
3. Piercy Warehouse
4. Equinix (iStar)
5. Veteran Affairs Outpatient Clinic
6. Edenvale Self Storage Facility
7. Equinix

Total Industrial Square Feet = 1,960,290

Evergreen Planning Area
Major Development Activity



Residential Projects

1. Arcadia/Evergreen part 1.

Total dwelling units = 250

Commercial Projects

1. Oakmond Residential Care
2. Evergreen Square

Total Commercial Square Feet = 401,714

Industrial Projects

1. Self-storage (King Rd)

Total Industrial Square Feet = 198,000

North Planning Area
Major Development Activity

Commercial Projects

1. Signature Flight Support Terminals
2. Hampton Inn/Holiday Inn
3. Hyatt Place
4. Bay 101 Casino/Hotel
5. Hilton Garden Inn

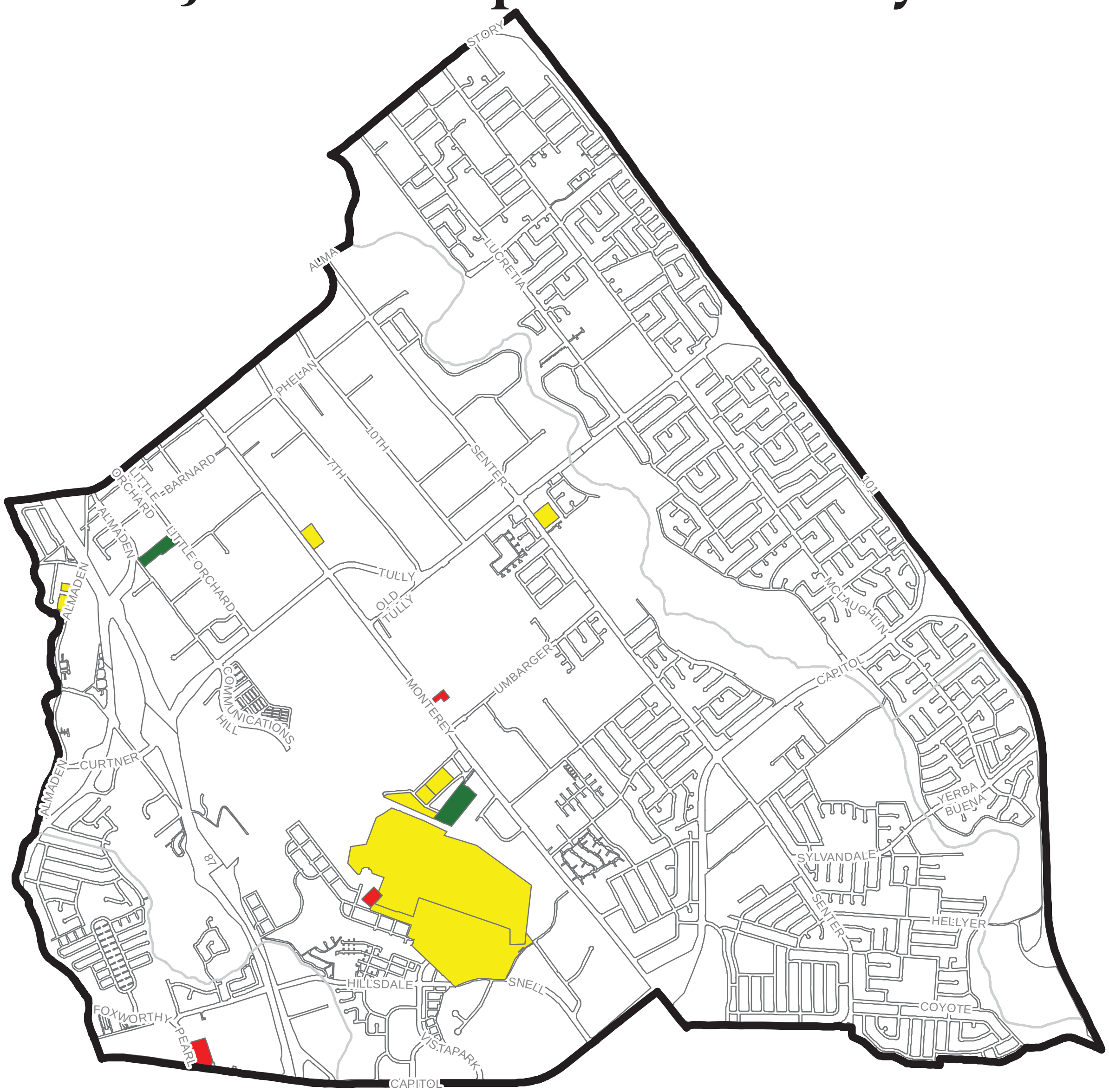
Total Commercial Square Feet = 993,960

Industrial Projects

1. SAF Keep Storage
2. 2701 Orchard Parkway
3. Peery Arrillaga
4. Coleman Highline Office
5. Skyport Kaiser
6. 2890 North 1st Street Office
7. Boston Properties Innovation Place
8. Bay 101 Casino & Mixed Use

Total Industrial Square Feet = 3,597,856

South Planning Area
Major Development Activity



Residential Projects

1. Metropolitan Apts
2. 2500 Senter Road
3. Murano at Montecito Vista
4. 1807 Almaden Rd
5. Communication Hill (Phase 1)
6. Vicenza at Montecito Vista
7. Scotia Apartments
8. Communication Hill (Phase 2)
9. Communication Hill Village Center

Total Dwelling Units = 1,494

Commercial Projects

1. Holiday Inn
2. Capitol Toyota
3. Communication Hill

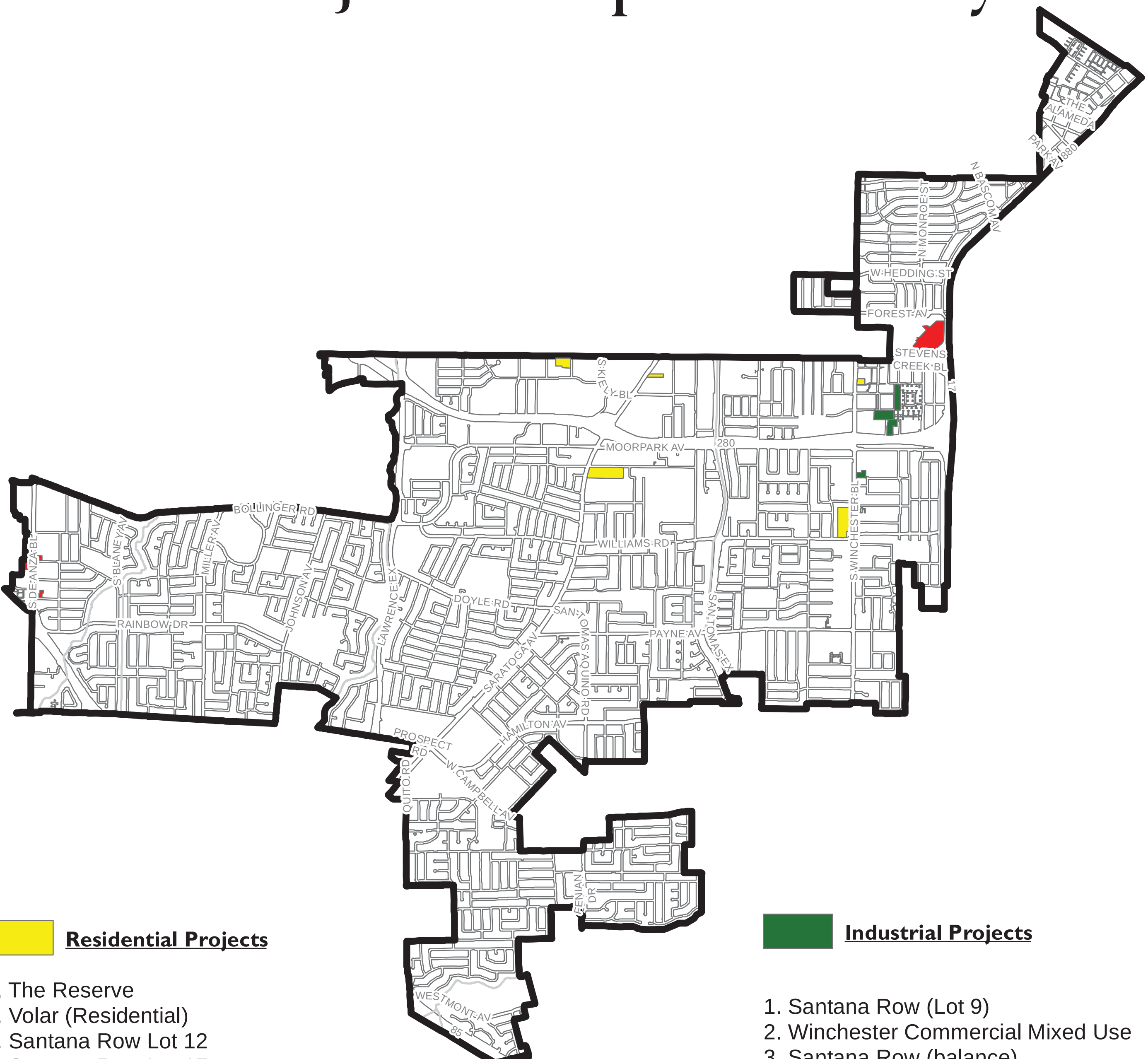
Total Commercial Square Feet = 377,386

Industrial Projects

1. 1850 Stone Avenue
2. Monterey Rd Self Storage

Total Industrial Square Feet = 244,766

West Valley Planning Area
Major Development Activity



Residential Projects

1. The Reserve
2. Volar (Residential)
3. Santana Row Lot 12
4. Santana Row Lot 17
5. Garden City Signature Project
6. Stevens Creek Lopina Signature Project
7. Saratoga Ave Mixed Use

Total Dwelling Units = 3,008

Commercial Projects

1. Valley Fair Shopping Center
2. Santana Row Commercial (Lot 9)
3. Boutique Hotel
4. Williams Rd Residential Care Facility
5. Scandinavia
6. Hampton Inn (De Anza Blvd)
7. Holiday Inn Express & Suites (Bark Ln)
8. AC Hotel Stevens Creek Blvd
9. Signature Project Garden City
10. Stevens Creek Promenade / Fortbay

Total Commercial Square Feet = 1,674,750

Industrial Projects

1. Santana Row (Lot 9)
2. Winchester Commercial Mixed Use
3. Santana Row (balance)

Total Industrial Square Feet = 1,028,641

Willow Glen Planning Area
Major Development Activity

Residential Projects

1. Fruitdale Station (Phase 2)
2. Lee Ave Apartments

Total Dwelling Units = 320

Commercial Projects

1. Fruitdale Station (Phase 2)
2. Holden Assited Living on Bascom
3. Presentation High School Master Plan

Total Commercial Square Feet = 292,270

VII. APPENDIX: SOURCES

The Department of Planning, Building and Code Enforcement utilized a variety of information sources in the preparation of this report. These sources are described below.

<u>Data Collection and Analysis</u>

The Department's development project database was the primary initial resource for information on applications submitted to the City. Spreadsheets and Geographic Information Systems (GIS) were also used to manage and display this empirical information in a more readily comprehended format. Architectural drawings, aerial photographs, and fieldwork were also used to evaluate site-specific issues that could have affected the anticipated cost or timing of a project's construction.

Planning staff conducted and/or participated in a series of interviews/discussions with people with a variety of perspectives, including City staff processing development applications, developers or their representatives, and others working in the development industry or related fields.

<u>Review of Publications</u>

Planning staff consulted several publications that made contributions to the preparation of this report, including: the Silicon Valley Business Journal, The Registry Real Estate Journal, the San Jose Mercury News, Joint Venture Silicon Valley Network's *2017 Index of Silicon Valley*, Allen Matikins/UCLA Anderson Forecast *Commercial Real Estate Survey*, Colliers International *2018 Market Forecast Reports*, Kidder Matthews *Real Estate market Review* and Cushman & Wakefield's *Marketbeat* report.