CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

2019-2020
City Manager's Budget Request

&

2020-2024
Five-Year Forecast
and
Revenue Projections

For the
General Fund and Capital Improvement Program

Office of the City Manager

February 2019

2019-2020
CITY MANAGER'S BUDGET REQUEST
&
2020-2024
FIVE-YEAR ECONOMIC FORECAST
AND
REVENUE PROJECTIONS

For the
General Fund and Capital Improvement Program

T A B L E O F C O N T E N T S

Prepared by
Office of the City Manager
February 2019

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: David Sykes

SUBJECT: **2019-2020 CITY MANAGER'S BUDGET REQUEST AND 2020-2024 FIVE-YEAR FORECAST**

DATE: March 7, 2019

INFORMATION

EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2019-2020 City Manager's Budget Request (2019-2020 Budget Balancing Strategy Guidelines) and the 2020-2024 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 very small General Fund surplus of $3.5 million is projected for 2019-2020. 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 $1.7 million to $15.6 million are projected for three of four years with a surplus of $11.4 million projected in 2022-2023. These margins are relatively narrow when put into context of the size of the total projected General Fund Base Budget, ranging from -1.2% to 0.9%. Over the five-year period, total shortfalls of $16.2 million are anticipated, which equates to approximately $3.2 million annually. This average shortfall figure equates to -0.3% of the projected General Fund Base Budget, which ranges from $1.2 billion to $1.4 billion over the period.

2020-2024 General Fund Forecast
Incremental General Fund Surplus/(Shortfall)

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Incremental Surplus/(Shortfall)	$3.5 M	($15.6 M)	($13.7 M)	$11.4 M	($ 1.7 M)
% of Budget (Based on Expenditures)	0.3%	(1.2%)	(1.0%)	0.9%	(0.1%)

- 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

2018-2019; 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 Forecast is built on the assumption of slowing, but still positive, economic growth. The General Fund position is fairly consistent with the 2019-2023 Forecast issued in March 2018. In the previous Forecast, shortfalls ranging from -$7.3 million to -$15.5 million were projected for four years of the Forecast with one surplus of $10.8 million projected in 2022-2023.

- 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 significant 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". Over the five-year period, the Optimistic Case would generate a surplus of $31.5 million, while the Pessimistic Case would result in a shortfall of $72.5 million. Given the length of the current economic expansion, it is assumed that the "Pessimistic Case" is more plausible than the "Optimistic Case". It is important to note that a recession is not modeled in the Pessimistic Case nor is there a change in the expenditure assumptions. To provide additional context on the potential impacts of an economic downturn and the lowering of the discount rates for the retirement plans, a Recession Scenario has been developed, which results in a General Fund shortfall of $153.1 million over the Forecast period.

- The chart on page 3 compares the 2019-2020 Forecast to the 2018-2019 Adopted Budget. The combined result of the Adopted to Forecast changes is a General Fund surplus of $3.5 million. There was no surplus or shortfall remaining from the 2018-2019 Adopted Budget that would carry-over into 2019-2020. The next major comparison element is the change in revenue sources year-over-year. Ongoing revenues are projected to increase by $70.8 million, driven primarily by increases in the Property Tax and Sales Tax revenue estimates. When comparing expenditures (the third element), base costs are expected to increase by $67.3 million from 2018-2019 ongoing budget levels, with the majority of the net increase associated with employee pay increases and increased retirement costs.

2019-2020 General Fund Forecast
Reconciliation from 2018-2019 Adopted Budget

2019-2020 General Fund Forecast Components (Ongoing)	$ in Millions
Carry-Over from 2018-2019 Adopted Budget	**$ 0**
Revenue Changes	
- Property Tax	$ 30.40
- Sales Tax	24.80
- Use of Money and Property (interest earnings, small cell revenue/digital inclusion)	6.31
- Transient Occupancy Tax	2.90
- Business Tax	2.80
- Transfers/Reimbursements/Overhead	1.33
- Utility Tax	(2.83)
- Other Net Revenue Changes	5.07
Total Revenue Changes (Increase)	**$ 70.78**
Expenditure Changes	
- Employee Pay Increases (includes associated retirement costs)	$27.33
- Retirement Plans Discount Rate Change (from 6.875% to 6.75%)	10.89
- Non-Management Step and Management-Pay-for-Performance Increases	5.84
- Health Plan and Other Benefits	4.56
- Homeless Rapid Rehousing	4.00
- Police Department Personal Services Vacancy Factor Change (from 2% to 1%)	3.37
- Digital Inclusion Program	2.20
- Workers' Compensation Third Party Administrator Contract	1.74
- Contingency Reserve (3% Policy)	1.50
- General Liability Claims	1.00
- Public Works Animal Care and Shelter	0.76
- Sanitary Sewer Fees	0.51
- City Attorney's Office Litigation	0.50
- Parks Water	0.42
- Unanticipated/Emergency Maintenance	0.35
- Library/San José State University Contract	0.34
- Cultural Facilities Capital Maintenance Reserve	0.30
- Transfer to Vehicle Maintenance and Operations Fund	0.30
- Tax Revenue Anticipation Notes Debt Service	(2.11)
- Other Net Expenditure Changes	3.53
Total Expenditure Changes (Increase)	**$67.33**
2019-2020 Projected General Fund Surplus	**$ 3.45**

- For the 2019-2020 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 $933.7 million projected personal services total for 2019-2020, salary and other compensation costs total $534.2 million (57.2% of projected personal services), retirement costs total $334.7 million (35.8% of projected personal services), and health and other fringe benefits costs total $64.8 million (7.0% of projected personal services). In the out years of the forecast, annual personal services growth ranging from 1.8% to 4.7% is projected.

- Committed Additions, expenses that address previous City Council direction, are included and total $86,000 in 2019-2020, rising to $11.4 million by the end of the forecast period. The largest expense in this category are the operating and maintenance costs for Measure T bond projects, approved by voters in November 2018, such as the Fire Station 37 ($4.3 million), Police Training Facility ($2.5 million) and Substation Activation ($3.2 million)**.**

- In approaching the 2019-2020 budget, the Administration proposes the use of the budget balancing strategy guidelines outlined in this memorandum (2019-2020 City Manager's Budget Request). The overall *City of San José Budget Principles* and the *Service Delivery Framework* included in Appendix A, combined with City Council approval of the Mayor's March Budget Message will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed 2019-2020 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 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 $360.9 million over the five-year period, which is slightly less than the $364.9 assumed in the 2019-2023 Adopted CIP. Construction and Conveyance (C&C) Tax projections of $180 million over the five-year period are down $2 million (1%) compared to the prior forecast based on a recent decrease in revenues. The Building and Structure Construction Tax and the Construction Excise Tax revenue estimates also reflect a slight drop in this Forecast from a combined total of $177 million to $175 million (down 1%).

- Consistent with past practice, as part of the preparation for the 2019-2020 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 2019-2020 City Manager's Budget Request and the 2020-2024 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 2019-2020 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 2019-2020 is an integral part of the Administration's proposed approach to preparing the 2019-2020 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2019-2020, and the subsequent four years, is provided as part of this document.

ANALYSIS

This section includes the following: a discussion of the 2019-2020 City Manager's Budget Request; an overview of the 2020-2024 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program; and a description of the next steps in the 2019-2020 budget process.

2019-2020 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 2019-2020 Proposed Budget. These proposed guidelines were formulated in the context of General Fund projections that are relatively in balance, with a small General Fund surplus in 2019-2020 followed by shortfalls and one surplus in the remaining years of 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 2018-2019, 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 2019-2020, a General Fund surplus of $3.5 million is projected, representing 0.3% of the General Fund Base Budget of $1.2 billion. In the out years of the Forecast, General Fund shortfalls ranging from $1.7 million to $15.6 million are projected for three of four years with a surplus of $11.4 million projected in 2022-2023. These annual variances are small when put into context of the size of the projected General Fund budget, ranging from -1.2% to 0.9% of the projected annual budget, 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. Increasing the Budget Stabilization Reserve is particularly important given the length of the current economic expansion and the sensitivity to changes in the economically driven revenue categories in the General Fund Forecast.

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 2018-2019 in the General Fund that totaled over $16 million. Major items funded on a one-time basis include the following: Transfer to the Self-Insured Medical Fund; Pavement Maintenance Program; Police Department Recruiting and Backgrounding; Police Department Downtown Foot Patrol; Sports Authority; Parks, Recreation and Neighborhood Services Placemaking and Parks Activation; and Business Development and Economic Strategy Activities. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2018-2019. This analysis will be conducted during the 2019-2020 budget process and funding recommendations for these programs and services will be included in the 2019-2020 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 scheduled for City Council review on March 12, 2019 at $6.9 million annually in the General Fund ($86.8 million all funds). In addition, there is a one-time backlog of infrastructure needs totaling $57.5 million in the General Fund ($1.5 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 Building, Fire, and Public Works Development Fee Programs, budget gaps are currently projected for 2019-2020. 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.

2019-2020 Budget Balancing Strategy Guidelines

The 2019-2020 Budget Balancing Strategy Guidelines provide recommended direction on the general approaches to use in the development of the 2019-2020 Proposed Budget.

2019-2020 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. Consider current needs in the context of long-term service delivery priorities.
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.
3. 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.
4. 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.
5. 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 2018-2019, and/or respond to City Council direction and organizational risks. Factor in performance measure data in the development of proposals.
6. 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).
7. 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.
8. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
9. 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.
10. Explore expanding existing revenue sources and/or adding new revenue sources.
11. 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.
12. 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 2018-2019 for which ongoing funding is not available; and/or 4) increase budget stabilization reserves to address future budget uncertainty.
13. Engage employees in department budget proposal idea development.
14. 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.
15. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

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 methods to ensure efficient and effective operations, service delivery goals and current performance status, service sustainability, and staffing resources.

2019-2020 Budget Process

As noted above, the Administration proposes the use of the general budget balancing strategy guidelines outlined above in the 2019-2020 City Manager's Budget Request combined with the overall City of San José Budget Principles, and the Service Delivery Framework to approach the 2019-2020 budget development process.

In January 2019, the Administration directed City departments to develop 2019-2020 budget proposals using a draft version of the 2019-2020 Budget Balancing Strategy Guidelines. At that time, departments were directed to submit General Fund reduction proposals to generate potential budget balancing options based on a preliminarily forecasted shortfall of $10 - $15 million. This estimated shortfall represented approximately 1% of the 2019-2020 General Fund Base Budget 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 restructure departmental operations and staff to effectively deliver services. 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. For special and capital funds, departments were directed to develop proposals that balance within the total resources of the fund, identify the impact on fees or rates and, to the extent possible, minimize fee and rate increases. While the General Fund position has improved slightly since departments received this direction, the overall outlook continues to necessitate conservative budget planning.

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 8, 2019, 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 2019-2020 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 22, 2019 and May 1, 2019, respectively. As part of the 2019-2020 Mayor's March Budget Message, the Administration requests confirmation of the proposed 2019-2020 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 2019.

2020-2024 FIVE-YEAR FORECAST AND REVENUE PROJECTIONS

The 2020-2024 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.

2020-2024 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.

2020-2024 General Fund Five-Year Forecast
($ in Millions)

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Projected Revenues	$1,207.8	$1,244.8	$1,279.7	$1,314.3	$1,351.5
Projected Expenditures	$1,204.3	$1,257.0	$1,305.6	$1,328.7	$1,367.7
Total Cumulative Surplus/(Shortfall)	$3.5	($12.2)	($25.9)	($14.4)	($16.2)
Total Incremental Surplus/(Shortfall)	**$3.5**	**($15.6)**	**($13.7)**	**$11.4**	**($1.7)**
% of Budget (Based on Expenditures)	**0.3%**	**(1.2%)**	**(1.0%)**	**0.9%**	**(0.1%)**

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2018-2019; 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 2020-2024 Forecast, small incremental General Fund surpluses and shortfalls between $11.4 million and -$15.6 million are anticipated. These margins are relatively narrow when put into context with the size of the projected General Fund budget, ranging from -1.2% to 0.3% of the projected annual budget of $1.2 billion to $1.4 billion. However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast, including programs funded on a one-time basis in 2018-2019 and unmet/deferred infrastructure needs.

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 2018-2019 Adopted Budget, the projected surplus of $3.5 million for 2019-2020 is the result of improved revenues of $70.8 million, partially offset by increased costs of $67.3 million. General Fund revenues are estimated to improve by $70.8 million when compared to the ongoing revenue performance assumed in the 2018-2019 Adopted Budget. Overall, revenue performance in 2018-2019 continues to reflect moderate growth and is estimated to exceed current budgeted levels. In 2019-2020, several revenue categories are forecasted to grow year-over-year, including: Property Tax ($30.4 million), which is based off the most recent information provided the County of Santa Clara; Sales Tax ($24.8 million), which is due to stronger than anticipated growth in General Sales Tax and Local Sales Tax as well as additional revenue anticipated for out of state internet sales that will be collected beginning in spring 2019; Use of Money/Property ($6.3 million), which is primarily due to increased interest earnings as the result of higher interest rates as well as higher cash balances as the City will no longer pre-pay retirement contributions; and Transient Occupancy Tax ($2.9 million), reflecting growth of 7% in the revenue category. The increased revenue estimates in these categories are partially offset by declines in other areas, the largest of which is reduced Utility Tax revenues ($2.8 million), which is primarily related to decreases in Electricity, Water, and Telephone Utility Tax revenue based on actual performance.

On the expenditure side, a number of upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of $67.3 million in 2019-2020. The largest change from the 2018-2019 Adopted Budget is the increase as the result of employee pay increases and associated retirement costs ($27.3 million). This includes negotiated increases for the San José Police Officers' Association (SJPOA) totaling $8.8 million, the International Association of Fire Fighters (IAFF) totaling $8.2 million, and the remaining bargaining units totaling $10.3 million. An estimated increase of $10.9 million results from the retirement discount rate change (from 6.875% to 6.75%) as approved by the Retirement Boards. Non-management step and management pay-for-performance increases result in an increase of $5.8 million from the 2018-2019 Adopted Budget. The next largest increases are programmed for Health Plan and Other Benefits ($4.6 million), Homeless Rapid Rehousing ($4.0 million), the lowering of the Police Department personal services vacancy factor ($3.4 million), Digital Inclusion Program ($2.2 million, offset by revenue), Workers' Compensation Third Party Administrator Contract ($1.7 million), Contingency Reserve ($1.5 million), General Liability Costs ($1.0 million), Public Works Animal Care and Shelter costs ($0.8 million), Sanitary Sewer Fees ($0.5 million), and City Attorney's Office litigation costs ($0.5 million). One downward adjustment is included for the elimination of Tax Revenue Anticipation Notes (TRANs) Debt Service costs (-$0.2 million) because the City will no longer prefund the employer retirement contributions for pension and retiree health benefits.

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 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 2019-2023 Adopted Capital Improvement Program or for projects approved by the City Council during 2018-2019. The costs of the additions total $86,000 in 2019-2020 and increase to $11.4 million by the end of the Forecast period.

2020-2024 General Fund Committed Additions
Maintenance and Operations Costs

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
New Parks and Recreation Facilities	$60,000	$491,000	$790,000	$1,084,000	$1,240,000
New Traffic Infrastructure Assets	26,000	75,000	117,000	148,000	170,000
Measure T Bond	-	2,685,000	7,380,000	9,661,000	9,951,000
Total	**$86,000**	**$3,251,000**	**$8,287,000**	**$10,893,000**	**$11,361,000**

These Committed Additions are related to new parks and recreational facilities, new traffic infrastructure assets, and the new projects funded by Measure T Bond funds. A detailed listing of all committed additions with operating and maintenance costs are included in this 2020-2024 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 2020-2024 Proposed Capital Improvement Program, including the Measure T Bond projects. 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.

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 in Section 4 of the report 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 2019-2020 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. This region has significantly benefitted from a high level of venture capital investment in the technology industry, solid employment growth, and an extremely 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. In this scenario, the total General Fund shortfall over the five-year period totals $16.2 million.

- *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. Venture capital investments, the key driver of the technology sector of the economy, are extremely high in each year of the forecast in the Optimistic Case. As a result, the area's largest technology employers are doing much better than in the Base Case. 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, Sales Tax, and Transient Occupancy Tax. In this scenario, there is a General Fund surplus of $31.5 million over the five-year period.

- *Pessimistic Case* – The Pessimistic Case assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case, but it does not assume a recession. 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 a recession at the local, national, or international levels. The City's revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, are significantly impacted by an economic slowdown. In this scenario, the total General Fund shortfall over the five-year period totals $72.5 million.

- *Recession Scenario* – While not modeled over the Forecast period, a Recession Scenario is included to provide additional context on the potential impacts of an economic downturn. In this scenario, a recession is experienced in 2021-2022, impacting the City's economically sensitive revenues. Sales Taxes, Transient Occupancy Tax, and Business Taxes experience declines in both 2021-2022 and 2022-2023 and Property Tax growth rates dramatically slow. On the expenditure side, the discount rate for the retirement plans declines by one-eighth percent in both 2020-2021 and 2021-2022. In this scenario, the total General Fund shortfall over the five-year period totals $153.1 million.

General Fund Operating Margins
(Base, Optimistic, Pessimistic, and Recession Scenarios)

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Five-Year Surplus/ (Shortfall)
Base Case	$3.45 M	($15.65 M)	($13.7 M)	$11.4 M	($ 1.7 M)	($16.2 M)
Optimistic Case	$6.5 M	($12.1 M)	($2.1 M)	$22.1 M	$17.1 M	$31.5 M
Pessimistic Case	($3.6 M)	($27.9 M)	($28.1 M)	($1.5 M)	($ 11.5 M)	($72.5 M)
Recession Scenario	($3.6 M)	($38.9 M)	($76.6 M)	($25.2 M)	($8.8 M)	($153.1 M)

Capital Revenue Forecast

Section V of this report describes the Capital Revenue Forecast that will be used to develop several major elements of the 2019-2020 Capital Budget and the 2020-2024 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 [2020-2024]). 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 2019-2023 Adopted CIP. As shown below, revenues are anticipated to decrease slightly as compared to the Adopted CIP, from $364.9 million to $360.9 million.

Capital Revenue Forecast Comparison Summary
($ in Thousands)

	2019-2023 CIP	2020-2024 Forecast	Difference	% Change
Construction and Conveyance Tax	$182,000	$180,000	($2,000)	(1%)
Building and Structure Construction Tax	76,000	75,000	(1,000)	(1%)
Construction Excise Tax	101,000	100,000	(1,000)	(1%)
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**	**$360,875**	**($4,000)**	**(1%)**

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 2018-2019 at $42.0 million. This collection level is 13% below the actual receipts received in 2017-2018 ($48.1 million), but is higher than the $38 million estimated in the 2019-2023 Adopted CIP. Based on recent downward collection trends and real estate activity, collections in this extremely volatile revenue category are forecasted to drop to $36 million in 2019-2020 and remain at that level through the remainder of the forecast period. Estimated revenues in the 2020-2024 Forecast are projected to generate $180.0 million, $2 million or 1% lower than the estimate of $182.0 million in the 2019-2023 Adopted CIP.

The remaining economically sensitive capital revenue categories are linked to private development activity. Based on projections provided by the PBCE Department, construction activity valuation is anticipated to be lower than the prior year with $1.4 billion in 2018-2019, an 18% decrease compared to $1.7 billion in 2017-2018. This level of activity is expected to decrease to $1.1 billion in 2019-2020 through 2023-2024 due to a decrease in residential and commercial new construction activity and commercial and industrial alterations activity as projects move through the development pipeline.

Building and Structure Construction Tax collections are projected to total $75.0 million over the forecast period, $1 million (or 1%) below the estimate included in the 2018-2022 Adopted Capital Improvement Program. It is projected that collections will drop from the 2018-2019 estimate of $16 million to $15 million in 2019-2020 and through the remainder of the forecast period as projects are completed and activity levels slightly decrease. Construction Excise Tax collections are projected to total $100 million over the five-year forecast period, with proceeds estimated at $20 million in 2019-2020 through 2023-2024. This collection level represents a slight decrease of $1 million (1%) from the 2019-2023 Adopted CIP. Under the North San José Area Development Policy, any Building and Structure Construction Tax collected for new developments in North San José will need to be set aside in a reserve for future transportation improvement projects in that area.

NEXT STEPS IN THE 2019-2020 BUDGET PROCESS

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

March 2019

- 2019-2020 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

April 2019

- 2019-2020 Proposed Capital Budget and 2020-2024 Capital Improvement Program Released

May 2019

- 2019-2020 Proposed Operating Budget and 2019-2020 Proposed Fees and Charges Released
- 2019-2020 Community Budget Meetings
- City Council Study Sessions and Initial Public Hearing on 2019-2020 Proposed Operating Budget, 2020-2024 Proposed Capital Budget and Capital Improvement Program, and 2019-2020 Proposed Fees and Charges

June 2019

- 2019-2020 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2019-2020 Operating Budget, 2019-2020 Capital Budget and 2020-2024 Capital Improvement Program, and 2019-2020 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 surplus of $3.5 million is projected in 2019-2020, followed by shortfalls and a surplus ranging from -$15.6 million to $11.4 million. These margins are narrow when considering the size of the General Fund budget that totals $1.2 billion to $1.4 billion annually over the forecast period.

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 2018-2019; 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 2019-2020 will continue to be refined over the next several months as additional information becomes available. This includes additional Property Tax roll growth data that is updated each month. Based on this additional data, any necessary adjustments will be incorporated into the 2019-2020 Proposed and Adopted Operating Budgets, as appropriate.

This document also provides the recommended 2019-2020 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.

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

Five-Year Economic Forecast and Revenue Projections

2020-2024

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 2019-2020 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. This region has significantly benefitted from a high level of venture capital investment in the technology industry, solid employment growth, and an extremely 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. Venture capital investments, the key driver of the technology sector of the economy, are extremely high in each year of the forecast in the Optimistic Case. As a result the area's largest technology employers are doing much better than in the Base Case. 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, Sales 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 2019-2020 Proposed Operating Budget, scheduled to be published on May 1, 2019.

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

If the current economic expansion continues past July 2019, it will become the longest in U.S. history. The U.S. unemployment rate ranged from 3.7% to 4.1% in 2018, and stood at 4.0% in January 2019, according to the U.S. Department of Labor's Bureau of Labor Statistics. However, while employment rates are extremely strong, wages, which are the largest single source of income in the economy, have been growing only modestly (3.2% annual growth in 2018). The continued slow growth for wages will likely cause downward pressure on the overall economy. Changes in interest rates can also significantly impact economic growth. The Federal Reserve, the central bank of the United States which is tasked with maintaining the stability of the country's financial system, raised interest rates in September and December 2018, and it was anticipated that rates would raise again in January 2019. However, due to the overall health of the economy and inflation being at expected levels, the Federal Open Market Committee chose to maintain the federal funds rate at 2 ¼ to 2 ½ percent. "Job gains have been strong, on average, in recent months, and the unemployment rate has remained low. Household spending has continued to grow strongly, while growth of business fixed investment has moderated from its rapid pace earlier last year. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent."[1] It is currently anticipated interest rates will only increase one to two times over the course of the next year, a significantly decreased from the previous assumption of interest rates increasing three to four times in 2019.

[1] Federal Reserve, Press Release, January 30, 2019

Elements of The General Fund Forecast

Assumptions Regarding the Economic Environment

Base Case Forecast

Some of the key drivers to the U.S. economy include automotive manufacturing and sales, new housing construction, energy production, and a robust technology sector. While the new housing construction, energy, and technology sectors have all remained strong throughout 2018, auto sales are beginning to experience lower sales volumes. For the last several years, car sales have been above 17 million per year; however, in 2018 sales have begun to decrease and are now anticipated to remain close to 16 million per year over the next several years.

On a national level in 2018, the real estate market saw reduced home sales coupled with growing median home prices. Existing home sales (single-family and multi-family dwellings) totaled 5.3 million in 2018, which represents a 3% decline from the 2017 sales of 5.5 million. However, the median sale price for single-family homes increased by 5% from $247,200 in 2017 to $259,100 in 2018.[2] Looking forward, it is anticipated housing statistics will continue similarly to 2018 trends, unless the threat of a looming recession or an international trade war is realized. According to Lawrence Yun, National Association of Realtors Chief Economist, "Stock market volatility caused by talk over a trade war is not good. But economic fundamentals remain strong and should stay that way if normal trade patterns continue."[3] Housing starts (the number of new residential construction projects) have also experienced upward movement, with the 2017 level of 1.20 million increasing to 1.26 million in 2018. With population increases continuing to put pressure on the housing supply, it is anticipated the housing starts will continue to increase in 2019.

The automotive sector represents a large and important employment sector in the economy and a base component of the U.S.'s industrial production sector. However, it is important to note that the housing and automobile sectors are highly sensitive to interest rates. Interest rates rose four times in 2018 and as mentioned above, are anticipated to rise again one to two times in 2019. As interest rates continue to rise, the economy will grow at a slower pace.

The energy sector is one of the backbones of the United States 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 production technologies helped boost oil production.[4] United States crude oil and petroleum product net imports have continuously fallen over the last several years, and the United States Energy Information Administration (EIA) forecasts that by the fourth quarter of 2020, the United States will be a net exporter (instead of a net importer) of crude oil and petroleum products for the first time. The average crude oil price experienced sharp declines in 2015-2016, with the average Brent price per barrel dropping from $96 in 2014 to $41 in 2016. Beginning in 2017, production decreases and healthy economic growth resulted in oil prices increasing to an average Brent price per barrel of $54 in 2017 and $72 in 2018. When oil prices began to decline near the end of 2018, which was likely the result of fears over declining global trade and rising interest

[2] National Association of Realtors, U.S. Economic Outlook, February 2019
[3] National Association of Realtors, Realtor Magazine, January-February 2019
[4] U.S. Energy Information Administration, U.S. Energy Facts Explained, Updated May 16, 2018

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

rates, an agreement among members of the Organization of the Petroleum Exporting Countries (OPEC) and several non-OPEC countries was reached to reduce production. Based on production and demand currently anticipated, the EIA is forecasting the average Brent crude oil price will average \$61 per barrel in 2019 and \$62 per barrel in 2020.[5] The crude oil prices are consistently monitored and the forecasted price per barrel can change many times throughout the year.

Venture capital, the driving force of the technology sector, had a record-setting year in 2018 and finished the year with \$130.9 billion invested, surpassing the \$105.0 billion invested in the dot-com era in the early 2000's. Mega deals (deals over \$100 million) experienced a significant 91.3% increase over the previously historic 2017 level. In 2015, the venture capital industry started evolving as venture capital-backed companies stayed private longer and required larger deal sizes. Therefore, fewer transactions are now occurring, but more capital is being deployed into higher valued companies. In 2018, deal counts continued to drop and were at the lowest figure since 2012, however, mega and medium size deals are at extremely high levels. Moving into 2019, the venture capital sector is anticipated to remain strong, however, changes in government regulations can potentially significantly impact foreign investment.[6]

National Economic Outlook

The United States economy has been steadily expanding over the last nine years. However, slow growth across most sectors of the economy appears likely for the next several years. The December 2018 UCLA Anderson Business School Forecast assumes fiscal stimulus that resulted from the large tax cuts passed last year are waning, interest rates will continue to rise, and trade policy changes will all negatively affect the economy, slowing down growth in 2019. Real U.S. Gross Domestic Product (GDP) increased at an annual rate of 2.6% in the fourth quarter of 2018[7], however, growth is anticipated to decline to 2.1% in 2019 and 1% in 2020. In addition, the unemployment rate is anticipated to decrease further in 2019, and wage growth will continue, but at a milder pace.

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) decreased 0.1% in December 2018 (seasonally adjusted), but increased 1.9% over the last 12 months (before seasonal adjustment).[8] However, higher wages, continued high housing costs, and increased tariffs are anticipated to result in the inflation rate rising slightly in 2019. The Federal Reserve will continue to monitor the inflation rate, as well as other economic factors, and increase interest rates accordingly to keep the economy in a mode of growth.

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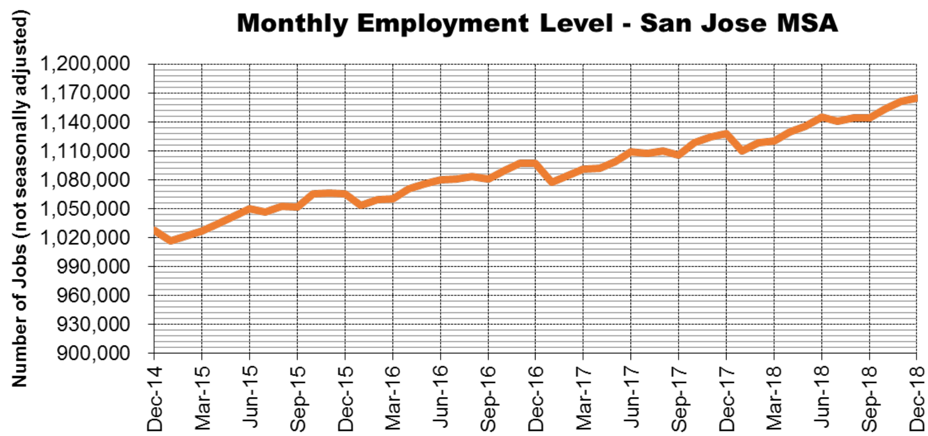
[5] U.S. Energy Information Administration, Short-Term Energy Outlook, February 2019
[6] National Venture Capital Association and PitchBook, Venture Monitor, 4th Quarter 2018
[7] U.S. Department of Commerce, Bureau of Economic Analysis, February 2019
[8] U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index Detailed Report, December 2018

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Current City of San José Economic Conditions

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



The December 2018 employment level in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (San José MSA) of 1.09 million was 3.7% higher than the December 2017 level of 1.05 million. Between December 2017 and December 2018, 37,000 jobs were added. This includes 11,800 jobs in professional and business services, (predominatly in professional, scientific and technical services), 8,100 private educational and health services (largely within health care and social assistance), 7,500 jobs in the information sector, and 5,700 manufacturing jobs.[9]

As noted in the January 2019 Beacon Employment Report, California ended 2018 with employment gains, after experiencing slow labor growth earlier in the year. Robert Kleinhenz, Executive Director of Research at Beacon Economics and the UC Riverside School of Business Center for Economic Forecasting, stated "As expected, Federal tax cuts and increased government spending boosted the economy last year, but we were concerned that a tight labor market would limit growth. However, the year ahead looks good with this surge in the labor force in recent months, precipitated in part by sharp increases in earnings at year end."[10]

Unemployment Rate (Unadjusted)

	Dec 2017	Nov 2018	Dec 2018**
San Jose Metropolitan Statistical Area*	2.7%	2.4%	2.5%
State of California	4.2%	3.9%	4.1%
United States	3.9%	3.5%	3.7%

* San Benito and Santa Clara Counties
Source: California Employment Development Department.
** December 2018 estimates are preliminary and may be updated.

The unemployment rates at the local, State, and national levels remain low. In December 2018, the unemployment rate for the San José Metropolitan Statistical Area (MSA) of 2.5% is slightly above the unemployment rate for

[9] State of California Employment Development Department Labor Market Information Division Press Release, January 18, 2019
[10] Beacon Economics, Employment Report, January 2019

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

November 2018 of 2.4%, but is below the December 2017 rate of 2.7%. In this region, the December 2018 unemployment rate continues to be lower than the unadjusted unemployment rate for the State (4.1%) and the nation (3.7%).

Local construction activity through December 2018 decreased 31.2% from 2017-2018 levels during the same time period. The 2018-2019 budget was developed with the expectation that private development activity would drop because activity in 2017-2018 was exceptionally high due to new construction and that level of activity was not expected to continue.

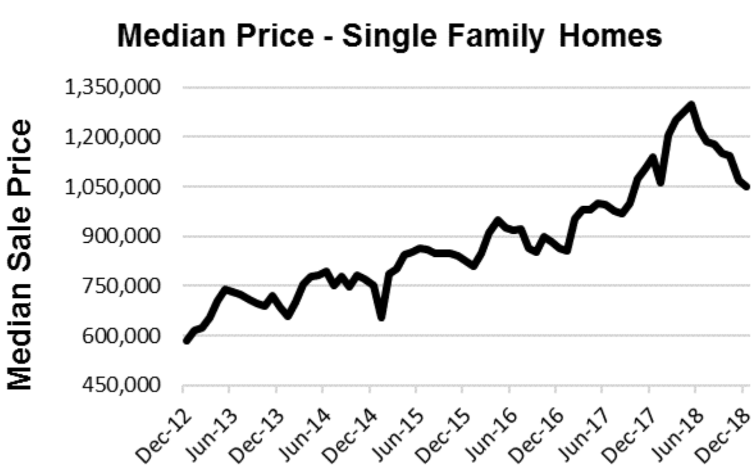
Residential permits for new dwelling units through December totaled 1,684 versus 1,809 in the prior year. Correspondingly, the valuation of new residential construction and alteration activity have also decreased compared to prior year levels ($299.4 million in 2018-2019 and $394.1 million in 2017-2018). Combined residential valuation of $299.4 million through December is 24.0% below the prior year level of $394.1 million.

Private Sector Construction Activity (Valuation in $ Millions)

	YTD December 2017	YTD December 2018	% Increase
Residential	$ 394.1	$ 299.4	(24.0%)
Commercial	$ 406.3	$ 243.9	(40.0%)
Industrial	$ 291.9	$ 208.4	(28.6%)
TOTAL	**$ 1,092.3**	**$ 751.7**	**(31.2%)**

Commercial valuation of $243.9 million through December 2018 is 40.0% lower than the 2018-2019 level of $406.3 million. The commercial activity in the month of December was very modest ($34.8 million) with alterations accounting for 43% of the commercial activity ($15.0 million). Industrial construction valuation of $208.4 million through December was also lower (28.6%) than the prior year level ($291.9 million in 2018-2019).

After seven years of year-over-year home price growth, the local real estate market is beginning to slow down. According to data from the Santa Clara County Association of Realtors, the single-family home price peaked at $1.3 million in May 2018, which represented a 30.0% increase from the May 2017 home price, but has steadily decreased each month since May. In December 2018, the median single-family home price totaled $1.05 million, which represents a 7.9% decrease from the December 2017 price of $1.14 million, but is 21.7% above the December 2016 price of $863,000. In addition to the median home



Base Case Forecast

price decreasing from the prior year level, the number of property transfers (sales) has also continued to steadily decline. The number of property transfers in December 2018 totaled 449, which represents a 3.9% drop from the 467 transfers that occurred in December 2017. In addition, the total number of property transfers that occurred through the first half of the 2018-2019 fiscal year has dropped 11% compared to the first half of 2017-2018. However, while homes are continuing continue to sell quickly, they are on the market significantly longer than the prior year. The average days-on-market for single-family and multi-family dwellings in December 2018 totaled 35 days, which is more than double the 16 days experienced in December 2017.

City of San José Economic Outlook

Over the five-year forecast, the local economy is expected to enter a period of slower economic growth similar to the national economy. Unemployment levels, which have consistently been well below national levels, are anticipated to remain low. While the employment growth level is slower than was previously experienced, 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.

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.

Taken together, San José can expect a 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, the local real estate market is extremely strong and the area's largest tech employers are doing much better than the Base Case Forecast. Local economic conditions are robust 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 in each year of the forecast. 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.

Elements of The General Fund Forecast

Assumptions Regarding the Economic Environment

Optimistic Case Forecast

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 and wages offset the negative influences of higher interest rates and promotes increased spending, which generates Sales Tax for the City. Property Tax growth rates are lower than they have been over the past several years, but are much higher than the growth rate assumed in the Base Case Forecast. In addition, lower gasoline prices enable motorists to purchase more gasoline, which increases to the Gas Tax collections.

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. The Pessimistic Case Forecast assumes home prices decline deeper than in the Base Case Forecast, and as a result of the lower home prices and property sales, Property Tax revenue decreases significantly. However, since current real estate prices and sales volumes are so strong, it will take a few years for the impact of the declining home prices to be realized with lower Property Tax collections. In the Pessimistic Case Forecast, employment levels are lower, which, coupled with the lower inflation rates assumed, result in lower Sales Tax revenue. In addition, as economic activity drops, occupancy rates and average room rates both fall as well, resulting in significantly lower Transient Occupancy Tax collections throughout the entire forecast.

Oil prices have been extremely volatile and unpredictable over the last several years as United States oil producers compete with powerful OPEC producers. The Pessimistic Case Forecast assumes higher oil prices than the Base Forecast, which results in consumers purchasing less gasoline. As gasoline consumption decreases, the Gas Taxes fall throughout the entire forecast.

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

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

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.

An in-depth analysis of the General Fund revenue categories was completed to develop 2019-2020 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2018-2019 and build upon those projections to develop the 2019-2020 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 2019-2020 Proposed Operating Budget scheduled to be released on May 1, 2019.

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 $1.14 billion in 2019-2020 to $1.28 billion in 2023-2024, for an average growth rate of 3% per year.

General Fund 2020-2024 Forecast
Revenue Summary

	Modified Budget	Forecast				
General Fund Revenue Category	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**	**2023-2024**
General Revenues						
Property Tax	324,450,000	348,000,000	365,470,000	382,245,000	397,305,000	412,403,000
Sales Tax	250,500,000	258,300,000	264,422,000	269,684,000	276,695,000	284,166,000
Transient Occupancy Tax	19,700,000	22,500,000	23,352,000	24,213,000	25,124,000	26,066,000
Franchise Fees	50,474,798	49,554,000	50,719,000	51,200,000	51,707,000	52,648,000
Utility Tax	102,400,000	99,570,000	101,691,000	103,013,000	104,774,000	107,551,000
Telephone Line Tax	20,000,000	20,000,000	20,036,000	20,070,000	20,102,000	20,138,000
Business Tax	69,400,000	72,200,000	72,921,000	73,443,000	73,946,000	74,472,000
Licenses and Permits	60,893,631	60,450,000	62,030,000	64,305,000	66,449,000	68,709,000
Fees, Rates, and Charges	55,821,726	54,461,000	55,884,000	57,934,000	59,865,000	61,902,000
Fines, Forfeitures and Penalties	14,983,000	14,913,000	15,092,000	15,296,000	15,358,000	15,540,000
Money and Property	6,897,000	13,144,000	13,565,000	13,958,000	14,447,000	14,909,000
Revenue from Local Agencies	16,104,823	11,101,000	11,504,000	11,891,000	12,240,000	12,591,000
Revenue from the State	13,994,473	11,635,000	11,635,000	11,635,000	11,635,000	11,635,000
Federal Revenue	6,206,082	216,000	-	-	-	-
Other Revenue	186,092,775	9,186,000	9,010,000	9,027,000	9,045,000	9,079,000
Gas Tax	17,300,000	16,300,000	16,450,000	16,869,000	17,504,000	18,144,000
Total General Revenues	**1,215,218,308**	**1,061,530,000**	**1,093,781,000**	**1,124,783,000**	**1,156,196,000**	**1,189,953,000**
Transfers & Reimbursements						
Overhead Reimbursements	50,456,037	53,734,000	55,139,000	57,161,000	59,066,000	61,075,000
Transfers	25,968,684	26,594,000	27,670,000	28,422,000	28,564,000	29,183,000
Reimbursements for Services	925,395	654,000	671,000	695,000	718,000	743,000
Total Transfers & Reimbursements	**77,350,116**	**80,982,000**	**83,480,000**	**86,278,000**	**88,348,000**	**91,001,000**
Total General Fund Revenues	**1,292,568,424**	**1,142,512,000**	**1,177,261,000**	**1,211,061,000**	**1,244,544,000**	**1,280,954,000**
Beginning Fund Balance	249,953,260	65,226,000	67,572,000	68,686,000	69,709,000	70,522,000
Grand Total Sources	**1,542,521,684**	**1,207,738,000**	**1,244,833,000**	**1,279,747,000**	**1,314,253,000**	**1,351,476,000**
Growth %			**3.07%**	**2.80%**	**2.70%**	**2.83%**

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 2020-2024 General Fund Forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale), Aircraft Property Tax, and Homeowner's Property Tax Relief. In 2018-2019 Property Tax receipts of $326.1 million are projected, which is slightly (0.5%) above the modified budget estimate of $324.5 million and $19.9 million (6.5%) above the 2017-2018 actual collection level of $306.2 million. A significant portion of the growth from the prior year is due to increased Secured Property Tax receipts, which includes general Secured Property Tax receipts (up $17.4 million) and Educational Revenue Augmentation Fund (ERAF) revenue (up $5.4 million), partially offset by lower Successor Agency to the Redevelopment Agency (SARA) Residual Property Tax receipts (down $3.7 million). In 2019-2020, Property Tax collections are expected to increase 6.7% to $348.0 million. This includes underlying growth of 5.5% in the general Secured Property Tax category (bringing the estimate to $293.6 million in 2019-2020) and increased SARA Residual Property Tax receipts of $7.8 million (bringing the 2019-2020 total to $16.0 million). 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 2018-2019, Secured Property Tax receipts are expected to total $300.3 million, including $278.3 million in general Secured Property Taxes, $8.2 million from SARA Residual Property Tax receipts, and $13.8 million in ERAF revenue. This collection level is up 6.8% from the 2017-2018 receipts, primarily reflecting projected growth in general Secured Property Tax receipts of 6.7% and additional ERAF revenue of $5.4 million, partially offset by lower SARA Residual Property Tax receipts of $3.7 million. In 2019-2020, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2019, are expected to increase by 7.7% to $323.4 million. This primarily reflects the net impact of a 5.5% increase in general Secured Property Tax receipts and additional SARA Residual Property Tax receipts of $7.8 million.

The general Secured Property Tax receipts growth of 6.7% in 2018-2019 primarily reflects an increase in assessed value, due to the California Consumer Price Index (CCPI) increase of 2%, and increased valuation due to changes in ownership or new construction. 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. On a County-wide basis, the 2018-2019 roll growth was driven primarily by changes in ownership (51.4%), change in the CCPI (24.9%), and new construction (20.0%). In 2019-2020, the general Secured Property Tax receipts are estimated to grow by 5.5%. The CCPI adjustment for the 2019-2020 tax roll is 2%, which is consistent with the prior year level. In addition, the high property sale prices will continue to be a positive factor driving growth in this category in 2019-2020. In calendar year 2018, residential real estate experienced significant gains as the average median single-family sales price of $1.17 million was up 17.2% from the median price of $1.0 million in 2017. The number of sales, however, has declined which negatively impacts growth. The total number of property transfers for single-family and multi-dwelling homes declined approximately 9%, from 7,791 sales in calendar year 2017 to 7,083 sales in calendar year in 2018.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

In addition to the changes in assessed value, Secured Property Tax collections are impacted by excess ERAF revenue. 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 2017-2018, the City received $8.4 million primarily from excess 2016-2017 ERAF funds. In 2018-2019, based on information provided by Santa Clara County (that receives information from the State of California), excess ERAF receipts are estimated to total approximately $13.8 million, which has been incorporated into the 2018-2019 Secured Property Tax estimate. This funding level represents an approximately 65% increase from the 2017-2018 collection level of $8.4 million. It is anticipated in 2019-2020 the excess ERAF receipts will be consistent with the 2018-2019 estimated receipts.

The final component of the Secured Property Tax category is the SARA Residual Property Tax receipts. As a result of the SARA bond refunding that occurred in December 2017, the City received a residual property tax distribution of $11.8 million in 2017-2018. The Adopted 2018-2019 Budget assumed receipts would remain fairly flat at $12.0 million. However, due to outstanding Supplemental Education Revenue Augmentation Fund (SERAF) loans anticipated to be paid off within the next year, the SARA residual property tax revenue will be reduced on a one-time basis to an estimated $8.2 million in 2018-2019, but will increase again in 2019-2020 to an estimated $16.0 million. The City is also expected to receive the SERAF loan repayment revenue in 2019-2020 due to the timing of payments, which will be included in the 2019-2020 Proposed Budget.

It should be noted that final data on the actual tax levy for 2019-2020 is not yet available as adjustments are made through June 30, 2019. 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 2019-2020 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 January and information provided by Santa Clara County, Unsecured Property Tax receipts are estimated at $15.8 million in 2018-2019, which is 12.4% above the prior year level of $14.0 million. Given the unusually high collection level anticipated in 2018-2019 and the potential impact of large 2018-2019 roll corrections on 2019-2020 revenues, receipts are anticipated to drop by 5% in 2019-2020 to $15.0 million.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

For the other Property Tax categories, 2018-2019 collections are estimated at $10.0 million and are estimated to decrease slightly to $9.6 million in 2019-2020. **SB 813 Property Tax** receipts are estimated at $6.6 million in 2018-2019, but are anticipated to decrease by 5% to $6.3 million in 2019-2020; **Aircraft Property Tax** receipts are estimated at $2.4 million in 2018-2019 and 2019-2020; and **Homeowners Property Tax Relief** revenue are anticipated to total $900,000 in 2018-2019 and 2019-2020.

In the out years of the Forecast, annual Property Tax receipts are projected to increase approximately 3.8% to 5.0% annually over the five-year period. A portion of this growth is due to an estimated 2% CCPI increase annually.

Sales Tax

The Sales Tax category includes General Sales Taxes, Local Sales Taxes, and Proposition 172 Sales Taxes. When the 2018-2019 Adopted Budget was developed, it was projected that Sales Tax receipts would end 2017-2018 at $230.8 million and grow 1.2% to $233.5 million in 2018-2019. In 2017-2018 Sales Tax receipts, however, ended the year at only $226.3 million. This lower collection level was due to the under-distribution of sales tax revenue throughout the State.

The California Department of Tax and Fee Administration (CDTFA), which is responsible for distributing Sales Tax revenue to jurisdictions in California, implemented a new automated system, which resulted in 3rd quarter and 4th quarter 2017-2018 receipts not being fully disbursed to jurisdictions during the quarter in which the tax revenue was received. The CDTFA processed the outstanding payments, which were estimated at approximately $10 million for San José, and included the additional revenue in the 1st quarter 2018-2019 disbursement that was received in November 2018. Based on 1st quarter receipts (including the $10 million that is attributed to the prior fiscal year), 2nd quarter receipts that were recently received, and estimated collections for the last two quarters, the 2018-2019 Sales Tax revenue is projected to reach $259.0 million. After adjusting 2017-2018 and 2018-2019 Sales Tax figures to account for the under-reporting in 2017-2018, the adjusted growth rate in 2018-2019 is 5.4%, which reflects strong performance in the first two quarters of the fiscal year and estimated receipts for the remaining quarters.

In June 2018, the United States Supreme Court made a historic ruling with the South Dakota vs. Wayfair, Inc., decision which provides states with the authority to require online retailers to collect sales tax even without a local presence in that state. Based on the most recent information provided by the CDTFA, which is implementing the changes in California as a result of the Supreme Court decision, out of state online retailers must comply with the new Sales Tax guidelines by April 2019. As a result, additional collections will not be reflected in local jurisdictions receipts until the 4th quarter 2018-2019 payment. Due to uncertainties of the timing and collection level in 2018-2019, the current year Sales Tax estimate does not include any additional revenue anticipated as a result of the internet sales. A final reconciliation of 2018-2019 Sales Tax, including any tax

REVENUE FORECAST

Sales Tax

revenue received from out-of-state internet sales, will be included in the 2018-2019 Annual Report, which is anticipated to be released on September 30, 2019.

In 2019-2020 Sales Tax receipts are estimated at $258.3 million, which factors in the following: a reduction of $10 million related to the one-time overpayment received in 2018-2019, estimated 2.5% underlying growth from the 2018-2019 estimate, and additional revenue of $5.0 million anticipated for out-of-state internet sales. Additional information about each of the Sales Tax sub-categories is provided below.

When the 2018-2019 Adopted Budget was developed, **General Sales Tax** was anticipated to total $181.2 million in 2017-2018 and after factoring out accrual and one-time adjustments would grow by approximately 2% to $184.3 million in 2018-2019. However, due to the under-distribution of 2017-2018 Sales Tax by the CDTFA, the General Sales Tax actual receipts in 2017-2018 of $176.8 was under-stated by approximately $9 million. The CDTFA has since processed the outstanding payments and included the additional revenue in the 1st quarter 2018-2019 disbursement that was received in November 2018. Based on the 1st and 2nd quarter actual receipts, including the one-time over-collection from the prior year of $9 million, and estimated receipts for the last two quarters, the 2018-2019 General Sales Tax receipts are anticipated to total $204.8 million. After adjusting 2017-2018 and 2018-2019 General Sales Tax figures to account for the under-reporting in 2017-2018, the adjusted growth rate in 2018-2019 is 5.3%, which reflects strong performance in the first two quarters of the fiscal year and estimated receipts for the remaining two quarters. In 2019-2020 General Sales Tax receipts are estimated at $204.6 million which includes a reduction of $9 million for the one-time overpayment received in 2018-2019, estimated 2.5% underlying growth from the 2018-2019 estimate, and additional revenue of $4.0 million anticipated for out-of-state internet sales.

In June 2016, San José voters approved a ¼ cent local sales tax, which was implemented in October 2016. As a result, beginning in 2016-2017, **Local Sales Tax** revenue started to be received in San José. The 2018-2019 Local Sales Tax budget was built on the assumption 2017-2018 receipts would total $42.6 million and after factoring out accrual adjustments would grow by approximately 2% to 43.0 million in 2018-2019. However, due to the CDTFA under-distributing payments, the Local Sales Tax actual receipts in 2017-2018 of $41.3 million were understated by an estimated $1 million - $2 million. The CDTFA has since processed the outstanding payments and included the additional revenue in the 1st quarter 2018-2019 disbursement that was received in November 2018. Based on the 1st and 2nd quarter actual receipts, including the one-time over-collection from the prior year and slight growth for the remainder of the fiscal year, the 2018-2019 Local Sales Tax receipts is anticipated to total $47.7 million. In 2019-2020 Local Sales Tax receipts are estimated at $47.0 million which includes a reduction for the estimated one-time overpayment received in 2018-2019, estimated 2.5% underlying growth from the 2018-2019 estimate, and additional revenue of $1.0 million anticipated for out of state internet sales.

Elements of The General Fund Forecast

Revenue Forecast

Sales Tax

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 $6.5 million in 2018-2019, which represents growth of 2.2% from the 2017-2018 collections. In 2019-2020, receipts are projected to increase by 2.5%, to $6.7 million.

In the out years of the Forecast, annual Sales Tax performance is expected to show growth of 2.0% to 2.7% annually.

Transient Occupancy Tax

In 2018-2019, Transient Occupancy Tax (TOT) receipts in the General Fund are projected to reach $21.0 million, reflecting an increase of 7.5% from the 2017-2018 collection level of $19.53 million. The anticipated increase represents the tenth year of consecutive growth, due to continued strong regional economic performance. Occupancy levels through December 2018 have increased slightly, from 77.44% to 78.48%, relative to December 2017 levels. This increase is coupled with higher average room rates, up 6.3% from December 2017 (from $183.48 to $195.08), and higher average revenue-per-available room, up 7.8% from December 2017 (from $142.08 to $153.10).

In 2019-2020, TOT receipts are projected at $22.5 million, reflecting growth of 7% from the 2018-2019 estimate. This figure incorporates information received from the City's consultants, factoring for the number of hotel rooms expected to come on-line, forecast economic and convention performance, and other correlated economic variables. As TOT can experience wide swings of positive and negative growth, and given the historically high average daily room rates and hotel occupancy, the out years of the Forecast assume growth ranging from 3.7% to 3.8%. However, the growth assumptions used in the development of this Forecast are more conservative than those assumed by the City's consultant, Conventions, Sports and Leisure (CSL), which projected potential annual growth ranging from 5% to 11%.

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 $49.3 million in 2018-2019, reflecting a 3.6% drop from prior year receipts of $51.2 million. The projected decrease in 2018-2019 is primarily due to lower collections in Gas, Electricity, and Cable receipts. In 2019-2020, Franchise Fees are expected to grow slightly to $49.6 million, which primarily reflects growth in Electricity and Gas receipts (2%), partially offset by decreased revenue related to Cable Franchise Fees.

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 2018-2019 are based on

REVENUE FORECAST

Franchise Fees

calendar year 2018 and revenues in 2019-2020 will be based on calendar year 2019). 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 2018-2019 will be received in April 2019.

In the **Electricity Franchise Fee** category, collections in 2018-2019 are anticipated to reach $22.8 million, reflecting an almost 2% drop from the 2017-2018 receipts. This estimate takes into consideration the actual collection patterns for electricity utility tax receipts in calendar year 2018. In 2019-2020, Electricity Franchise Fee collections are projected to increase by approximately 2% to $23.3 million. Updated rate information is not available from PG&E, therefore, this growth factor is estimated based on historical patterns. 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. SJCE municipal launched in summer 2018 and the residential and large commercial accounts launch occurred in early 2019. As previously discussed, PG&E's new rates are not yet known, but are anticipated to be finalized and effective by April 1, 2019. SJCE will be able to determine their rates for the upcoming year once the new PG&E rates are finalized to reflect the 1% discount on PG&E's generation rates.

In the **Gas Franchise Fee** category, the 2018-2019 estimated collections of $5.2 million reflect a decrease of 8.8% from the $5.7 million received in the prior year. This estimate takes into consideration the actual collection patterns for gas utility tax receipts in calendar year 2018, which includes lower collections in October 2018 due to the California Climate Credit. In 2019-2020 collections are projected to grow 2% to $5.3 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 $11.8 million in 2018-2019, 2.1% above the prior year collections, which is due to the 2018-2019 CPI-based increase of 2.1%. 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 2019-2020 estimate of $11.8 million is consistent with the 2018-2019 estimate and does not automatically assume a CPI adjustment. This adjustment will be brought forward as a proposed change in the 2019-2020 Proposed Operating Budget.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Franchise Fees

In the **Cable** Franchise Fee category, the estimated 2018-2019 collections of $8.8 million is 9.7% below the prior year receipts of $9.8 million. In addition, revenue in 2019-2020 is anticipated to drop an additional 5% to $8.4 million. As people continue to move from cable to less expensive streaming options (that do not include a Franchise Fee), this revenue source is anticipated to continue to decline.

City Generated Tow Fees in 2018-2019 are projected at $400,000, reflecting a 35.2% decline from the 2017-2018 actual collection level. As detailed in the Amendments to City Generated Tow Agreements memorandum that was approved by the City Council on October 31, 2017, tow fees have significantly declined. To address the changing environment, contract amendments, such as allowing tow operators to deduct disposal expenses associated with certain tows of recreational vehicles and similar trailers, were approved as part of the memorandum that became effective January 1, 2018. Based on current collection trends, revenues are estimated to end 2018-2019 at $400,000 and remain flat in 2019-2020.

Remaining franchise fees include the **Great Oaks Water and Nitrogen Gas Pipeline** categories. Nitrogen Gas Pipeline receipts are estimated at $65,000 in 2018-2019 and 2019-2020. Great Oaks Water fees are anticipated to reach $320,000 in 2018-2019 and grow by 2% to $330,000 in 2019-2020.

In the out years of the Forecast, Franchise Fee revenues are anticipated to increase by 0.95% to 2.35%. However, 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.

Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2018-2019 are anticipated to total $99.0 million, representing a less than 1% drop from the 2017-2018 collection level of $99.8 million. In 2019-2020, Utility Tax collections are projected to increase approximately 0.6% to $99.6 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. As previously discussed, PG&E has not yet released their rate increases for 2019.

The **Electricity Utility Tax** is anticipated to generate $46.0 million in 2018-2019, a 1.6% drop from prior year levels. In 2019-2020, revenues are estimated to increase 2% to $46.9 million. PG&E has not yet released rate increases, therefore the 2019-2020 growth is based on historical patterns. As previously discussed, PG&E's new rates are not yet known, but are anticipated to be finalized and effective by April 1, 2019. SJCE will be able to determine the City's rates for the upcoming year once the new PG&E rates are finalized to reflect the 1% discount on PG&E's generation rates.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Utility Tax

Gas Utility Taxes are projected at $9.8 million in 2018-2019, a 7.2% decrease from 2017-2018 levels. This estimate takes into consideration lower collections in October 2018 and April 2019 due to the California Climate Credit. Beginning in 2019-2020, this credit will only occur once per year in April, therefore the 2019-2020 collections are projected to increase to $10.4 million, which assumes 2% underlying growth as well as only one California Climate Credit. Receipts can fluctuate significantly due to consumption changes associated with the weather and future rate changes.

Water Utility Tax receipts of $16.3 million are anticipated to be received in 2018-2019, an increase of approximately 5% from 2017-2018 collection levels. In 2019-2020, receipts are projected to increase approximately 2.5% to $16.7 million based on the annualization of water rate increases that occurred effective January 2019.

In the **Telephone Utility Tax** category, revenues are collected on landlines, wireless, VoIP, and prepaid wireless services sold at retail locations. Receipts (excluding compliance revenue) in 2018-2019 and 2019-2020 are projected at $25.6 million, a 5% decrease from 2017-2018 collection levels. The decline in this revenue category is the result of wireless consumers shifting to less expensive prepaid wireless plans, competition with cellular companies that keep prices down, and the taxable base of wireless communications not including data plans.

In the out years of the Forecast, conservative growth ranging from 1.3% to 2.65% 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. In addition, the Water and Gas Utility Tax categories are significantly influenced by weather conditions.

Telephone Line Tax

Based on the current collection trend, receipts (excluding compliance revenue) in 2018-2019 and 2019-2020 are estimated to total $20.0 million, which is consistent with the 2017-2018 actuals. Given the steady nature of collections in this category, receipts are anticipated to remain relatively flat (growth of less than 0.5%) 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 $72.2 million in 2018-2019, a 2.2% increase from prior year levels, then remain flat in 2019-2020.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Business Taxes

In 2018-2019, **General Business Tax** proceeds are anticipated to reach $26.5 million, which is consistent with the 2017-2018 collection level and slightly above the 2018-2019 Adopted Budget level of $25.7 million. The 2018-2019 Adopted Budget was built based on the assumption that the council-approved Business Tax Amnesty Program would begin in early 2018-2019. Although the Amnesty Program has not yet begun, revenue is anticipated to slightly exceed the Adopted Budget level. In 2019-2020, General Business Tax revenue is anticipated to grow by 2% from the 2018-2019 estimate, plus increase an additional $1.0 million due to the Amnesty Program beginning over the summer 2019, bringing the 2019-2020 General Business Tax estimate to $28.0 million.

Based on current performance, collections in the **Cardroom Tax** category are estimated at $18.7 million in 2018-2019, a slight decrease from the prior year collection level of $18.9 million. In 2019-2020, receipts are anticipated to remain flat 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, 2018-2019 DFT collections are estimated at $12.0 million, representing a 2.3% decline from 2017-2018 collection levels. In 2019-2020, receipts are anticipated to remain flat at $12.0 million. DFT revenues have slowly declined over time as a result of continued waste diversion efforts. For example, in 1997-1998, receipts totaled close to $20 million.

Marijuana Business Tax collections began after the November 2016 California Marijuana Legalization Initiative (Proposition 64) was approved by voters and recreational marijuana use was legalized in California. As a result, the sale of recreational cannabis at the 16 licensed dispensaries in San José began in January 2018. The 2018-2019 Adopted Budget for the Marijuana Business Tax totals $13.5 million, which represents almost 4% growth from the $13.0 million received in 2017-2018. While collections are tracking to exceed $13.5 million in 2018-2019, the 2019-2020 estimate remains at $13.5 million due to several possible changes that may affect future collections. Revenue may decrease in 2019-2020 as the result of neighboring cities passing Cannabis taxes in the November 2018 election, which will provide competition for San José when the dispensaries are open in other jurisdictions. In addition, dispensary remittance errors that have recently been discovered are currently being analyzed and may result in lower receipts. However, revenues may increase in 2019-2020 due to the City Council approving the expansion of the Marijuana Business Tax to include manufacturing, testing labs, and distribution in December 2018.

In the remaining years of the forecast, overall, the Business Tax category is expected to experience changes ranging from 0.7% to 1.0% per year.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

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 2019-2020, the Licenses and Permits category is estimated at $60.45 million and the Fees, Rates, and Charges category is estimated at $54.5 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 2019-2020, the Building Fee Program, Fire Fee Program, Public Works Fee Program, and City-Wide Planning Fee Program base expenditures are projected to exceed the base revenue estimates. For all of these fee programs there are sufficient earmarked reserves to bring projected revenues and expenditures into alignment for a net-zero General Fund impact in 2019-2020. This Forecast assumes that Fee Program Reserves will be used to address these shortfalls as outlined in the Beginning Fund Balance section below. For the non-development-related fees and charges, the 2019-2020 estimates are based on current collection trends.

In the out years of the Forecast, both the Licenses and Permits and Fees, Rates, and Charges categories are expected to experience annual growth ranging from 2.6% to 3.7%. 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.

Fines, Forfeitures and Penalties

In 2018-2019, 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 expected to generate approximately $11.1 million in 2018-2019 and 2019-2020. These estimates reflect growth of 2.3% from 2017-2018 receipts of $10.9 million. Total revenue in 2019-2020 is estimated at $14.9 million in the Fines, Forfeitures, and Penalties category. In the out years of the Forecast, annual growth of approximately 0.4% to 1.4% 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 $9.0 million in 2018-2019. In 2019-2020, revenue is expected to grow to $13.1 million, which primarily reflects increased interest earnings due to increased interest rates as well as higher cash balances as the City will no longer pre-pay retirement contributions. In the out years of the Forecast, growth of 2.9% to 3.5% annually is assumed in the Money and Property category.

REVENUE FORECAST

Revenue from Local Agencies

In 2018-2019, revenue of $16.1 million is projected from other local agencies, such as the Central Fire District payment for fire services provided to County residents by the San José Fire Department, the County of Santa Clara payment for the Paramedic Program, and the Successor Agency to the Redevelopment Agency of San José (SARA). In 2019-2020, revenue in this category is projected at $11.1 million, which is $5.0 million below the 2018-2019 estimate. The decrease in 2019-2020 revenue is primarily due to reimbursements and grants that are not secured on an ongoing basis being eliminated. In addition, based on information provided by the County, SARA reimbursement costs for enforceable obligations is anticipated to decrease from $1.0 million in 2018-2019 to $339,000 in 2019-2020.

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, payments of $7.5 million are anticipated in 2018-2019. This reflects a 6.5% increase from the prior year level. In 2019-2020, collections are projected to increase 5.5% to $7.7 million. In 2019-2020, 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 2018-2019 estimate.

The Forecast assumes reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program), which totals $2.0 million in 2018-2019 and $1.3 million in 2019-2020. 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 2018-2019 totaling $2.0 million for Category A funds ($1.3 million) and Category B funds ($783,000). The category B funds are based on actual performance for the fourth quarter 2017-2018 and first quarter 2018-2019, 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 2019-2020 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 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 0.5%.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

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 $11.6 million in 2019-2020 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 $9.4 million in 2019-2020, consistent with the amount projected for 2018-2019.

The State grants and reimbursements total $1.7 million in 2019-2020, with the largest reimbursement for the Abandoned Vehicles Abatement Program ($800,000), and Auto Theft Reimbursement ($800,000). 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.

Revenue from the Federal Government

The Revenue from the Federal Government category consists of grant revenues. In 2019-2020 revenue of $216,000 is anticipated for the second year of grant funding for the Northern California Regional Intelligence Center – Police 2018 ($111,000) Urban Areas Security Initiative Grant – Police 2018 ($105,000).

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 2018-2019, this category is expected to generate $186.2 million.

The 2018-2019 estimate includes a number of adjustments not included in the 2019-2020 Forecast, the largest of which is borrowing proceeds of $150.0 million 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. Beginning in 2019-2020 prefunding employee retirement contributions will no longer occur.

In 2019-2020, the revenue estimate of $7.5 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2019-2020 costs or agreements and the elimination of one-time funding sources. In 2019-2020 payments from Comcast and AT&T are estimated at $1.8 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

REVENUE FORECAST

Other Revenue

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 2019-2020 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 -1.9% (reduction is related to one-time grants) to 0.4% annually.

Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2018-2019 are projected to reach $16.3 million, which is approximately 2% lower than 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 2019-2020, collections in this category are projected to remain at $16.3 million. In the out years of the Forecast, collections are expected to experience growth ranging from 0.9% to 3.8% annually.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2019-2020, a total of $53.7 million in reimbursements are projected based on 2019-2020 overhead rates for the majority of City funds prepared by the Finance Department applied against the projected 2019-2020 salaries for those positions for which an overhead rate is applied. In the remaining years of the Forecast, annual growth ranging from 2.6% to 3.7% is 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 $26.6 million in 2019-2020, which is slightly above the 2018-2019 modified budget estimate of $26.0 million. The largest component of this category ($17.1 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 2019-2020, these reimbursements have been built to cover the direct base costs as well as indirect costs.

Additional large transfers programmed for 2019-2020 include the Construction and Conveyance Tax Fund transfer ($3.5 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer ($1.75 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 ($407,000) for reimbursement of City oversight of the fund.

REVENUE FORECAST

Transfers

In the remaining years of the Forecast, annual increases range from 0.5% to 4.0%. 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, Voluntary Employee Beneficiary Association (VEBA) Fund, and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2019-2020 of $654,000. In the remaining years of the Forecast, annual growth ranging from 2.6% to 3.7% is anticipated to recover the projected costs.

Beginning Fund Balance

The $65.2 million forecast estimate of available 2019-2020 Beginning Fund Balance is based on the following assumptions:

- The current Contingency Reserve of $37.0 million is carried forward at the current level based on the assumption that this amount will not be used in 2018-2019 and will be available for use in 2019-2020. 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 set at $38.5 million in 2019-2020 and increases in the out years of the forecast to $41.5 million by 2023-2024 to comply with the City Council policy to set aside at least 3% of expenditures in this Reserve.)

- A total of $20.0 million in fund balance will be achieved in 2018-2019 for use in 2019-2020 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 $8.2 million reflects the anticipated liquidation of reserves. Of this amount, $7.8 million will be used to support the Development Fee Programs as follows: $5.9 million from the Building Development Fee Program Reserve; $1.1 million from the Public Works Development Fee Program Reserve; $704,000 from the Fire Development Fee Program Reserve; and $145,000 from the City-Wide Planning Fee Program Reserve. The use of Development Fee Program reserves is assumed to cover a portion of the 2019-2020 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 2019-2020 include the San Jose Environmental Sustainability Program Reserve ($269,000), and the Chief Data Officer Reserve ($200,000).

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Beginning Fund Balance

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 increase slightly each year from $22.8 million in 2020-2021 to $24.9 million in 2023-2024. In addition, it is assumed that the Contingency Reserve of $37.0 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 $65.2 million in 2019-2020 to $70.5 million in 2023-2024.

EXPENDITURE FORECAST

An in-depth analysis of the General Fund expenditure categories was completed to develop the 2019-2020 expenditure estimates included in this Forecast. These expenditure estimates will be closely examined and updated again during the preparation of the 2019-2020 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from $1.2 billion in 2019-2020 to $1.4 billion in 2023-2024, for an average growth rate of 3.4% per year.

2020-2024 General Fund Forecast Expenditure Summary

	Modified Budget	Forecast				
Expenditure Category	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**	**2023-2024**
Personal Services						
Salaries and Other Compensation	$ 509,535,364	$ 534,235,000	$ 557,790,000	$ 578,733,000	$ 598,989,000	$ 619,954,000
Retirement	319,052,538	334,656,000	351,528,000	364,631,000	357,608,000	365,660,000
Health and Other Fringe Benefits	61,309,534	64,824,000	68,625,000	72,789,000	77,341,000	82,307,000
Total Personal Services	**$ 889,897,436**	**$ 933,715,000**	**$ 977,943,000**	**$ 1,016,153,000**	**$ 1,033,938,000**	**$ 1,067,921,000**
Total Non-Personal/Equipment	**$ 134,288,315**	**$ 119,428,000**	**$ 122,965,000**	**$ 125,554,000**	**$ 127,039,000**	**$ 129,375,000**
City-Wide						
City-Wide Expenses	$ 267,923,914	$ 74,748,000	$ 75,694,000	$ 76,936,000	$ 77,730,000	$ 79,361,000
Capital Projects	38,883,500	5,680,000	5,680,000	5,680,000	5,680,000	5,680,000
Transfers	43,109,355	30,015,000	31,379,000	31,384,000	31,313,000	31,346,000
Earmarked Reserves	131,419,164	2,112,000	1,112,000	1,112,000	1,112,000	1,112,000
Contingency Reserve	37,000,000	38,500,000	39,000,000	40,500,000	41,000,000	41,500,000
Total City-Wide	**$ 518,335,933**	**$ 151,055,000**	**$ 152,865,000**	**$ 155,612,000**	**$ 156,835,000**	**$ 158,999,000**
Committed Additions						
Measure T (Public Safety - Fire Station 37) Maint. & Operations			-	2,010,000	4,130,000	4,254,000
Measure T (Public Safety - Police Training Center) Maint. & Operations			1,185,000	2,370,000	2,441,000	2,514,000
New Parks and Recreation Facilities Maint. & Operations		60,000	491,000	790,000	1,084,000	1,240,000
New Traffic Infrastructure Assets Maint. & Operations		26,000	75,000	117,000	148,000	170,000
Police Substation Activation			1,500,000	3,000,000	3,090,000	3,183,000
Total Committed Additions		**$ 86,000**	**$ 3,251,000**	**$ 8,287,000**	**$ 10,893,000**	**$ 11,361,000**
Total Base Exp. w/ Committed Additions	**$ 1,542,521,684**	**$ 1,204,284,000**	**$ 1,257,024,000**	**$ 1,305,606,000**	**$ 1,328,705,000**	**$ 1,367,656,000**
Growth %			**4.4%**	**3.9%**	**1.8%**	**2.9%**

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 2018-2019 Adopted Budget. Various one-time additions totaling over $16 million are scheduled to expire in June 2019. The major items funded on a one-time basis include the following: General Fund subsidy to the Self-Insured Medical Fund, Diridon Station Area Development Planning, Office of Civic Innovation Staffing/Technology, Police Recruiting and Backgrounding, Downtown Foot Patrol Program, Census 2020, Police Activities League, Public Life and Parks Activation, San José Sports Authority, City Portfolio-Product-Projects Office, Service Year, Master Addressing Database, Our City Forest, Vietnamese-American Community Center Staffing, Storefront Activation Grant Program, Summer Learning, Employment Services Temporary Staffing Continuation, Aquatics Program, BeautifySJ Grants, and Business Outreach and Support Services. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2018-2019. This analysis will be conducted during the 2019-2020 budget process and funding recommendations for these programs and services will be included in the 2019-2020 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 (2019-2020) projection for personal services costs in this Forecast has been calculated at a detailed level, using a February 2019 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, 2018-2019 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 2019-2020 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 $933.7 million projected personal services total for 2019-2020, salaries and other compensation costs amount to $534.2 million (57.2% of projected personal services), retirement costs amount to $334.7 million (35.8% of projected personal services), and health and other fringe benefits costs amount to $64.8 million (6.9% 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 3.6%.

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. Most agreements with the City's bargaining units extend through June 30, 2021. The Association of Building, Mechanical and Electrical Inspectors (ABMEI) and the International Association of Fire Fighters, Local 230 (IAFF) have agreements that expire June 30, 2023. The agreement with the International Union of Operating Engineers, Local No. 3 (OE#3) expires September 30, 2019 and the San José Police Officers' Association (POA) agreement will expire June 30, 2020. With the exception of employees represented by SJPOA and 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.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

A Salaries and Benefits Reserve funding is included in each year of this Forecast that sets aside funds to: 1) account for potential pay increases beyond the expiration date of the various bargaining unit agreements; 2) allocate funding for pay for performance for management employees; and 3) to reserve resources for anticipated increases to employee benefits such as health and dental. For 2019-2020, this reserve totals $7.1 million and would require City Council action 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. 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 $32.2 million for 2019-2020, with most of these funds allocated to Police Department ($20.3 million) and Fire Department ($10.0 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.

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 2019-2020, retirement costs total $334.7 million for the General Fund, an increase of $15.6 million from the 2018-2019 Modified Budget of $319.1 million. These costs represent 27.8% 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. Beginning in 2019-2020, this Forecast no longer assumes a 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. While in the past this pre-payment yielded net budgetary savings to the City, a pre-payment is no longer recommended. City staff conducted an analysis of the benefit to the City to continue to prefund retirement contributions and concluded that given the continued reduced discount rate provided by the System for prefunding, increasing funds required to prefund, increased borrowing costs for Tax and Revenue Anticipation Notes, and the City's Investment Portfolio increased yield due to rising interest rates, there is no longer a meaningful budgetary benefit for the City to prefund retirement contributions to the Plans in fiscal year 2019-2020. The Administration will continue evaluate the benefits of prefunding retirement contributions on an annual basis to determine whether to exercise this option in future years.

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.

EXPENDITURE FORECAST

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.

A portion of the City's retirement contributions ($36.1 million in the General Fund and $45.7 million in all funds) are associated with retiree healthcare. Prior to Measure F, these contributions were frozen at certain levels for Federated and Police and Fire systems. Subsequent to the passage of Measure F, each board adopted annual contribution amounts for retiree health care, subject to various actuarial assumptions that are evaluated each year.

For 2019-2020, both retirement boards lowered their discount rates for pension contributions from 6.875% to 6.75%. While this change continues a multi-year effort by the City's retirement systems to more closely align expected investment returns to achievable levels, this caused an increase to the City's annual contribution, resulting in a General Fund impact of approximately $11 million.

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 for the Federated Retirement System and the Police and Fire Department Retirement Plan. These amounts are broken out by Tier 1 contributions (normal cost), Tier 2 contributions, the UAL, and retiree healthcare. In previous years, retirement contributions were also expressed as a percentage rate of salary for Tier 1 and Tier 2 employees. However, as Tier 1 is now a closed system, spreading the UAL cost across a shrinking pool of Tier 1 employees distorted the apparent cost of a Tier 1 employee. For reference, Tier 1 normal cost contributions and Tier 2 contributions are also displayed in the tables below as a rate, illustrating the long-term cost savings the City will achieve with the transition of its workforce from Tier 1 to Tier 2. Over this Forecast, the General Fund retirement costs are expected to grow from $334.7 million ($429.7 million in all funds) in 2019-2020 to $365.7 million ($469.7 million in all funds) in 2023-2024. Though these amounts are increasing, it is important to note that retirements contributions as a percentage of ongoing General Fund expenditures slightly decreases across the forecast period, from 27.8% in 2019-2020 to 26.7% in 2023-2024. As shown in Table 1 below, this decrease is largely driven a reduction to the Police UAL contribution starting in 2022-2023.

For illustration purposes only, Table 2 depicts the Retirement Board approved contribution amounts for 2019-2020 and the Cheiron-projected amounts for the out-years of the Forecast. It should be noted that the City budgetary amounts differ from the Federated and Police and Fire Retirement Board approved amounts due to the budgetary spread across vacant, as well as filled, positions. Cheiron applies retirement contributions to an assumed level of filled positions.

EXPENDITURE FORECAST

TABLE 1 – 2020-2024 CITY RETIREMENT BUDGETED CONTRIBUTION AMOUNTS
GENERAL FUND
($ in Millions)*

Retirement Plan	2018-2019**	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Federated Retirement Plan						
Tier 1 Pension (Normal Cost)	$19.6	$17.7	$15.9	$14.4	$13.1	$11.8
Tier 1 Pension (Normal Cost) Rate	*18.6%*	*19.3%*	*19.1%*	*19.0%*	*18.9%*	*18.7%*
Tier 2 Pension+	$8.8	$8.3	$9.3	$10.5	$11.5	$12.7
Tier 2 Pension Rate	8.3%	*8.3%*	*8.3%*	*8.3%*	*8.3%*	*8.3%*
Unfunded Actuarial Liability	$69.1	$78.8	$81.3	$85.4	$88.0	$90.9
Retiree Health Care	$13.5	$12.3	$12.2	$12.4	$12.6	$12.6
Total Federated Contributions	**$111.0**	**$117.1**	**$118.7**	**$122.7**	**$125.2**	**$128.0**
Police Retirement Plan						
Tier 1 Pension (Normal Cost)	$34.5	$31.3	$32.3	$29.8	$27.2	$24.7
Tier 1 Pension (Normal Cost) Rate	30.1%	*31.4%*	*31.7%*	*32.1%*	*32.7%*	*33.4%*
Tier 2 Pension+	$5.1	$9.6	$9.3	$11.3	$13.5	$15.7
Tier 2 Pension Rate	13.7%	*14.1%*	*14.1%*	*14.1%*	*14.1%*	*14.1%*
Unfunded Actuarial Liability	$61.2	$70.0	$75.8	$78.5	$68.3	$68.6
Retiree Health Care	$16.3	$14.5	$15.4	$16.4	$17.2	$17.9
Total Police Contributions	**$117.1**	**$125.4**	**$132.8**	**$136.0**	**$126.2**	**$126.9**
Fire Retirement Plan						
Tier 1 Pension (Normal Cost)	$25.1	$24.0	$23.7	$22.8	$21.7	$20.6
Tier 1 Pension (Normal Cost) Rate	31.2%	32.3%	32.4%	32.6%	32.8%	33.1%
Tier 2 Pension+	$1.5	$3.0	$3.5	$4.6	$5.7	$6.8
Tier 2 Pension Rate	*15.1%*	*15.4%*	*15.5%*	*15.4%*	*15.4%*	*15.4%*
Unfunded Actuarial Liability	$49.5	$55.0	$62.0	$67.0	$66.8	$70.9
Retiree Health Care	$9.6	$9.4	$10.0	$10.6	$11.1	$11.6
Total Fire Contributions	**$85.7**	**$91.4**	**$99.2**	**$105.0**	**$105.3**	**$109.9**
Other Retirement Contributions	**$1.0**	**$0.8**	**$0.8**	**$0.9**	**$0.9**	**$0.9**
Total General Fund	**$314.8**	**$334.7**	**$351.5**	**$364.6**	**$357.6**	**$365.7**
Total All Funds	**$405.6**	**$429.7**	**$448.0**	**$464.3**	**$459.4**	**$469.7**

+Though Tier 2 contributions are overwhelmingly comprised of normal costs, these figures do contain a very small component of UAL related to the Tier 2 program. For Tier 2, UAL is evenly split between the City and employees.

* City budgetary amounts differ from the Federated and Police and Fire Retirement Boards approved amounts due to the budgetary spread of retirement contributions across vacant, as well as filled positions. Cheiron, the Boards' actuary, applies retirement contributions to an assumed level of filled positions.

** Contributions in 2018-2019 associated with the UAL and retiree healthcare were paid at the beginning of the year, resulting in a slight discount in the contribution amount/rate. With the changing economic environment, all contributions in 2019-2020 will be spread throughout the year.

Source: Cheiron Letters dated January 9, 2019 (Federated) and January 30, 2019 (Police and Fire) and Cheiron presentation slides dated February 7, 2019 (Police and Fire).

EXPENDITURE FORECAST

TABLE 2 – 2020-2024 BOARD APPROVED CITY CONTRIBUTION AMOUNTS ALL FUNDS
($ in Millions)

Retirement Plan	2018-2019*	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Federated Retirement Plan						
Tier 1 Pension (Normal Cost)	$29.0	$28.8	$26.1	$23.7	$21.4	$19.4
Tier 1 Pension (Normal Cost) Rate	*18.6%*	*19.3%*	*19.1%*	*19.0%*	*18.9%*	*18.7%*
Tier 2 Pension+	$11.2	$13.3	$15.2	$17.0	$18.8	$20.5
Tier 2 Pension Rate	8.3%	*8.3%*	*8.3%*	*8.3%*	*8.3%*	*8.3%*
Unfunded Actuarial Liability	$125.5	$137.4	$147.4	$154.7	$159.5	$164.7
Retiree Health Care	$22.0	$21.8	$22.1	$22.5	$22.8	$22.9
Total Federated Contributions	**$187.7**	**$201.3**	**$210.8**	**$217.9**	**$222.5**	**$227.5**
Police Retirement Plan						
Tier 1 Pension (Normal Cost)	$27.5	$29.0	$27.1	$25.0	$22.7	$20.6
Tier 1 Pension (Normal Cost) Rate	30.1%	*31.4%*	*31.7%*	*32.1%*	*32.7%*	*33.4%*
Tier 2 Pension+	$4.3	$6.2	$7.8	$9.5	$11.3	$13.1
Tier 2 Pension Rate	13.7%	*14.1%*	*14.1%*	*14.1%*	*14.1%*	*14.1%*
Unfunded Actuarial Liability	$61.2	$70.0	$75.8	$78.5	$68.3	$68.6
Retiree Health Care	$14.0	$14.6	$15.4	$16.4	$17.2	$17.9
Total Police Contributions	**$107.0**	**$119.8**	**$126.1**	**$129.4**	**$119.5**	**$120.2**
Fire Retirement Plan						
Tier 1 Pension (Normal Cost)	$22.9	$23.4	$22.8	$21.8	$20.7	$19.6
Tier 1 Pension (Normal Cost) Rate	31.2%	32.3%	32.4%	32.6%	32.8%	33.1%
Tier 2 Pension+	$1.7	$2.6	$3.4	$4.4	$5.4	$6.5
Tier 2 Pension Rate	*15.1%*	*15.4%*	*15.5%*	*15.4%*	*15.4%*	*15.4%*
Unfunded Actuarial Liability	$49.5	$55.0	$62.0	$67.0	$66.8	$70.9
Retiree Health Care	$9.1	$9.4	$10.0	$10.6	$11.1	$11.5
Total Fire Contributions	**$83.2**	**$90.4**	**$98.2**	**$103.8**	**$104.0**	**$108.5**
Total City Contributions	**$377.9**	**$411.5**	**$435.1**	**$451.1**	**$446.0**	**$456.2**

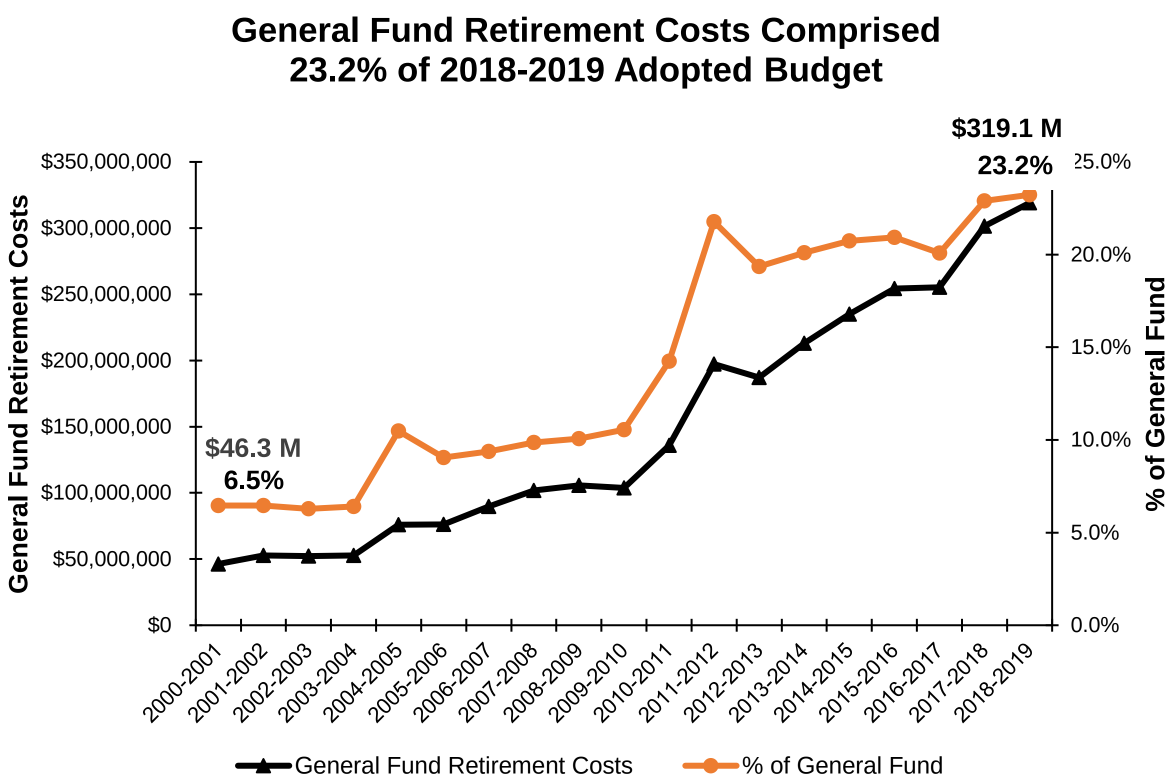
+Though Tier 2 contributions are overwhelmingly comprised of normal costs, these figures do contain a very small component of UAL related to the Tier 2 program. For Tier 2, UAL is evenly split between the City and employees.

* Contributions in 2018-2019 associated with the UAL and retiree healthcare were paid at the beginning of the year, resulting in a slight discount in the contribution amount/rate. With the changing economic environment, all contributions in 2019-2020 will be spread throughout the year.

Source: Cheiron Letters dated January 9, 2019 (Federated) and January 30, 2019 (Police and Fire) and Cheiron presentation slides dated February 7, 2019 (Police and Fire).

EXPENDITURE FORECAST

The chart below describes the history of retirement costs as a share of the total General Fund adopted budget. In 2001-2002, retirement costs of $46.3 million accounted for 6.5% of the General Fund, while in 2018-2019, those costs totaled 23.2% of the General Fund Adopted Budget. It is important to note that, because adopted budgets includes carryover costs from the previous year, fund balance, and other one-time elements, this percentage is lower than the ongoing average contribution of approximately 27% reflected in the Forecast.



Health and Other Fringe:

A projected health rate increase of 10.0% is included in the 2019-2020 Forecast effective January 2020 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, no dental rate increase is anticipated in 2019-2020. 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 2018-2019, current funding available in the Unemployment Insurance Fund, and projected future claims, an unemployment insurance rate of 0.025% 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 $119.4 million in 2019-2020. 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 2018-2019, 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 2019-2020 estimates represent a decrease of $14.9 million from the 2018-2019 Modified Budget level of $134.3 million, primarily due to the elimination of rebudgeted or carryover projects.

Departmental gas and electricity funding for 2019-2020 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 Human Resources Department for Workers' Compensation Third Party Administrator contract costs ($1.7 million), City Attorney Office for increased litigation costs ($500,000), Parks, Recreation and Neighborhood Services Department for changes in water costs ($420,000), Library Department for the anticipated increased costs associated with the cost share agreement with San José State University ($337,000), Public Works Department for custodial services and facilities maintenance costs ($321,000), Police Department for crime lab fess ($292,000), and Public Works Department for Animal Care and Services cleaning costs ($210,000). Vehicle maintenance and operations costs in the General Fund, including fuel, inventory, and fleet staffing, total $19.7 million and reflect an increase of $1.6 million from the 2018-2019 Adopted Budget, primarily due to increased consumption and fuel costs and personal services costs. The 2019-2020 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 $4.9 million to $3.9 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 $22.3 million.

For the out-years of the Forecast, growth rates ranging from 1.2% to 3.0% have been assumed from the 2019-2020 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 (2019-2020) total $74.7 million, a decline from the 2018-2019 Modified Budget of $267.9 million. This large reduction primarily reflects the impact of deleting the $152.1 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 2018-2019 ($20.0 million); removing the one-time Federal Loan Assistance Program ($10.0 million) from 2018-2019 that was created to provide assistance to federal employees working at the airport during the federal government shutdown; and eliminating one-time budget actions ($9.4 million).

The line-items in this category are primarily made up of cross-departmental, large grant, and general city-wide expenditures. The 2019-2020 allocation includes anticipated cost adjustments based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2019-2020 allocations in the City-Wide Expenditures category include: Workers' Compensation Claims ($20.1 million); General Liability Claims ($6.0 million); San José BEST and Safe Summer Initiative Programs ($5.9 million); Sick Leave Payments Upon Retirement ($5.0 million); Homeless Rapid Rehousing ($4.0 million); ESCO Debt Service ($3.0 million); Digital Inclusion Program ($2.2 million); Banking Services ($2.2 million); Elections and Ballot Measures ($1.9 million); Property Tax Administration Fee ($1.9 million); Sidewalk Repairs ($1.8 million); Property Leases ($1.6 million); Homeless Response Team ($1.5 million); San José Works – Youth Jobs Initiative ($1.5 million); Public, Educational and Government Access Facilities – Capital ($1.3 million); Workers' Compensation State License ($1.2 million); San José Learns ($1.0 million); and Tech Museum of Innovation Subsidy ($1.0 million).

In 2020-2021, City-Wide Expenses increase by approximately $946,000 to $75.7 million, primarily due to the new Digital Inclusion Program increase in 2020-2021 of $725,000, with average annual allocations of $2.3 million, offset by corresponding revenue. While the majority of the individual line-items are expected to remain at 2019-2020 levels over this period, there are some categories that are expected to experience growth over the five years, including Workers' Compensation Claims (from $20.1 million to $24.4 million), Banking Services (from $2.2 million to $2.3 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 $1.8 million), the new History San José agreement (from $825,000 to $876,000), and Insurance Premiums (increase from $739,000 to $1.1 million). Two categories of funding are decreasing over this five-year period, which are ESCO Debt Service (from $3.0 million to $2.9 million) and the Public, Education, and Government (PEG) expenditure categories (from $2.0 million to $1.7 million) reflecting the reduced cable franchise fee revenue collection. 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 $5.7 million in 2019-2020 and remains at this level in each of the out-years of the Forecast. The largest item in this category is fire apparatus replacement ($3.75 million annually). 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 ($1.25 million, previously at $900,000), fuel tanks and methane monitoring control and replacement ($350,000), 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 $30.0 million in 2019-2020 and averages $31.4 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 $21.1 million in 2019-2020 ($21.5 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 Rancho del Pueblo and Los Lagos Golf Courses ($2.7 million annually from 2019-2020 to 2021-2022 and $2.6 million annually in the remaining years 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 ($1.5 million annually, previously at $1.2 million); and a transfer to the Construction and Conveyance Tax Fund – Communications to support the Silicon Valley Regional Interoperability Authority ($1.0 million in 2019-2020, rising to $1.3 million at the end of the Forecast).

One significant transfer that is no longer included in the Forecast is funding to the Community Facilities Revenue Fund to cover debt service payments and operating costs for the Hayes Mansion Conference Center. The 2019-2023 Forecast assumed a subsidy payment of $3.4 million in 2018-2019, and $3.4 million - $3.9 million in the remaining years of the Forecast based on projected debt service payments for the facility. The Hayes Mansion property was sold in February 2019, which eliminated the remaining long-term debt.

The debt service costs for the Rancho del Pueblo and Los Lagos golf courses are funded in the Municipal Golf Course Fund; however, revenues are not projected to be sufficient to completely cover the costs. The transfer from the General Fund for the golf course subsidy remains steady with 2018-2019 levels of $2.7 million annually through 2021-2022 and then decreases slightly to $2.6 million for the remaining two years of the Forecast.

Other transfers include the allocation of $2.3 million annually for capital improvements at the SAP Center in accordance with the agreement with Sharks Sports and Entertainment, transfers to the Service Yards Construction and Conveyance Tax (C&C) Fund to cover Central Service Yards Phase 1 debt service payments ($750,000 annually starting in 2020-2021) as there is not sufficient revenue in that fund to cover all required costs, and payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas ($976,000 to $1.0 million annually).

EXPENDITURE FORECAST

The **Earmarked Reserves** category totals $2.1 million in 2019-2020 and decreases to $1.1 million in 2020-2021 and throughout the Forecast. This category includes the Deferred Infrastructure and Maintenance Reserve of $1.0 million in 2019-2020 to fund critical capital maintenance or address urgent technology needs; these resources will be allocated as part of the 2019-2020 Proposed Budget. The annual allocation to the Cultural Facilities Maintenance Reserve increased from $450,000 to $750,000 throughout the Forecast to address the growing deferred infrastructure rehabilitation needs at these facilities. In addition, annual funding of $362,000 is allocated to the Artificial Turf Replacement to set aside funding for the cost of replacement of artificial turf fields in various neighborhood parks. These funds are available from the projected field reservation revenues collected above the estimated costs to reserve and maintain the fields.

The Forecast does not include a number of Earmarked Reserves that may remain unspent in 2018-2019 and later recommended for rebudget or use in 2019-2020. Some of the larger current Earmarked Reserves include the Development Fee Program Reserves, Salaries and Benefits Reserve, Budget Stabilization Reserve, Workers' Compensation/General Liability Catastrophic Reserve, Sick Leave Payments Upon Retirement Reserve, Cultural Facilities Capital Maintenance Reserve, and City Health Plan Restructuring Reserve.

Per City Council policy, the **Contingency Reserve** ($38.5 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 2019-2020 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 $41.5 million in 2023-2024 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 $86,000 in 2019-2020 and increase to approximately $11.4 million by 2023-2024, primarily due to the anticipated projects from the passage of Measure T – The Disaster Preparedness, Public Safety and Infrastructure Bond. 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 Measure T facilities anticipated to come online during the forecast include Fire Station 37 that will require additional maintenance and operations funding ($2.0 million in 2021-2022, increasing to approximately $4.3 million in 2023-2024) and the Police Training Facility that will require additional maintenance and operations funding ($1.2 million of a mid-year opening in 2020-2021, increasing to $2.5 million annually in 2023-2024). It should be noted that additional maintenance and operations funding ($1.5 million in 2020-2021, increasing to $3.2 million in 2023-2024) was factored in this Forecast for the activation of the South San José Police Substation once recruit academies and training functions are transferred to the new Police Training Facility.

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 $86,000 in 2019-2020 to $1.4 million by 2023-2024.

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 2019-2020, a small General Fund surplus of $3.5 million is projected for 2019-2020. 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 $1.7 million to $15.6 million are projected for three of four years with a surplus of $11.4 million projected in 2022-2023. These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from -1.2% to 0.9% of the projected annual budget. Over the five-year period, total shortfalls of $16.2 million are anticipated, which equates to approximately $3.2 million annually. This average shortfall figure equates to -0.3% of the projected General Fund annual budget, which ranges from $1.2 billion to $1.4 billion.

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 2019 Forecast is compared to the corresponding year in the February 2018 Forecast.

2020-2024 General Fund Forecast
Changes in Operating Margin
($ in Millions)

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
February 2018 Incremental Surplus/(Shortfall)	**($15.5)**	**($8.9)**	**($10.5)**	**$10.8**	**N/A**
June 2018 Incremental Surplus/(Shortfall)	$0.0	N/A	N/A	N/A	N/A
February 2019 Incremental Surplus/(Shortfall)	**$3.5**	**($15.6)**	**($13.7)**	**$11.4**	**($1.7)**

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2018-2019; 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.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

For the February 2019 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2019-2020 and the remaining four years of the forecast period. There was no surplus or shortfall remaining from the 2018-2019 Adopted Budget that would carry-over into 2019-2020. Therefore, the 2019-2020 projected surplus of $3.5 million is the net result of numerous revenue and expenditure changes as described in this document.

In the out-years of this Forecast, the General Fund has shortfalls ranging from a deficit of $15.6 million to a surplus of $11.4 million annually. Major factors contributing to this improvement are lower retirement costs and higher growth in several revenue categories, including Property Tax and Sales 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

2020-2024

Section 2

Base General Fund Forecast

BASE CASE

February 2019 Forecast **REVENUE SUMMARY**	MODIFIED BUDGET **2018-2019**	FORECAST **2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**	**2023-2024**
PROPERTY TAX	324,450,000	348,000,000	365,470,000	382,245,000	397,305,000	412,403,000
		7.26%	**5.02%**	**4.59%**	**3.94%**	**3.80%**
SALES TAX	250,500,000	258,300,000	264,422,000	269,684,000	276,695,000	284,166,000
		3.11%	**2.37%**	**1.99%**	**2.60%**	**2.70%**
TRANSIENT OCCUPANCY TAX	19,700,000	22,500,000	23,352,000	24,213,000	25,124,000	26,066,000
		14.21%	**3.79%**	**3.69%**	**3.76%**	**3.75%**
FRANCHISE FEES	50,474,798	49,554,000	50,719,000	51,200,000	51,707,000	52,648,000
		(1.82%)	**2.35%**	**0.95%**	**0.99%**	**1.82%**
UTILITY TAX	102,400,000	99,570,000	101,691,000	103,013,000	104,774,000	107,551,000
		(2.76%)	**2.13%**	**1.30%**	**1.71%**	**2.65%**
TELEPHONE TAX	20,000,000	20,000,000	20,036,000	20,070,000	20,102,000	20,138,000
		0.00%	**0.18%**	**0.17%**	**0.16%**	**0.18%**
BUSINESS TAX	69,400,000	72,200,000	72,921,000	73,443,000	73,946,000	74,472,000
		4.03%	**1.00%**	**0.72%**	**0.68%**	**0.71%**
LICENSES AND PERMITS	60,893,631	60,450,000	62,030,000	64,305,000	66,449,000	68,709,000
		(0.73%)	**2.61%**	**3.67%**	**3.33%**	**3.40%**
FEES, RATES, AND CHARGES	55,821,726	54,461,000	55,884,000	57,934,000	59,865,000	61,902,000
		(2.44%)	**2.61%**	**3.67%**	**3.33%**	**3.40%**
FINES, FORFEITURES & PENALTIES	14,983,000	14,913,000	15,092,000	15,296,000	15,358,000	15,540,000
		(0.47%)	**1.20%**	**1.35%**	**0.41%**	**1.19%**
MONEY & PROPERTY	6,897,000	13,144,000	13,565,000	13,958,000	14,447,000	14,909,000
		90.58%	**3.20%**	**2.90%**	**3.50%**	**3.20%**
REVENUE FROM LOCAL AGENCIES	16,104,823	11,101,000	11,504,000	11,891,000	12,240,000	12,591,000
		(31.07%)	**3.63%**	**3.36%**	**2.93%**	**2.87%**
REVENUE FROM THE STATE OF CALIFORNIA	13,994,473	11,635,000	11,635,000	11,635,000	11,635,000	11,635,000
		(16.86%)	**0.00%**	**0.00%**	**0.00%**	**0.00%**
FEDERAL REVENUE	6,206,082	216,000	0	0	0	0
		(96.52%)	**(100.00%)**	**N/A**	**N/A**	**N/A**
OTHER REVENUE	186,092,775	9,186,000	9,010,000	9,027,000	9,045,000	9,079,000
		(95.06%)	**(1.92%)**	**0.19%**	**0.20%**	**0.38%**
GAS TAX	17,300,000	16,300,000	16,450,000	16,869,000	17,504,000	18,144,000
		(5.78%)	**0.92%**	**2.55%**	**3.76%**	**3.66%**
TOTAL GENERAL REVENUES	**1,215,218,308**	**1,061,530,000**	**1,093,781,000**	**1,124,783,000**	**1,156,196,000**	**1,189,953,000**
		(12.65%)	**3.04%**	**2.83%**	**2.79%**	**2.92%**

BASE CASE

February 2019 Forecast REVENUE SUMMARY	MODIFIED BUDGET 2018-2019	FORECAST 2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
TRANSFERS & REIMBURSEMENTS						
OVERHEAD REIMBURSEMENTS	50,456,037	53,734,000	55,139,000	57,161,000	59,066,000	61,075,000
TRANSFERS	25,968,684	26,594,000	27,670,000	28,422,000	28,564,000	29,183,000
REIMBURSEMENTS FOR SERVICES	925,395	654,000	671,000	695,000	718,000	743,000
TOTAL TRANSFERS & REIMBURSEMENTS	**77,350,116**	**80,982,000**	**83,480,000**	**86,278,000**	**88,348,000**	**91,001,000**
		4.70%	**3.08%**	**3.35%**	**2.40%**	**3.00%**
TOTAL GENERAL FUND REVENUES	**1,292,568,424**	**1,142,512,000**	**1,177,261,000**	**1,211,061,000**	**1,244,544,000**	**1,280,954,000**
		(11.61%)	**3.04%**	**2.87%**	**2.76%**	**2.93%**
BEGINNING FUND BALANCE	249,953,260	65,226,000	67,572,000	68,686,000	69,709,000	70,522,000
GRAND TOTAL SOURCES	**1,542,521,684**	**1,207,738,000**	**1,244,833,000**	**1,279,747,000**	**1,314,253,000**	**1,351,476,000**
		(21.70%)	**3.07%**	**2.80%**	**2.70%**	**2.83%**

BASE CASE

February 2019 Forecast **EXPENDITURE SUMMARY**	MODIFIED BUDGET 2018-2019	FORECAST 2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
PERSONAL SERVICES						
Salaries and Other Compensation	509,535,364	534,235,000	557,790,000	578,733,000	598,989,000	619,954,000
Retirement	319,052,538	334,656,000	351,528,000	364,631,000	357,608,000	365,660,000
Health and Other Fringe Benefits	61,309,534	64,824,000	68,625,000	72,789,000	77,341,000	82,307,000
TOTAL PERSONAL SERVICES	**889,897,436**	**933,715,000**	**977,943,000**	**1,016,153,000**	**1,033,938,000**	**1,067,921,000**
		4.92%	**4.74%**	**3.91%**	**1.75%**	**3.29%**
TOTAL NON-PERSONAL/EQUIPMENT	**134,288,315**	**119,428,000**	**122,965,000**	**125,554,000**	**127,039,000**	**129,375,000**
		(11.07%)	**2.96%**	**2.11%**	**1.18%**	**1.84%**
CITY-WIDE						
CITY-WIDE EXPENSES	267,923,914	74,748,000	75,694,000	76,936,000	77,730,000	79,361,000
CAPITAL PROJECTS	38,883,500	5,680,000	5,680,000	5,680,000	5,680,000	5,680,000
TRANSFERS	43,109,355	30,015,000	31,379,000	31,384,000	31,313,000	31,346,000
EARMARKED RESERVES	131,419,164	2,112,000	1,112,000	1,112,000	1,112,000	1,112,000
CONTINGENCY RESERVE	37,000,000	38,500,000	39,000,000	40,500,000	41,000,000	41,500,000
TOTAL CITY-WIDE	**518,335,933**	**151,055,000**	**152,865,000**	**155,612,000**	**156,835,000**	**158,999,000**
		(70.86%)	**1.20%**	**1.80%**	**0.79%**	**1.38%**
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	**1,542,521,684**	**1,204,198,000**	**1,253,773,000**	**1,297,319,000**	**1,317,812,000**	**1,356,295,000**
		(21.93%)	**4.12%**	**3.47%**	**1.58%**	**2.92%**

OPERATING MARGIN

BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	MODIFIED BUDGET 2018-2019	FORECAST 2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
GRAND TOTAL REVENUE	1,542,521,684	1,207,738,000	1,244,833,000	1,279,747,000	1,314,253,000	1,351,476,000
GROWTH RATE		(21.70%)	3.07%	2.80%	2.70%	2.83%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,542,521,684	1,204,198,000	1,253,773,000	1,297,319,000	1,317,812,000	1,356,295,000
GROWTH RATE		(21.93%)	4.12%	3.47%	1.58%	2.92%
OPERATING MARGIN CHANGE *From Prior Year*		**3,540,000**	**(12,480,000)**	**(8,632,000)**	**14,013,000**	**(1,260,000)**

BASE CASE

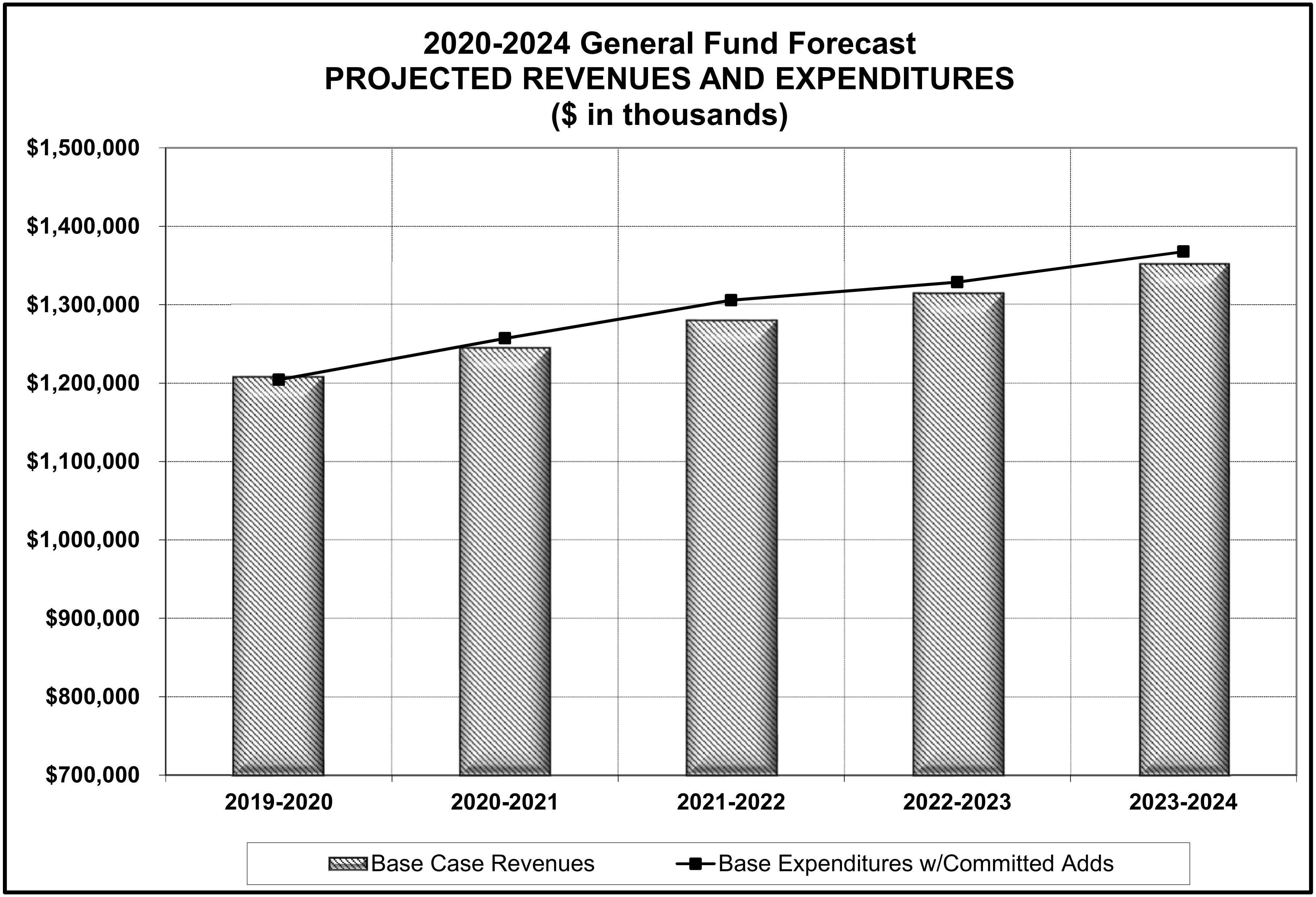
February 2019 Forecast

EXPENDITURE SUMMARY

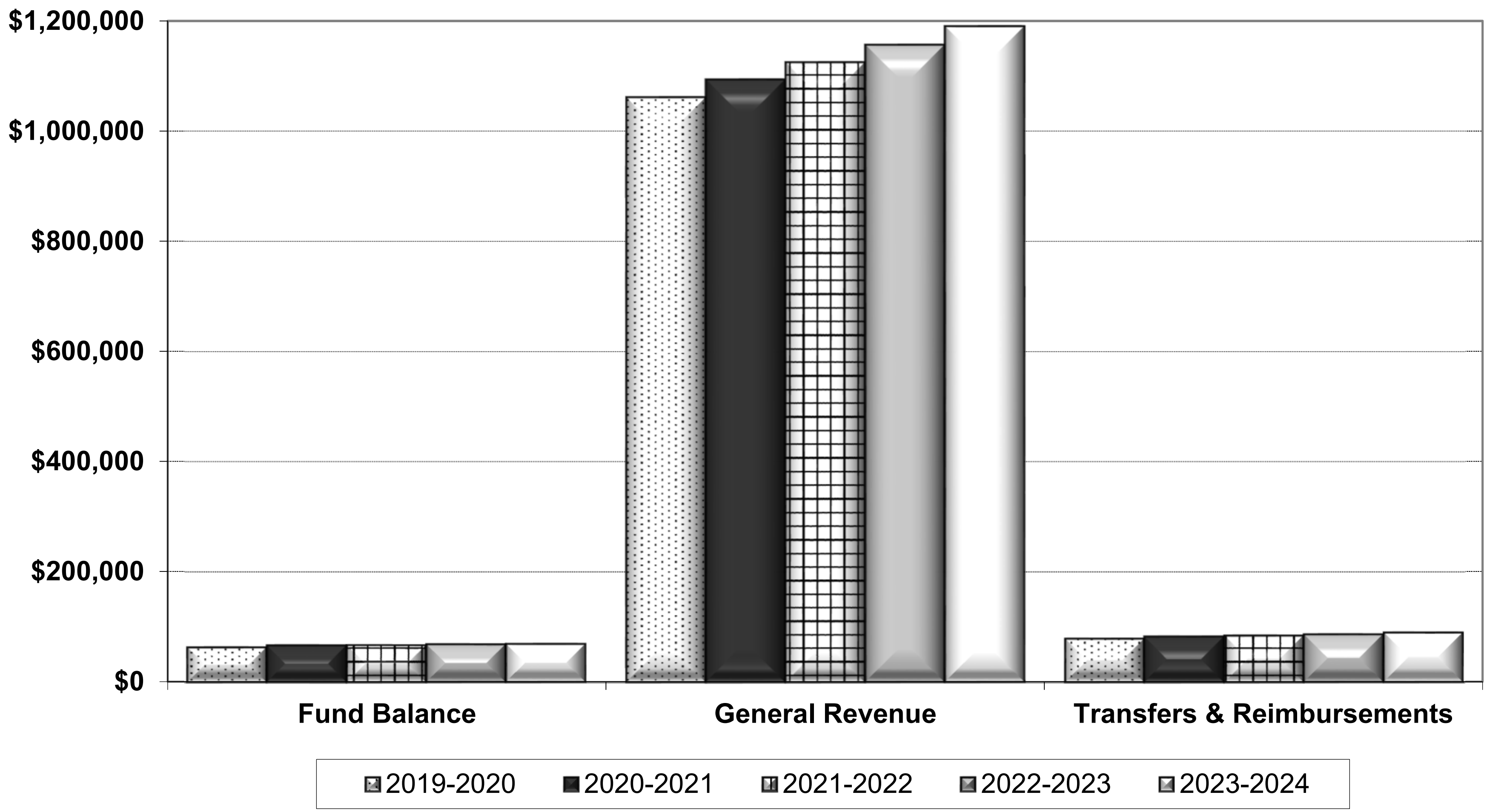
	MODIFIED BUDGET 2018-2019	FORECAST 2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
COMMITTED ADDITIONS:						
New Parks and Recreation Facilities Maintenance and Operations		60,000	491,000	790,000	1,084,000	1,240,000
New Traffic Infrastructure Assets Maintenance and Operations		26,000	75,000	117,000	148,000	170,000
Measure T (Public Safety - Fire Station 37) Maintenance and Operations		0	0	2,010,000	4,130,000	4,254,000
Measure T (Public Safety - Police Training Center) Maintenance and Operations		0	1,185,000	2,370,000	2,441,000	2,514,000
Police Substation Activation		0	1,500,000	3,000,000	3,090,000	3,183,000
TOTAL COMMITTED ADDITIONS	**0**	**86,000**	**3,251,000**	**8,287,000**	**10,893,000**	**11,361,000**
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	**1,542,521,684**	**1,204,284,000**	**1,257,024,000**	**1,305,606,000**	**1,328,705,000**	**1,367,656,000**
		(21.93%)	**4.38%**	**3.86%**	**1.77%**	**2.93%**

O P E R A T I N G   M A R G I N

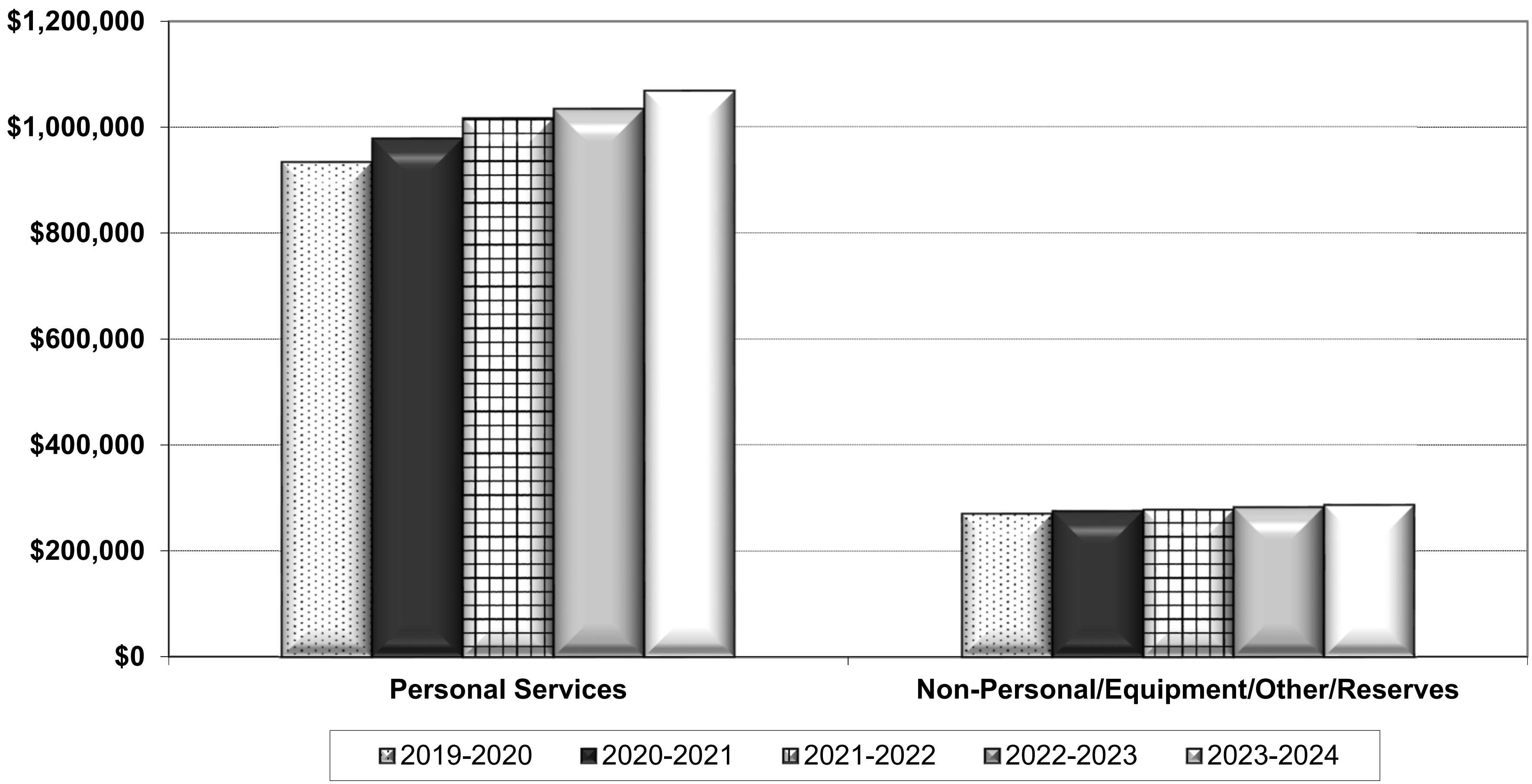
BASE EXPENDITURES (w / COMMITTED ADDITIONS)	MODIFIED BUDGET 2018-2019	FORECAST 2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
GRAND TOTAL REVENUE	1,542,521,684	1,207,738,000	1,244,833,000	1,279,747,000	1,314,253,000	1,351,476,000
GROWTH RATE		(21.70%)	3.07%	2.80%	2.70%	2.83%
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,542,521,684	1,204,284,000	1,257,024,000	1,305,606,000	1,328,705,000	1,367,656,000
GROWTH RATE		(21.93%)	4.38%	3.86%	1.77%	2.93%
ONGOING OPERATING MARGIN CHANGE		**3,454,000**	**(15,645,000)**	**(13,668,000)**	**11,407,000**	**(1,728,000)**
From Prior Year						


2020-2024 General Fund Forecast
PROJECTED REVENUES AND EXPENDITURES
($ in thousands)
$1,500,000
$1,400,000
$1,300,000
$1,200,000
$1,100,000
$1,000,000
$900,000
$800,000
$700,000
2019-2020
2020-2021
2021-2022
2022-2023
2023-2024
Base Case Revenues
Base Expenditures w/Committed Adds

2020-2024 General Fund Forecast
FIVE-YEAR SOURCE OF FUNDS COMPARISON
($ in thousands)



2020-2024 General Fund Forecast
FIVE-YEAR USE OF FUNDS COMPARISON
($ in thousands)



Note: Committed Additions ranging from $86,000 to $11.4 million annually during this Forecast are not displayed.

Five-Year Economic Forecast
and
Revenue Projections

2020-2024

Section 3

Committed Additions to the Base General Fund Forecast

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 future operating expenses for projects that have been previously approved by the City Council and deemed relatively unavoidable. The largest items in this category are Fire Station 37 and the Police Training Facility as part of the Measure T: Disaster Preparedness, Public Safety, and Infrastructure Bond program. The remaining items included in this category are expenses that will be required to operate and maintain other 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 2020-2024 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, Communications Hill II – Hillsdale Fitness Staircase, Emma Prusch Security Improvements, Flea Market Park #1, iStar Turnkey Park, Martial Cottle Community Garden, Meadowfair Expansion, Mercado Park, Rincon South Park, and Capitol Turnkey Park. The forecast also includes operating cost estimates for trail sections along Coyote Creek trail, including Singleton, Phelan to Tully and Story to Phelan. The City currently has approximately 62 miles of trails.

2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
60,000	491,000	790,000	1,084,000	1,240,000

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 (including those installed by developers), landscaping, street lighting, 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 projects: Mount Pleasant Schools Area Bike/Pedestrian Safety Improvements, Renascent Place at Senter Bike/Pedestrian Improvements, Safety: Pedestrian Improvements, Senter Road Pedestrian Safety Improvements, St. James Station at Basset Bike/Pedestrian Improvements, McKee and Tully Road Safety Corridor Improvements, Vision Zero: City-wide Pedestrian Safety and Traffic Calming, and White Road Pedestrian Safety Improvements. Other projects with operations and maintenance elements are urban villages, traffic signals modifications and construction, and interchange improvements.

2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
26,000	75,000	117,000	148,000	170,000

Measure T Maintenance and Operations – This category reflects the projected maintenance and operations costs of new disaster preparedness, public safety facilities, and infrastructure improvements that were included as part of the Measure T bond approved by the voters in November 2018. The two projects included in this forecast are the Fire Station 37 and Police Training Facility. Fire Station 37 will be located on a portion of the parking lot at Lincoln Glen Park. The preliminary schedule anticipates a bid and award in early 2020, a construction start date in the first half of 2020, and opening in January 2022. This project has an annualized operating and maintenance cost of $4.1 million (primarily driven by a new engine company).

A new Police Training Facility is in the initial stages of development and would relocate police recruit academies and all other trainings that are currently held at the South San José Substation. The costs included in this Forecast preliminarily assume the purchase of an existing building and the investment of significant tenant improvements to suit Police Department training requirements. Estimated annual operating and maintenance costs of $2.4 million – with partial year funding of $1.2 million in 2020-2021 – represent an early look at potential ongoing impacts of this facility. This estimate will be further refined once a site is selected and fully scoped, the results of which will be brought forward for City Council consideration. Additionally, activation of the South San José Police Substation is also assumed once the academies and trainings are relocated. As described in the Manager's Budget Addendum #8, Police Substation, May 31, 2018, Substation activation would require additional annual operating costs of approximately $3 million – with partial year funding of $1.5 million in 2020-2021.

As the Measure T program becomes more fully developed in the coming year, the corresponding estimates for operations and maintenance costs will be updated accordingly. Future General Fund forecasts will also incorporate the two new fire stations and any incremental costs associated with the two relocated fire stations, the 911 Center, and the Emergency Operations Center.

2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
-	2,685,000	7,380,000	9,661,000	9,951,000

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 2018-2019, or align with previous City Council direction. All capital projects that that require 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. By 2023-2024, the costs to maintain and operate all City Council approved projects expected to come online during the five-year period are estimated at approximately $11.4 million annually, of which approximately $10.0 million is related to the Fire Station 37 ($4.3 million), Police Training Facility and South San José Police Substation Activation ($5.7 million).

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 - 2020-2024 GENERAL FUND FORECAST
Net Operating Impact of Committed Additions

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
All Inclusive Almaden Lake	-	9,000	35,000	41,000	49,000
All Inclusive Emma Prusch	-	9,000	35,000	41,000	49,000
All Inclusive Lincoln Glen Playground	-	9,000	35,000	41,000	49,000
All Inclusive Rotary Playgarden Extension	-	12,000	49,000	56,000	64,000
Bassett Park	-	12,000	48,000	49,000	50,000
Commodore Children's Park (Mabury Park)	-	-	-	-	79,000
Communications Hill II - Hillsdale Fitness Staircase	-	82,000	84,000	86,000	88,000
Emma Prusch Security Improvements	5,000	6,000	6,000	6,000	7,000
Flea Market Park #1	-	80,000	81,000	82,000	84,000
iStar Turnkey Park	-	34,000	47,000	48,000	49,000
Lake Cunningham Park Light Improvements	3,000	3,000	3,000	3,000	3,000
Martial Cottle Community Garden	8,000	12,000	12,000	13,000	13,000
Meadowfair Expansion	2,000	2,000	2,000	2,000	2,000
Mercado Park	-	79,000	80,000	82,000	83,000
Monkton Court	6,000	9,000	9,000	9,000	9,000
Newbury Park	1,000	1,000	1,000	1,000	1,000
Newbury Park Development	-	-	-	-	8,000
North San Pedro Park	-	20,000	83,000	85,000	86,000
Pellier Park	-	10,000	41,000	41,000	42,000
Penitencia Creek Dog Park	-	22,000	45,000	46,000	47,000
Rincon South Park	26,000	59,000	60,000	61,000	62,000
River Oak Park*	-	-	-	229,000	243,000
Sycamore Terrace	3,000	3,000	3,000	4,000	4,000
The Capitol Turnkey Park	5,000	15,000	15,000	16,000	16,000
TRAIL: Bay Reach 9	1,000	3,000	3,000	3,000	3,000
TRAIL: Coyote Creek - Phelan to Tully	-	-	-	21,000	29,000
TRAIL: Coyote Creek - Singleton	-	-	-	-	3,000
TRAIL: Coyote Creek - Story to Phelan	-	-	13,000	18,000	18,000
TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	**60,000**	**491,000**	**790,000**	**1,084,000**	**1,240,000**
NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS					
Development Installations - Traffic Signals	-	24,000	25,000	26,000	27,000
McKee Road Safety Corridor Improvements (OBAG)	-	-	4,000	8,000	8,000
Mount Pleasant Schools Area Bike/Ped Safety Improvements	-	1,000	2,000	2,000	2,000
Renascent Place at Senter Bike/Ped Improvements (AHSC)	-	6,000	6,000	6,000	7,000
Route 101/Blossom Hill Road Interchange	-	-	5,000	6,000	7,000
Safety: Pedestrian Improvements 2019	20,000	21,000	22,000	22,000	23,000
Safety: Pedestrian Improvements 2020	-	10,000	10,000	10,000	10,000
Safety: Pedestrian Improvements (future projects)	-	-	15,000	30,000	45,000
Safety: Traffic Signal Modifications/Construction 2019	4,000	9,000	10,000	10,000	10,000
Senter Road Pedestrian Safety Improvements (HSIP)	-	-	6,000	7,000	7,000
St. James Station at Basset Bike/Ped Improvements (AHSC)	-	2,000	2,000	2,000	2,000
Tully Road Safety Corridor Improvements (OBAG)	-	-	7,000	11,000	12,000
Vision Zero: City-wide Pedestrian Safety and Traffic Calming	2,000	2,000	2,000	2,000	2,000
W. San Carlos Urban Villages (OBAG)	-	-	-	5,000	7,000
White Road Pedestrian Safety Improvements (HSIP)	-	-	1,000	1,000	1,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS	**26,000**	**75,000**	**117,000**	**148,000**	**170,000**
MEASURE T MAINTENANCE AND OPERATIONS					
Fire Station 37**	-	-	2,010,000	4,130,000	4,254,000
Police Training Facility** & Police Substation Activation	-	2,685,000	5,370,000	5,531,000	5,697,000
TOTAL MEASURE T MAINTENANCE AND OPERATIONS	**-**	**2,685,000**	**7,380,000**	**9,661,000**	**9,951,000**
TOTAL OPERATING IMPACT OF COMMITTED ADDITIONS	**86,000**	**3,251,000**	**8,287,000**	**10,893,000**	**11,361,000**

*River Oak Park was built, and is currently being maintained, by a developer. City responsibility for maintenance and operations begin in 2022-2023.

**Capital projects authorized as part of the ballot Measure T - The Disaster Preparedness, Public Safety and Infrastructure Bond. Future certification of operating and maintenance costs will be required prior to authorizing construction.

Five-Year Economic Forecast and Revenue Projections

2020-2024

Section 4

Alternate Forecast Scenarios

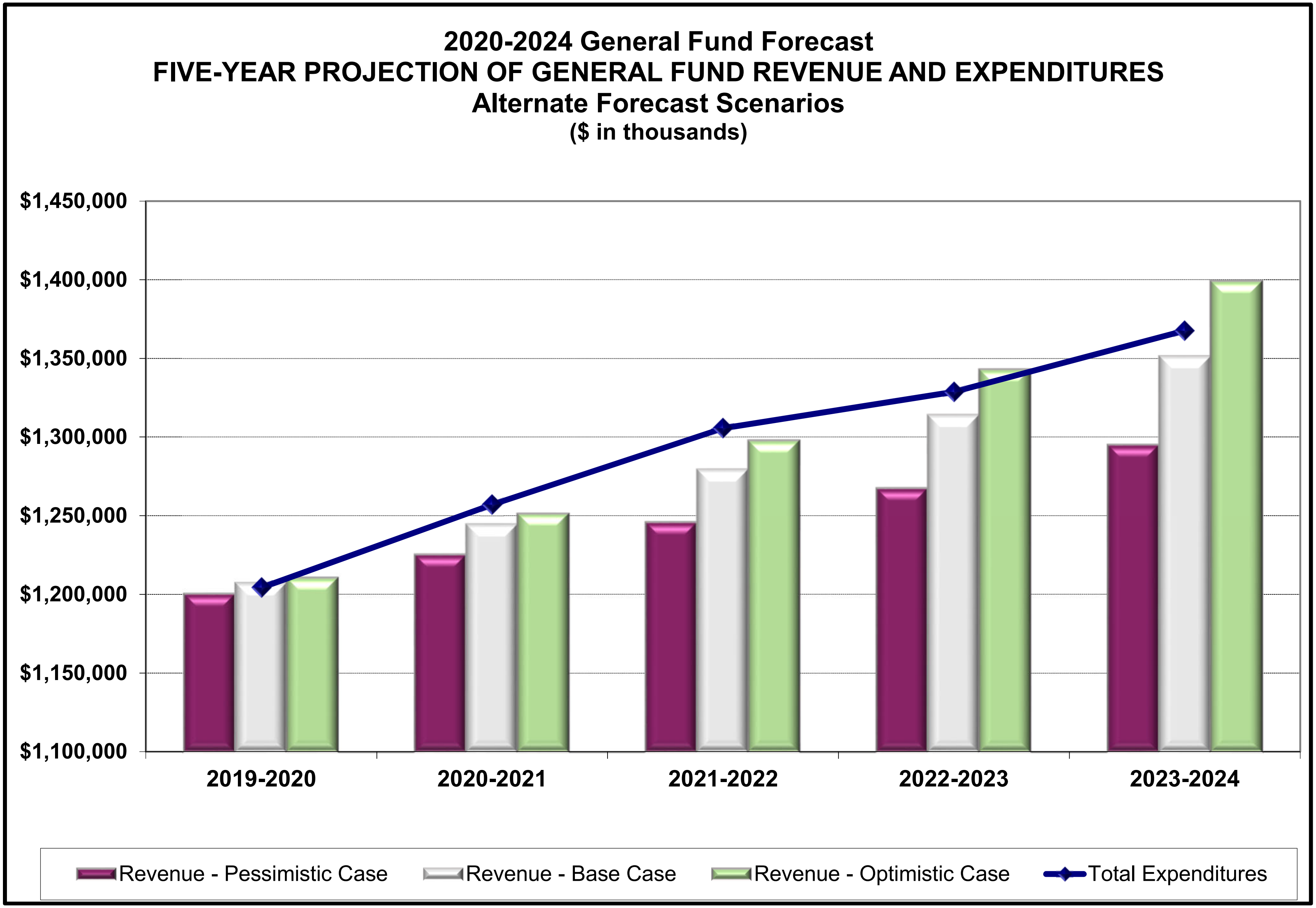
2020-2024 General Fund Forecast
PROJECTED FIVE-YEAR OPERATING MARGINS
Alternate Forecast Scenarios

BASE CASE	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
TOTAL REVENUES ($)	1,207,738,000	1,244,833,000	1,279,747,000	1,314,253,000	1,351,476,000
GROWTH RATE		3.07%	2.80%	2.70%	2.83%
TOTAL EXPENDITURES ($)	1,204,284,000	1,257,024,000	1,305,606,000	1,328,705,000	1,367,656,000
GROWTH RATE		4.38%	3.86%	1.77%	2.93%
OPERATING MARGIN - BASE	**3,454,000**	**(15,645,000)**	**(13,668,000)**	**11,407,000**	**(1,728,000)**

OPTIMISTIC CASE	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
TOTAL REVENUES ($)	1,210,785,000	1,251,473,000	1,297,955,000	1,343,110,000	1,399,149,000
GROWTH RATE		3.36%	3.71%	3.48%	4.17%
TOTAL EXPENDITURES ($)	1,204,284,000	1,257,024,000	1,305,606,000	1,328,705,000	1,367,656,000
GROWTH RATE		4.38%	3.86%	1.77%	2.93%
OPERATING MARGIN - OPTIMISTIC	**6,501,000**	**(12,052,000)**	**(2,100,000)**	**22,056,000**	**17,088,000**

PESSIMISTIC CASE	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
TOTAL REVENUES ($)	1,200,721,000	1,225,557,000	1,246,072,000	1,267,642,000	1,295,140,000
GROWTH RATE		2.07%	1.67%	1.73%	2.17%
TOTAL EXPENDITURES ($)	1,204,284,000	1,257,024,000	1,305,606,000	1,328,705,000	1,367,656,000
GROWTH RATE		4.38%	3.86%	1.77%	2.93%
OPERATING MARGIN - PESSIMISTIC	**(3,563,000)**	**(27,904,000)**	**(28,067,000)**	**(1,529,000)**	**(11,453,000)**

Note: The optimistic and pessimistic scenarios model changes in economically sensitive revenues with no changes in expenditures.


2020-2024 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
($ in thousands)
$1,450,000
$1,400,000
$1,350,000
$1,300,000
$1,250,000
$1,200,000
$1,150,000
$1,100,000
2019-2020
2020-2021
2021-2022
2022-2023
2023-2024
Revenue - Pessimistic Case
Revenue - Base Case
Revenue - Optimistic Case
Total Expenditures

Five-Year Economic Forecast and Revenue Projections

2020-2024

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 slightly above expectations for 2018-2019. Property resale-related performance will slightly decrease in future years, and construction activity in the following five years is expected to be moderate, with overall revenue estimates only slightly less than the amounts assumed in the 2019-2023 Adopted CIP. The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this Forecast with the 2019-2023 Adopted CIP.

FORECAST COMPARISON SUMMARY
($ in Thousands)

	2019-2023 CIP	2020-2024 Forecast	Difference	% Change
Construction and Conveyance Tax	$182,000	$180,000	($2,000)	(1%)
Building and Structure Construction Tax	76,000	75,000	(1,000)	(1%)
Construction Excise Tax	101,000	100,000	(1,000)	(1%)
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**	**$360,875**	**($4,000)**	**(1%)**

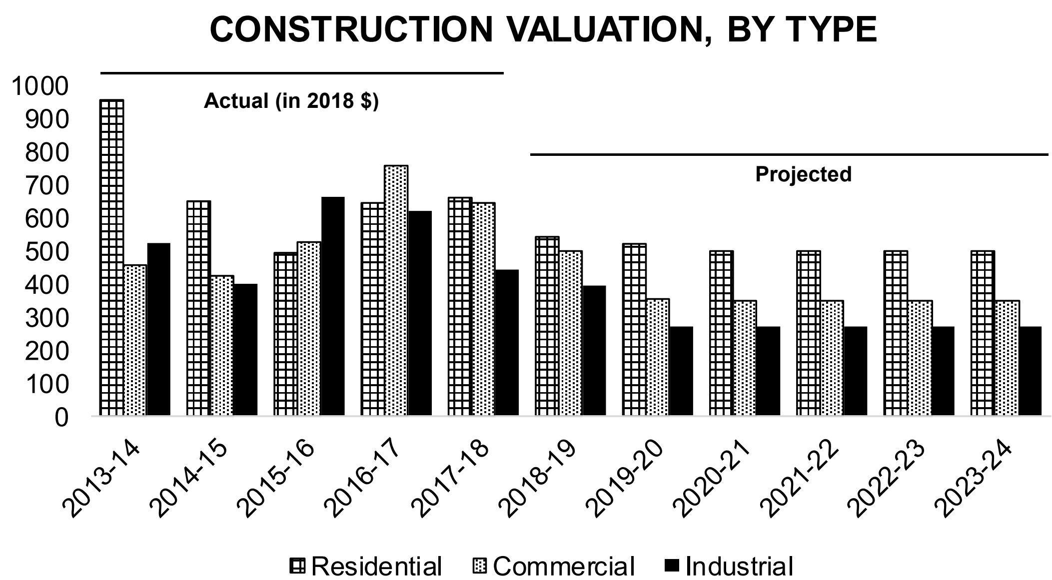
A discussion of major construction activity trends and anticipated performance in each of the revenue categories is included in more detail on the following pages.

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 2018 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 (2020-2024)”, which is included as Appendix C.

Based on projections provided by the PBCE Department, construction activity valuation is anticipated to be lower than the prior year as expected: $1.4 billion for 2018-2019, an 18% decrease compared to $1.7 billion in 2017-2018. This level of activity is expected to decrease to $1.1 billion in 2019-2020 through 2023-2024 due to a decrease in residential and commercial new construction activity and commercial and industrial alterations activity as projects move through the development pipeline.

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



CONSTRUCTION ACTIVITY PROJECTIONS

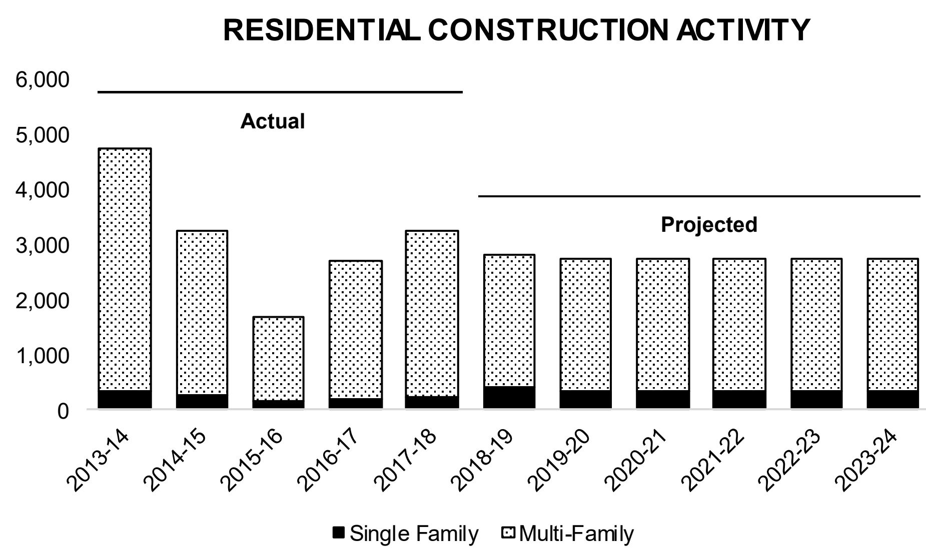
A summary of the PBCE Department construction activity projections and the corresponding revenue estimates are provided below. It should be noted that due to the highly volatile nature of the construction market, the reliability of the estimates can be expected to change over the period of the forecast. 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 3,241 new dwelling units in 2017-2018, and is expected to reach 2,800 new dwelling units in 2018-2019, a decrease from the prior year of 14%.

The total value of residential construction activity projected in this Forecast is $2.5 billion, down 19% from the projected valuation included in the 2019-2023 Forecast. The PBCE Department expects residential construction activity to generate an estimated 2,750 new units in 2019-2020 and 2,725 new units, annually, in 2020-2021 through 2023-2024. This represents an average of 2,730 units per year or 13,650 units over the forecast period. The activity level has decreased by 1% compared to the 13,775 units included in the 2019-2023 Forecast.

This forecast expects a total of 11,900 multi-family dwelling units or approximately 87% of all dwelling units (single-family and multi-family) to be constructed. This represents a 4% decrease compared to the projections in the 2019-2023 Forecast. New single-family dwelling units are anticipated at 1,750 during this forecast period, which is 27% higher than the projections in the 2019-2023 Forecast. Residential construction valuation reflects an increased amount of building permits being issued for accessory dwelling units, which have lower valuations than other single-family construction. The following chart shows the number of new units, by housing type, anticipated in San José through 2023-2024.



CONSTRUCTION ACTIVITY PROJECTIONS

B. Commercial Construction Activity

In 2017-2018, commercial construction activity totaled $645 million, a decrease of 15% from 2016-2017. In 2018-2019, the PBCE Department expects commercial activity to decrease 23% to $500 million in total permit valuation because commercial activity in 2017-2018 was buoyed by issuance of building permits for the Valley Fair Shopping Mall expansion and is returning to levels of previous years.

The total commercial construction valuation projected in this Forecast is $1.8 billion, a decrease of 8% from the previous five-year forecast at $1.9 billion, primarily driven by a lack of available land for large retail centers and an evolving retail market that focuses on smaller retail centers. As discussed in the attached report provided by the PBCE Department, large retailers like Orchard Supply, Toys-R-Us, and Sears have closed in the past year. However, hotel development has shown an increase with over 1,800 hotel rooms pending entitlement and over 800 rooms yet to be constructed. Information provided by real estate trade groups for the 4th Quarter 2018 indicated that the overall San José office vacancy rate was 12.0%, research and development (R&D) vacancy rate was 13.4%, and the retail vacancy rate was 4.3%[1].

C. Industrial Construction Activity

In 2017-2018, industrial activity totaled $442 million, a decrease of 28% from 2016-2017 due to a drop off in alterations. The PBCE Department expects valuation to decrease to $395 million in 2018-2019, then drop to $270 million in 2019-2020 through the remainder of the forecast, to reflect a more moderate level of activity. Information provided by real estate trade groups for the 4th Quarter 2018 indicated that the overall San José vacancy rate for industrial space was 2.4%[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. During this forecast period, 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 this incentive program is 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 (2020-2024) 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

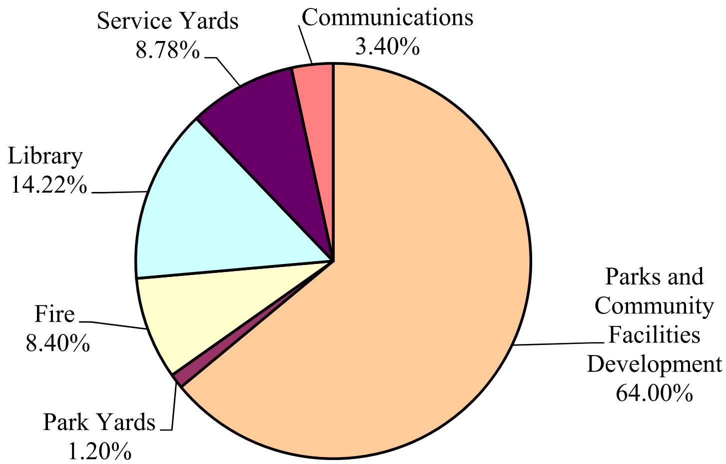
The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from $75 per unit located in a building containing at least 20 dwelling units to $150 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 $180 million, which is lower than the estimate of $182 million used to develop the 2019-2023 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 reaching a record setting high of $49 million in 2005-2006, tax collections continuously

CONSTRUCTION AND CONVEYANCE TAX

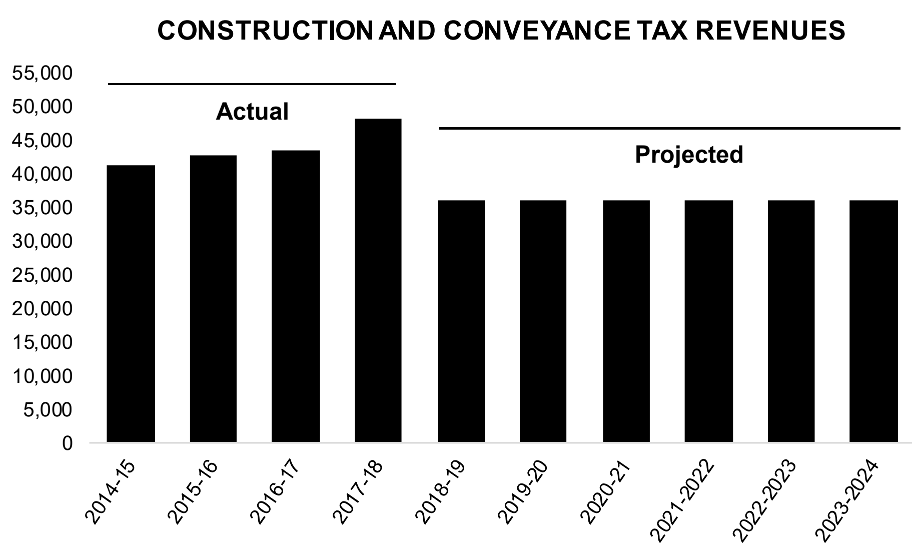
fell for several years following the real estate slowdown and financial market crisis, dropping to $20.5 million in 2008-2009. However, collections have rebounded in recent years with revenues expected to end 2018-2019 at $42.0 million.

After seven years of year-over-year home price growth, the local real estate market is beginning to slow down. The single-family home price peaked at $1.3 million in May 2018, which represented a 30.0% increase from the May 2017 home price, but has steadily decreased each month since May. In December 2018, the median single family home price totaled $1.05 million, which represents a 7.9% decrease from the December 2017 price of $1.14 million, but is 21.7% above the December 2016 price of $863,000.

In addition to the median home price decreasing from the prior year level, the number of property transfers (sales) has also continued to steadily decline. The number of property transfers in December 2018 totaled 449, which represents a 3.9% drop from the 467 transfers that occurred in December 2017. The total number of property transfers that occurred through the first half of the fiscal year has dropped 11% compared to the first half of 2018-2019. In addition, while homes are continuing to sell quickly, they are on the market significantly longer than the prior year. The average days-on market for single-family and multi-family dwellings in December 2018 totaled 35 days, which is more than double the 16 days experienced in December 2017.

Due to decreased home prices coupled with lower property transfers, collections in 2018-2019 are projected to end the year at $42 million. This collection level is 13% below the actual receipts received in 2017-2018 ($48.1 million), but is higher than the $38 million estimated in the 2019-2023 Adopted CIP. Based on recent collection trends and real estate activity, collections in this extremely volatile revenue category are forecasted to drop to $36 million in 2019-2020 and remain at that level 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 two 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, 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%

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 2018-2019, Building and Structure Construction Tax receipts through January totaled $10.7 million, down 24% from the $13.9 million collected through the same period last year, and on target to meet or exceed the 2018-2019 Adopted Budget estimate of $16 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 $75 million, slightly below the estimate included in the 2019-2023 Adopted Capital Improvement Program (CIP). It is projected that collections will drop from the 2018-2019 estimate of $16 million to $15 million in 2019-2020 through 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 2020-2024 forecast period. As the budget for the 2020-2024 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.

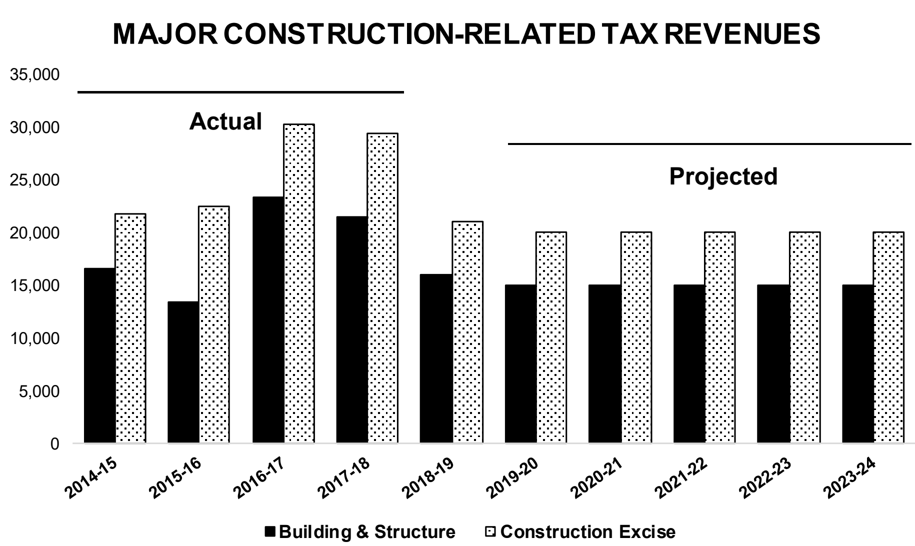
BUILDING AND STRUCTURE CONSTRUCTION TAX

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 2018-2019, tax receipts through January for the Construction Excise Tax Fund totaled $14.0 million, 26% below the $18.9 million collected through the same period last year and on target to exceed the 2018-2019 Adopted Budget estimate of $21 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 $100 million over the five-year forecast period, with proceeds estimated at $20 million in 2019-2020 through 2023-2024. This collection level represents a slight decrease of $1 million (1%) from the 2019-2023 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)

	2019-2023 CIP	2020-2024 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 2018-2019, receipts are projected to total $200,000 based on year-to-date activity levels. This collection level is on target to meet the budgeted estimate of $200,000 due to 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 2019-2023 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 2018-2019, 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 2020-2024 Forecast projection for this fee is $3.5 million, which is equal to the 2019-2023 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 2018-2019, 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 2019-2020 to 2023-2024. This collection level is equal to the estimate included in the 2019-2023 Adopted CIP of $1 million.

ATTACHMENT A

CONSTRUCTION-RELATED REVENUE
2020-2024 FORECAST
(in $ thousands)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	5 Yr Total
Construction and Conveyance Tax							
2019-2023 Adopted CIP	38,000	36,000	36,000	36,000	36,000	N/A	182,000
2020-2024 FORECAST	42,000	36,000	36,000	36,000	36,000	36,000	180,000
Difference	4,000	-	-	-	-	N/A	(2,000)
Building and Structure Construction Tax*							
2019-2023 Adopted CIP	16,000	15,000	15,000	15,000	15,000	N/A	76,000
2020-2024 FORECAST	16,000	15,000	15,000	15,000	15,000	15,000	75,000
Difference	-	-	-	-	-	N/A	(1,000)
Construction Excise Tax*							
2019-2023 Adopted CIP	21,000	20,000	20,000	20,000	20,000	N/A	101,000
2020-2024 FORECAST	21,000	20,000	20,000	20,000	20,000	20,000	100,000
Difference	-	-	-	-	-	N/A	(1,000)
Municipal Water Advance System Design Fee							
2019-2023 Adopted CIP	25	25	25	25	25	N/A	125
2020-2024 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Municipal Water Meter Installation Fee							
2019-2023 Adopted CIP	25	25	25	25	25	N/A	125
2020-2024 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Municipal Water Service Connection Fee							
2019-2023 Adopted CIP	25	25	25	25	25	N/A	125
2020-2024 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Residential Construction Tax							
2019-2023 Adopted CIP	200	200	200	200	200	N/A	1,000
2020-2024 FORECAST	200	200	200	200	200	200	1,000
Difference	-	-	-	-	-	N/A	-
Sanitary Sewer Connection Fee							
2019-2023 Adopted CIP	700	700	700	700	700	N/A	3,500
2020-2024 FORECAST	700	700	700	700	700	700	3,500
Difference	-	-	-	-	-	N/A	-
Storm Drainage Connection Fee							
2019-2023 Adopted CIP	200	200	200	200	200	N/A	1,000
2020-2024 FORECAST	200	200	200	200	200	200	1,000
Difference	-	-	-	-	-	N/A	-
TOTAL							
2019-2023 Adopted CIP	76,175	72,175	72,175	72,175	72,175	N/A	364,875
2020-2024 FORECAST	80,175	72,175	72,175	72,175	72,175	72,175	360,875
Difference	4,000	-	-	-	-	N/A	(4,000)
% Change from 2019-2023 CIP	5%	0%	0%	0%	0%	N/A	-1%

* Please refer to the Capital Revenue Forecast for Development of the 2020-2024 Capital Improvement Program memorandum for additional information regarding these development-related construction taxes.

Five-Year Economic Forecast and Revenue Projections

2020-2024

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.

Service Delivery Framework

Five-Year Economic Forecast and Revenue Projections

2020-2024

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 1% 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 California Department of Tax and Fee Administration 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 10%, of which 6% is placed in the Transient Occupancy Tax Fund and 4% 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 (6% 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.

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 5% 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) 2% 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) 1% 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% 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 Jose 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 in effect until San José voters approved the Business Tax Modernization measure on November 8, 2016. In addition to expanding the application of tax to more business classes, the Business Tax Modernization measure increased the base tax, the incremental tax, and the cap (the maximum amount of tax affecting large businesses). The Business Tax Modernization measure rates went into effect July 1, 2017 and will be adjusted annually on July 1st for inflation changes.

The following charts present the business tax rate structure after the Business Tax Modernization, along with the inflation adjusted rates that were effective July 1, 2018. The updated rates that will take effect on July 1, 2019 are currently being analyzed and will be included in the 2019-2020 Proposed Budget, which is scheduled to be released on May 1, 2019.

Employee Count

Every person engaged in business in the City shall pay a business tax based on employee count[1], unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

Businesses: Employee Count [1]	July 2017 – June 2018	Effective July 1, 2018 [3]
Base Tax: 1-2 employees	$195.00	$197.90
Incremental Tax: 3-35 [2]	$30.00	$30.90
Incremental Tax: 36-100 [2]	$40.00	$41.20
Incremental Tax: 101-500 [2]	$50.00	$51.50
Incremental Tax: 501+ [2]	$60.00	$61.80
Cap	$150,000	$154,500

[1] Businesses 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).

[2] Incremental tax rates are applicable per employee.

[3] As prescribed in San Jose Municipal Code Section 4.76.365, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the preceding base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-San José Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap.

BUSINESS TAXES

Residential Rental Property Units

Every person in the City engaged in the business of renting or leasing any residential real estate shall pay a business tax based on the number of rental units held for rental, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

Residential Landlords: Rental Units	July 2017 – June 2018	Effective July 1, 2018 [2]
Base Tax: 1-2 units	$195.00	$197.90
Incremental Tax: 3-35 [1]	$10.00	$10.30
Incremental Tax: 36-100 [1]	$15.00	$15.45
Incremental Tax: 101-500 [1]	$20.00	$20.60
Incremental Tax: 501+ [1]	$25.00	$25.75
Cap	$150,000	$154,500

Commercial (Non-Residential) Rental Property Units

Every person in the City engaged in the business of renting or leasing any non-residential real estate shall pay a business tax based on the square footage of space held for rental, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

Commercial Landlords	July 2017 – June 2018	Effective July 1, 2018 [2]
Base Tax	$195.00	$197.90
Flat Incremental Tax: per Square Foot [1]	$0.025	$0.02575
Cap	$150,000	$154,500

Mobile Home Parks Rental Units

Every person in the City engaged in the business of renting or leasing any mobile home parks shall pay a business tax based on the number of lots held for rental, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

Mobile Home Parks – Rental Lot	July 2017 – June 2018	Effective July 1, 2018 [2]
Base Tax: 1-2 lots	$195.00	$197.90
Incremental Tax: 3+ lots [1]	$10.00	$10.30
Cap	$150,000	$154,500

[1] Incremental tax rates are applicable per unit.

[2] As prescribed in San Jose Municipal Code Section 4.76.450, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the preceding base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-San José Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap.

BUSINESS TAXES

Water Meter Connections

Every person engaged in the business of a public water utility in the City shall pay a business tax based upon the number of active metered connections within the city, unless the basis of the tax is otherwise prescribed in the San José Municipal Code.

Water Companies	July 2017 – June 2018	Effective July 1, 2018 [2]
Base Tax	$195.00	$197.90
Flat Incremental Tax: per connection [1]	$1.00	$1.03
Cap	$150,000	$154,500

[1] Incremental tax rates are applicable per connection.

[2] As prescribed in San Jose Municipal Code Section 4.76.485, the base tax rate shall be adjusted annually if the cost of living in the City has increased over the base period as shown by the Consumer Price Index (All Urban Consumers for All Items for the San Francisco-Oakland-San José Area) using February to February data; limited to 1.5% per year on the minimum base tax, 3.0% per year on the incremental tax brackets, and 3.0% per year on the cap.

Exclusions and Exemptions

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.

Specialty 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 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 amended the cardroom ordinance, 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 allowed 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 an ordinance that set the **Marijuana Business Tax** at 7%, and on June 4, 2013, the City Council increased the rate to 10% effective on July 1, 2013.

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 and Santa Clara County for the first responder of advanced life support (Paramedics Program).

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 2% 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

REVENUE FROM THE STATE OF CALIFORNIA

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 Attorney, and the Office of the City Manager. 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

2020-2024

Appendix C

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

Development Activity Highlights and Five-Year Forecast (2020-2024)

Prepared by:

City of San José
Department of Planning, Building and Code Enforcement
February 2019

Development Activity Highlights and Five-Year Forecast (2020-2024)

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 (2020-2024)

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Development Activity Highlights
and Five-Year Forecast (2020-2024)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2020-2024)* 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 development significantly increased in fiscal year 2017/2018, while new residential and commercial development remained strong. However, current trends suggest levels have plateaued and the rate of new development may begin to slowly decline.

Residential Development

After two historic years of residential development in fiscal years 2013/2014 and 2014/2015, construction of new units in fiscal year 2015/2016 declined but rebounded in fiscal year 2016/2017 and fiscal year 2017/2018.

During the first six months of fiscal year 2018/2019, over 1,600 building permits were issued for new residential units. Additionally, as of February 2019, there were approximately 6,000 new residential units that have received entitlements, but have not yet started construction. Overall, new residential units are forecasted to decline during the forecast period based on building permits issued during the current fiscal year (2018/2019) and the current housing market, which has slowed due to increases in the costs associated with new construction, and the flattening of rents relative to these increased costs.

In 2016 the City Council approved a secondary unit ordinance that loosened existing zoning code regulations to comply with state law. The City Council approved additional updates to the Zoning Code in 2018 to further ease requirements for ADUs. As a result, more property owners are able to build secondary units which are classified as single-family units in Table 2 of the Five-Year Forecast. New construction of single-family units reached 250 units in 2017/2018, of which 153 were ADUs. This represented an approximately 70% increase in building permit issuance for ADUs from the previous fiscal year.

High rents have spurred calls for action for many Bay Area communities, inciting a continued discussion of displacement, gentrification and affordability. Since 2010, rents rose by 53%, averaging $2,500 per unit per month. Following multiple years of steep increases, rents in Silicon Valley have leveled off. The median single-family home price in San José reached $1.05 million by the end of 2018, four times the U.S. Figure and up 57% since 2011.

Commercial Development

Large hotel and retail projects contributed to a strong year of commercial growth. Accordingly, valuation of new commercial construction in fiscal year 2017/2018 ($401 million) nearly kept pace with the 16-year high last fiscal year of $418 million in fiscal year 2016/2017. Commercial alterations also remained strong in fiscal year 2017/2018. Alterations 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.

Retail vacancy rates in San José have remained low. As of the fourth quarter of 2018, the overall retail vacancy rate in San José dropped to approximately 3.9%, slightly less than the previous year (approximately 4.1%). During the first six months of the current fiscal year (2018/2019) valuation of new commercial construction has reached over $140 million, and is forecasted to reach $300 million, approximately $100 million less than previous fiscal year. Over 1.6 million square feet of commercial projects have been entitled but have not yet started construction.

Commercial activity for fiscal year 2016/2017 and 2017/2018 were buoyed by issuance of building permits for the Valley Fair Shopping Mall expansion and are returning to levels of previous years. Additionally, lack of available land for large retail centers and national retail trends, may result in decline in new commercial construction in the future. 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. In the past year, large retailers like Orchard Supply, Toys-R-Us, and Sears have closed as the retail market evolves.

Due to these factors commercial construction activity is forecasted to slightly decline over the next couple fiscal years. However, hotel development has shown an increase with over 1,700 hotel rooms pending entitlements and over 900 rooms entitled but yet to be constructed.

Industrial/Office Development

New industrial construction incorporates construction for office buildings and industrial manufacturing and warehouse space. Valuation of new industrial construction activity significantly increased in fiscal year 2017/2018 at $238 million, compared to the previous four-year low of $111 million. This is reflective of overall office vacancy rates in Silicon Valley, as they declined during the fourth quarter of 2018 to 9.8%, a decrease from the vacancy rate in 2017 of 10.9%. Overall industrial warehouse vacancy rates remain low at 2.6% down from 3.2% in the fourth quarter of 2017. However, through the first six months of the current fiscal year (2018/2019) valuation of new industrial construction has only reached approximately $60 million, with a forecasted valuation of $120 million for the year, but is somewhat reliant on the groundbreaking of large projects. Similar to the residential market, high cost of construction and limited availability of workers is a limiting factor for new industrial construction, with over 8 million square feet of industrial development entitled and yet to start construction.

The office availability rate in downtown San José in the fourth quarter of 2018 has dropped from 14.36% at the beginning of 2018 to 12.7%. This equates to a gross absorption of 3.8 million square feet of office space, up 81% from 2017. Downtown San José's most significant investment transaction was Jay Paul's acquisition of CityView Plaza for $283.5 million. As Downtown San José becomes more competitive other markets are emerging, most notable San José Airport and North San José markets as defined by Colliers International. Gross absorption of office space for the San José Airport market increased 1.2 million square feet, up 140% from 2017, with vacancy rates falling to 4.0% from 21.1% over the same time period.

The availability and vacancy rate for Research & Development (R&D) in the North San José market increased for fiscal year 2017/2018 to 20.2% from 16.6%. However, this can mostly be attributed to a number of large move-outs. Higher asking rates and BART's (Bay Area Rapid Transit) upcoming extension into Milpitas and North San José continues to accelerate demand in the North San José area.

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 large real estate transactions in San José Airport, North San José and Downtown San José submarkets. The most notable being Google's investment and interest to create an 8 million square foot campus Downtown.

III. FIVE-YEAR FORECAST (2020-2024)

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 2018/2019 is expected to decline below the previous five-year average, fueled by a weak year in new commercial and residential construction, and a particular weak year in new industrial construction. 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 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 13/14 to FY 23/24

Fiscal Year	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
			Actual Valuation[1] (in millions)					**Projected Valuation (in millions)**			
New Construction											
Residential	$833	$514	$365	$531	$544	$430	$420	$400	$400	$400	$400
Commercial	201	265	266	418	401	300	175	175	175	175	175
Industrial	296	210	334	111	238	120	120	120	120	120	120
Subtotal	$1330	$989	$965	$1060	$1183	$850	$715	$695	$695	$695	$695
Alterations											
Residential	$122	$133	$126	$113	$115	$110	$100	$100	$100	$100	$100
Commercial	254	158	261	338	245	200	180	180	175	175	175
Industrial	226	190	328	507	204	275	150	150	150	150	150
Subtotal	$602	$481	$715	$958	$564	$585	$430	$430	$425	$425	$425
Grand Total (Taxable)	**$1932**	**$1470**	**$1680**	**$2018**	**$1747**	**$1435**	**$1145**	**$1125**	**$1120**	**$1120**	**$1120**

[1]Valuation figures adjusted to 2018 dollars, per U.S. Bureau of Labor Statistics Consumer Price Index (CPI), San Francisco-Oakland-Hayward, all items index.

Table 2
Residential Units and Non-Residential Square Footage: FY 13/14 to FY 23/24

Fiscal Year	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
			Actual[1]					**Projected**			
Residential (Units)											
Single-Family	341	254	152	201	250	400	350	350	350	350	350
Multi-Family	4,383	2,987	1,540	2,511	2,991	2,400	2,400	2,375	2,375	2,375	2,375
TOTAL	4,724	3,241	1,692	2,712	3,241	2,800	2,750	2,725	2,725	2,725	2,725
Non-Residential (sq.ft., in thousands)											
Commercial	1,400	2,000	1,854	1,911	3,235	1,900	1,400	1,400	1,400	1,400	1,400
Industrial	1,200	1,000	2,068	1,452	1,584	1,000	1,000	1,000	1,000	1,000	1,000
TOTAL	2,600	3,000	3,922	3,363	4,819	2,900	2,400	2,400	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

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Housing Type	No. of Units	Approval Date
Projects Completed								
PDA08-029-01	9/13/12	Virginia Terrace Apts	472-18-063	area bounded by E. Virginia Street, Martha Street, S. 5th Street, and S. 6th Street	Central	MF	238	1/14/09
PDA12-035-01	3/18/13	Ascent Apts (Hitachi)	706-04-013	5805 Charlotte Drive	Edenvale	MF	650	5/3/13
PD14-022	4/17/14	The Standard	264-09-063	505 Lincoln Avenue	Central	MF	190	11/5/14
PD14-029	6/23/14	Onyx	254-04-080	1855 Dobbin Drive	Alum Rock	MF	131	1/21/15
PD15-003	1/27/15	787 Modera The Alameda	261-01-003	785 The Alameda	Central	MF	168	6/23/15
PD15-004	2/2/15	Hanover Cannery	249-09-001	725 N. 10th Street	Central	MF	403	12/15/15
Total							**1,780**	
Projects Under Construction								
CP15-078	11/16/15	Renascent Place	497-41-098	2500 Senter Road	South	MF	162	4/27/2016
CP16-014	4/11/16	Villas on the Park	467-01-121	278 N. 2nd Street	Central	MF	84	2/24/2017
H12-020	1/16/13	San Pedro Square	259-32-044	195 W. Julian Street	Central	MF	406	2/24/14
H13-041	10/31/13	Silvery Towers Apts	259-32-004	180 W. St. James Street	Central	MF	643	2/26/14
H14-010	2/28/14	Marshall Square	467-21-018	66 N. 1st Street	Central	MF	190	2/25/15
H14-037	11/5/14	NSP3 Tower	259-24-008	201 W. Julian Street	Central	MF	313	8/5/15
H15-007	1/23/15	Modera	259-35-042	45 N. San Pedro Street	Central	MF	201	5/20/15
H16-036	10/4/16	The Graduate	467-46-005	80 E. San Carlos Street	Central	MF	260	3/22/17
PD12-008	3/1/12	Murano at Montecito Vista	455-09-060	Southwest side of Montecito Vista Way at the western terminus of Esfahan Drive and Montecito Vista Drive	South	SF	100	6/7/13
PD12-039	10/11/12	South Village (Hitachi Condo's)	706-65-020	0 Raleigh Road	Edenvale	MF	83	12/20/12
PD14-012	2/28/14	Fairfield at West San Carlos	264-15-062	800 W. San Carlos Street	Central	MF	315	10/28/14
PD14-031	6/27/14	Aura	264-30-067	180 Balbach Street	Central	MF	101	12/27/14
PD14-051	10/30/14	777 Park Ave	261-36-062	777 Park Avenue	Central	MF	182	3/18/15
PD15-014	4/16/15	1807 Almaden Rd	455-21-050	1807 Almaden Road	South	MF	96	10/7/15
PD15-035	7/9/15	Ohlone Block C	264-14-024	345 Sunol Street	Central	MF	268	12/16/15
PD15-067	12/22/15	The Reserve	299-26-059	881 S. Winchester Boulevard	West Valley	MF	640	4/27/2016
PD16-002	1/21/16	Berryessa Flea Market (KB)	241-04-011	North side of Berryessa Road on the northern portion of the parcel just west of Union Pacific Railroad tracks (Flea Market)	Berryessa	SF	162	5/18/16
PD16-005	2/4/16	Istar/Great Oaks	706-08-008	West side of Great Oaks Blvd approx 1,000 feet northwesterly of Highway 85	Edenvale	MF	301	5/18/2016
PD16-006	2/5/16	Vespasi @ Diridon (Residential)	259-28-004	138 Stockton Avenue	Central	MF	164	5/25/2016
PDA07-094-01	1/13/15	2nd Street Studio	477-01-082	1140 S. 2nd Street	Central	MF	135	3/4/15
PDA12-031-01	11/13/15	Berryessa Flea Market (Market Park)	241-04-011	North side of Berryessa Road on the southern portion of the parcel just west of Union Pacific Railroad tracks (Flea Market)	Berryessa	MF	551	4/13/16
PDA14-035-01	8/21/14	Communication Hill (Phase 1)	455-28-017	Junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	SF	314	3/18/15
SPA17-009-01	9/7/17	Miro (formerly SJSC Towers)	467-20-086	33 N. 5th Street	Central	MF	630	12/13/17

PDA15-036-01	7/9/15	Ohlone Block B	264-14-024	345 Sunol Street	Central	MF	269	12/16/15
PD16-001	1/15/16	Scotia Apartments	455-21-043	1777 Almaden Road	South	MF	55	5/17/16
Total							**6,625**	

Approved Projects (Construction Not Yet Commenced)

CPA11-034-01	5/10/11	North San Pedro Apts	259-23-016	201 Bassett Street	Central	MF	135	12/14/11
H14-009	2/18/14	Parkview Tower	467-01-008	northeast corner of the intersection of 1st Street and St. James Street	Central	MF	220	5/13/15
H14-034	10/2/14	First and Reed	472-26-030	598 S. 1st Street	Central	MF	105	10/7/15
H15-046	9/25/15	363 Delmas Avenue	264-26-006	341 Delmas Avenue	Central	MF	120	6/21/16
H15-047	9/28/15	Gateway Tower	264-30-089	455 S. 1st Street	Central	MF	300	12/616
H15-055	11/17/15	6th Street Project	467-19-059	73 N. 6th Street	Central	MF	126	6/29/16
PD12-013	3/29/12	Ohlone Mixed Use (Block A)	264-14-131	southwest corner of West San Carlos Street and Sunol Street	Central	MF	263	12/16/15
PD13-027	7/1/13	Vicenza at Montecito Vista	455-09-062	East side of Montecito Vista Way, between Esfahan Drive and Montecito Vista Drive	South	MF	162	11/22/13
PD14-044	9/3/14	King & Dobbin Transit Vilage Lot E	254-04-079	1745 Dobbin Drive	Alum Rock	MF	67	7/29/15
PD14-054	11/12/14	King & Dobbin Transit Vilage Lot H	254-55-010	1893 Dobbin Drive	Alum Rock	SF	105	7/29/15
PD14-055	1/13/15	Lee Ave Apartments	284-32-014	1030 Leigh Avenue	Willow Glen	MF	64	3/18/15
PD15-013	4/3/15	Arcadia/Evergreen Part 1	670-29-002	2140 Quimby Road	Evergreen	SF	250	11/30/15
PD15-042	9/11/15	Montgomery 7	259-47-068	565 Lorraine Avenue	Central	MF	54	6/21/16
PD15-044	9/11/15	Sparta	467-16-076	525 E. Santa Clara Street	Central	MF	85	9/20/16
PD15-055	11/4/15	Japantown Corp. Yard	249-39-039	Bounded by N. Sixth Street, E. Taylor Street, N. Seventh Street, and Jackson Street	Central	MF	520	5/25/16
PD15-059	6/23/16	Volar (Residential)	277-33-003	350 S. Winchester Boulevard	West Valley	MF	330	6/13/17
PD15-061	12/4/15	Diridon TOD	259-38-036	402 West Santa Clara	Central	MF	325	5/24/16
PD15-066	12/21/15	Santana Row Lot 12	277-40-017	358 Hatton Street	West Valley	MF	258	8/16/16
PD15-068	12/22/15	Santana Row Lot 17	277-38-003	544 Dudley Avenue	West Valley	MF	110	5/25/16
PD16-013	4/7/16	777 West San Carlos St	261-39-045	270 Sunol Street	Central	MF	149	6/21/16
PD16-025	8/16/16	The Orchard (Residential)	254-06-042	641 N. Capitol Avenue	Alum Rock	MF	188	1/24/17
PD16-026	8/11/16	7th & Empire	249-38-042	535 N. 7th Street	Central	MF	92	4/11/17
SP16-016	3/8/16	Park Delmas	259-46-040	201 Delmas Avenue	Central	MF	123	6/29/16
SP16-021	4/11/16	Greyhound Residential	259-40-012	70 South Almaden Avenue	Central	MF	781	5/23/17
SP17-016	4/24/17	425 Auzerais Avenue	264-26-017	425 Auzerais Avenue	Central	MF	130	6/19/17
HA14-023-02	12/6/17	Post & San Pedro Tower	259-40-088	171 Post Street	Central	MF	228	6/9/18
PD16-031	9/27/16	750 West San Carlos	264-15-003	750 W. San Carlos Street	Central	MF	56	12/12/17
PD17-029	12/15/17	Julian/Stockton Mixed Use	261-01-030	715 W. Julian Street	Central	MF	228	10/23/18
PDA14-035-04	4/9/17	Communication Hill Phase II	455-28-016	junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	MF	486	7/26/17
SP17-037	9/1/17	Page Street Housing	277-20-044	329 Page Street	Central	MF	82	12/5/18
H18-057	5/3/18	Balbach Affordable Housing	264-31-109	South East corner of Balbach and South Almaden Blvd	Central	MF	87	1/30/19
PD17-014	4/25/17	Stevens Creek Promenade	296-38-013	4360 Stevens Creek Boulevard	West Valley	MF	499	2/26/19
SP18-016	3/29/18	27 West	259-40-043	27 S. 1st Street	Central	MF	374	2/27/19
Total							**7,102**	

Projects Pending City Approval

CP17-052	11/17/17	1936 Alum Rock Avenue	481-19-003	1936 Alum Rock Avenue	Alum Rock	MF	94	---
PDA14-035-05	4/10/17	Communication Hill Village Center	455-28-017	junction of Communications Hill Blvd. and the CalTrain railway to the terminus of Communications Hill Blvd. and Casselino Drive.	South	MF	490	
H17-019	4/25/17	Spartan Keyes Senior Housing	472-25-092	295 E. Virginia Street	Central	MF	301	---
SP17-027	6/26/17	Roosevelt Park Apartments	467-12-001	21 N. 21st Street	Central	MF	80	---
H17-050	8/29/17	City View Plaza	259-41-067	170 Park Center Plaza	Central	MF	259	---
SP18-057	12/14/17	543 Lorraine Ave Mixed Use	259-47-069	543 Lorraine Avenue	Central	MF	70	---
PD17-027	12/14/17	Saratoga Ave Mixed Use	299-37-024	700 Saratoga Avenue	West Valley	MF	300	---
SP18-001	1/9/18	Garden Gate Tower	472-26-090	600 S. 1st Street	Central	MF	285	---
SP18-009	1/31/18	Davidson Plaza Towers	678-93-015	255 W. Julian Street	Central	MF	653	---
SP18-059	5/10/18	McEvoy Affordable Housing	261-38-004	north of W. San Carlos Street between McEvoy Street and Dupont Street	Central	MF	358	---
H18-025	6/5/18	Carlysle	259-35-033	51 Notre Dame Avenue	Central	MF	220	---
H18-026	6/7/18	S. Market Mixed Use	264-30-034	477 S. Market Street	Central	MF	130	---
PD18-015	6/19/18	Bascom Gateway Station	282-26-007	1330 S. Bascom Avenue	Willow Glen	MF	590	---
CP18-022	6/26/18	Blossom Hill Affordable Apartments	690-25-021	397 Blossom Hill Road	Edenvale	MF	147	---
CP18-038	6/27/18	Invicta Towers	472-26-001	40 E. William Street	Central	MF	667	---
SP18-033	6/28/18	Mitzi Place	299-16-001	4146 Mitzi Drive	West Valley	MF	50	---
CP18-026	6/29/18	Silicon Sage	481-07-016	north side of Alum Rock Ave 220 feet westerly of Jose Figueres Avenue	Alum Rock	MF	738	---
PD18-016	6/29/18	Little Portugal Gateway	481-12-069	1663 Alum Rock Avenue	East San José	MF	121	---
SPA17-023-01	12/11/18	StarCity	259-23-006	199 Bassett Street	Central	MF	800	---
H19-003	1/30/19	4th Street Housing	467-20-019	100 N. 4th Street	Central	MF	316	---
Total							**6,669**	
GRAND TOTAL							**22,176**	

File Number Prefixes: 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

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Approval Date
Projects Completed								
PD13-049	12/13/2013	Bay 101 Casino	235-01-020	1740 N. 1st Street	North	68,652		9/2/15
PD15-002	1/27/2015	iStar Costco	706-08-023	Great Oaks Boulevard	Edenvale	148,000		7/15/15
PD15-008	2/24/2015	1040 E Brokaw Road	237-03-080	1040 E. Brokaw Road	Berryessa	145,000		6/24/15
H17-018	3/20/17	Smart and Final	264-14-017	320 Race Street	Central	29,575		6/28/17
PD07-007	1/10/2007	Fruitdale Station (Phase 2)	284-02-008	southeast corner of Fruitdale Avenue and Southwest Expressway	Willow Glen	30,000		3/21/08
PD15-064	12/16/2015	Sun Garden (Restaurant)	477-07-018	1450 Monterey Road	Central	25,045		1/20/16
Total						**446,272**	**-**	
Projects Under Construction								
H13-048	12/16/2013	Hampton Inn/Holiday Inn	237-17-067	2088 N. 1st Street	North	173,000	284	9/3/16
HA14-006-01	1/22/2014	Hyatt Place	101-05-002	westerly side of North 1st Street Karina Court,	North	206,000	355	5/7/14
HA06-027-02	6/10/2013	Valley Fair Shopping Center	274-43-035	2855 Stevens Creek Boulevard	West Valley	525,000		10/30/13
PD13-049	12/13/2013	Bay 101 Hotel (Embassy Suites)	235-01-020	1740 N. 1st Street	North	152,266	174	9/2/15
PD16-006	2/5/2016	Vespaio @ Diridon (Commercial)	259-28-004	130 Stockton Avenue	Central	37,500		5/25/16
PD16-015	4/7/2016	Fairfield Inn & Suites	015-45-013	656 America Center Court	Alviso	161,112	261	6/21/16
PD16-017	5/23/2016	Santana Row Commercial (Lot 9)	277-40-030	3060 Olsen Drive	West Valley	30,000		11/9/16
PDA12-031-01	11/13/2015	Berryessa Flea Market (Market Park)	241-04-011	north side of Berryessa Road on the southern	Berryessa	37,000		4/13/16
PDA14-037-02	8/22/16	Almaden Ranch Hotel	458-17-032	5160 Cherry Avenue	Cambrian/Pioneer	56,032	115	2/8/17
SP14-032	7/24/2014	Capitol Toyota	459-05-019	774 Capitol Ex Auto Mall	South	261,286		1/28/15
SP17-009	2/22/17	Miro	467-20-086	39 N. 5th Street	Central	39,074		3/15/17
H15-023	5/4/2015	Holiday Inn	497-38-013	2660 Monterey Road	South	48,100	81	7/13/16
Total						**1,726,370**	**1,270**	
Approved Projects (Construction Not Yet Commenced)								
CP16-029	6/16/16	Oakmond Residential Care	659-04-015	easterly side of San Felipe Road approximately	Evergreen	91,714		4/26/17
CP16-048	8/31/16	Enzo Behavioral Hospital	678-05-063	northwest side of Enzo Drive and Eden Park	Edenvale	80,000		3/28/17
H16-010	2/29/2016	Boutique Hotel	277-34-014	2850 Stevens Creek Boulevard	West Valley	173,043	175	12/7/16
PD08-001	1/7/2008	Pepper Lane Mixed Use	254-15-072	southeast corner of Berryessa and Jackson	Alum Rock	30,000		10/10/08
PD14-035	3/15/2013	Communications Hill	455-09-040	On the hills from the junction of Communications	South	68,000		11/21/14
PD15-013	4/3/2015	Evergreen Square	670-29-020	2140 Quimby Road	Evergreen	310,000		11/30/15
PD16-025	8/16/16	The Capitol (Formerly Orchard)	254-06-042	641 N. Capitol Avenue	Alum Rock	38,000		1/24/17
PD16-034	4/14/17	Top Golf	015-39-026	4701 N. 1st Street	Alviso	182,000	200	12/13/17
PD16-039	1/5/17	Creative Center for the Arts	249-39-044	bounded by N. Sixth Street, E. Taylor Street, N.	Central	60,000		10/11/17
CP17-046	10/26/17	Holden Assisted Living on Bascom	282-11-014	1015 S. Bascom Avenue	Willow Glen	156,022		9/12/18
CP17-047	10/20/17	Williams Rd Residential Care Facility	299-18-147	3924 Williams Road	West Valley	31,801		11/14/18
H15-059	12/4/15	Scandinavia	359-34-006	1115 S. De Anza Boulevard	West Valley	39,410		10/18/17
H16-032	9/7/16	Hampton Inn (De Anza Blvd)	372-25-015	1090 S. De Anza Boulevard	West Valley	51,279	90	8/14/18

H17-023	5/18/17	AC Hotel Stevens Creek Blvd	375-12-017	5696 Stevens Creek Boulevard	West Valley	62,868	168	1/16/19
H17-044	9/2/17	Hilton Garden Inn	235-03-002	111 E. Gish Road	North	91,460	150	5/7/18
PD17-029	12/15/17	Julian/Stockton Mixed Use	261-01-030	715 W. Julian Street	Central	26,571		10/23/18
SP16-034	6/28/16	North Hotel	235-09-021	1036 N. 4th Street	Central	30,612	60	7/25/18
SP18-016	3/29/18	27 West	259-40-043	27 South 1st Street	Central	35,712		2/27/18
H18-014	3/27/18	Hotel Baywood	277-34-038	375 South Baywood Avenue	West Valley	123,120	105	2/27/18
Total						**1,681,612**	**948**	

Projects Pending City Approval

CP17-052	11/17/17	1936 Alum Rock Avenue	481-19-003	1936 Alum Rock Avenue	Alum Rock	39,000		---
H15-014	3/30/15	Tropicana Shopping Center	486-10-091	1664 Story Road	Alum Rock	31,744		---
H16-042	10/18/16	Tribute Hotel	259-42-079	211 S. 1st Street	Central	186,426	279	---
SP18-060	8/18/17	Stockton Ave Hotel	261-07-001	615 Stockton Avenue	Central	34,698	54	---
H17-059	10/28/17	Hotel Clariana Addition	467-23-088	10 S. 3rd Street	Central	51,573	63	---
H18-002	1/9/18	Silver Creek Valley Rd Hotel	678-93-015	5952 Silver Creek Valley Road	Edenvale	73,862	127	---
PD17-014	4/25/17	Stevens Creek Promenade / Fortbay	296-38-013	4360 Stevens creek Boulevard	West Valley	243,000		---
SP18-005	10/17/16	Holiday Inn Express & Suites (Bark Ln)	372-24-033	7285 Bark Lane	West Valley	45,306	86	---
SP18-008	1/30/18	Presentation High School Master Plan	446-38-035	2281 Plummer Avenue	Willow Glen	106,248		---
CP18-026	6/29/18	Silicon Sage	481-07-016	north side of Alum Rock Ave 220 feet westerly of	Alum Rock	26,500		---
CP18-034	9/4/18	995 Oakland Road Hotel	235-16-011	955 Oakland Road	Central	67,766	116	---
SP18-005	2/1/18	Bark Lane Hotel	372-24-033	7285 Bark Lane	West Valley	45,306	126	---
SP18-012	2/27/18	West San Carlos Hotel	277-20-035	1470 W. San Carlos Street	Central	64,262		---
PD18-010	3/14/18	Mercedes Dealership	296-38-012	4500 Stevens Creek Boulevard	West Valley	171,351		---
H18-016	4/11/18	Piercy Hotel	678-93-040	469 Piercy Road	Edenvale	119,333	175	---
H18-029	6/20/18	Piercy Hotel	678-93-039	459 Piercy Road	Edenvale	78,370	112	---
CP18-038	6/27/18	Invicta Towers	472-26-001	40 E. William Street	Central	41,500		---
H18-033	7/24/18	2nd Street Hotel	472-26-070	605 S. 2nd Street	Central	90,263	106	---
PD18-035	8/7/18	Stockton Ave Hotel	259-28-028	292 Stockton Avenue	Central	356,470		---
PDA15-013-02	8/9/18	Evergreen Circle Costco	670-29-024	2140 Quimby Road	Evergreen	153,000		---
H18-038	8/28/18	Almaden Corner Hotel	259-35-055	8 N. Almaden Boulevard	Central	153,275	272	---
PDA08-069-01	9/17/18	Berryessa Retail	254-17-084	1590 Berryessa Road	Alum Rock	101,000		---
PD18-042	10/9/18	Oakland Road Comfort Suite	241-13-019	northeast corner of Oakland Road and Faulstich	Berryessa	38,400	61	---
PDA16-034-02	11/5/18	Shilla Stay Hotel	015-39-026	4701 N. 1st Street	Alviso	109,991	200	---
PDA12-019-04	12/10/18	Coleman Hotel		1125 Coleman Avenue	North	115,392		---
H19-004	1/31/19	South Almaden Office	264-28-023	northwest corner of Almaden Boulevard and Woz	Central	116,480		---
Total						**2,660,516**	**1,777**	
GRAND TOTAL						**6,514,770**	**3,995**	

File Number Prefixes: 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/ Office Development Activity
Projects of 75,000+ Square Feet

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Approval Date
Projects Completed							
H14-027	7/2/2014	Silicon Valley Industrial Center	678-08-051	500 Piercy Road	Edenvale	243,000	12/17/2014
H15-005	1/9/2015	Storage Pro	254-02-065	615 N. King Road	Alum Rock	101,625	9/16/2015
H15-036	8/12/2015	2777 Orchard Parkway	101-18-001	2701 Orchard Parkway	North	99,000	11/24/2016
H16-022	6/1/2016	Public Storage (Lenfest Rd)	254-02-032	684 Lenfest Road	Alum Rock	85,386	9/7/2016
PD15-046	9/18/2015	Skyport Kaiser	230-29-115	1721 Technology Drive	North	153,112	6/21/2016
PD15-063	12/11/2015	Oakland Rd Storage	237-03-064	1785 Oakland Road	Berryessa	74,640	4/20/2016
PDA05-095-02	12/21/2015	Veteran Affairs Outpatient Clinic	678-07-040	5855 Silver Creek Valley Place	Edenvale	95,000	4/6/2016
Total						**851,763**	
Projects Under Construction							
H15-010	2/12/2015	SAF Keep Storage	237-08-084	1750 Junction Court	North	120,432	12/9/2015
H15-012	2/17/2015	SuperMicro (Phase 2)	237-05-036	750 Ridder Park Drive	Berryessa	162,500	12/16/2015
H16-031	9/10/2016	SuperMicro (Phase 3)	237-05-063	750 Ridder Park Drive	Berryessa	209,320	10/26/2016
H17-005	1/18/2017	Piercy Warehouse	678-08-057	448 Piercy Road	Edenvale	166,740	9/13/2017
HA13-040-01	4/23/2015	Peery Arrillaga	237-16-071	1801 Bering Drive	North	117,440	12/16/2015
PD12-019	7/19/2012	Coleman Highline Office	230-46-062	1123 Coleman Avenue	North	683,000	6/10/2013
PD15-031	7/1/2015	Equinix (iStar)	706-09-117	7 Great Oaks Boulevard	Edenvale	386,000	3/9/2016
PD16-017	4/23/2016	Santana Row (Lot 9)	277-40-030	3060 Olsen Drive	West Valley	290,000	11/9/2016
H15-058	11/23/2015	Senter/Alma Ministorage	477-38-014	Senter Road between E. Alma Avenue and Phelan Avenue	Central/South	91,885	3/15/2017
Total						**2,227,317**	
Approved Projects (Construction Not Yet Commenced)							
H14-029	8/14/2014	2890 North 1st Street Office	101-30-006	2890 N. 1st Street	North	1,653,731	12/10/2014
H15-037	8/25/2015	Boston Properties Innovation Place	097-33-116	3130 Zanker Road	North	536,949	12/2/2015
H16-013	3/16/2016	River Corp Center III	259-24-036	353 W. Julian Street	Central	191,397	12/7/2016

Major Industrial/ Office Development Activity
Projects of 75,000+ Square Feet

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Approval Date
H16-018	4/27/2016	335 West San Fernando St	259-39-116	333 W. San Fernando Street	Central	700,000	11/9/2016
H16-035	9/27/16	Edenvale Self Storage Facility	678-93-005	5880 Hellyer Avenue	Edenvale	155,550	5/3/2017
PD13-012	3/20/13	237 @ First Street (balance)	015-39-006	4353 N. 1st Street	Alviso	430,458	12/4/2013
PD15-053	10/29/2015	America Center (balance)	015-45-047	northwest corner of State Highway 237 and Gold Street	Alviso	192,350	1/23/2018
PD15-061	12/4/2015	Diridon TOD (Office)	259-38-036	402 W. Santa Clara Street	Central	1,040,000	5/24/2016
PD15-062	12/9/2015	Bay 101 Casino & Mixed Use (Phase II)	235-01-020	1740 N. 1st Street	North	234,192	12/7/2016
PD16-016	4/28/2016	Winchester Commercial Mixed Use	279-01-017	780 S. Winchester Boulevard	West Valley	84,000	11/9/2016
PD16-023	7/22/16	Samaritian Medical Phase 1	421-37-001	north of Samaritan Drive, approximately 700 feet east of S. Bascom Drive	Cambrian/Pioneer	350,000	8/2/2017
PD16-037	11/29/16	Self-storage (King Rd)	670-12-006	2905 South King Road	Evergreen	198,000	4/12/2017
SP15-031	7/1/2015	Equinox	706-02-053	west side of Via Del Oro between San Ignacio Avenue and Great Oaks Boulevard	Edenvale	579,000	1/25/2017
SP16-053	11/4/16	Cilker	015-31-054	1657 Alviso-Milpitas Road	Alviso	426,093	10/24/2017
SP18-020	12/15/17	Akatiff/Platform 16	259-29-104	440 W. Julian Street	Central	982,128	5/30/2018
H17-034	6/29/17	Panattoni Distribution Center	244-23-069	0 Oakland Road	Berryessa	83,117	8/8/2018
H17-040	7/20/17	Monterey Rd Self Storage	456-40-004	2829 Monterey Road	South	142,766	3/21/2018
H17-041	7/21/17	Knox Trojan Storage	481-39-003	1025 Knox Avenue	Alum Rock	139,615	2/28/2018
PD16-027	8/29/16	Oakland Rd Self Storage	235-18-001	645 Horning Street	Central	91,875	5/8/2018

Major Industrial/ Office Development Activity
Projects of 75,000+ Square Feet

File Number	Filing Date	Project Name	Tracking APN	Address	Planning Area	Square Footage (approx.)	Approval Date
PDA14-005-10	5/3/18	Western Digital Great Oaks Campus	706-07-020	5601 Great Oaks Parkway	Edenvale	73,400	11/14/2018
PD17-014	4/25/17	Stevens Creek Promenade (Office)	296-38-013	4360 Stevens Creek Boulevard	West Valley	233,000	2/26/2019
Total						**8,517,621**	
Projects Pending City Approval							
H17-058	11/2/17	970 McLaughlin Industrial	472-10-109	970 Mclaughlin Avenue	Central	223,717	---
H18-018	4/30/18	475 Tully Road Mini Storage	477-51-004	475 Tully Road	South	219,282	---
H18-024	5/31/18	Winfield Self Storage	694-06-009	5775 Winfield Boulevard	Edenvale	109,527	---
H18-027	6/12/18	2829 Monterey Distribution	456-40-004	2829 Monterey Road	South	81,100	---
PD18-015	6/19/18	South Bascom Gateway Station	282-26-007	1330 S. Bascom Avenue	Willow Glen	213,500	---
H18-037	8/16/18	Adobe North Tower	259-39-116	333 W. San Fernando Street	Central	1,015,200	---
SP18-049	9/5/18	335 Winchester Office	303-39-047	335 S. Winchester Boulevard	West Valley	94,996	---
PD18-039	9/12/18	Cloud 10 Skyport Plaza	230-29-117	1601 Technology Drive	North	350,000	---
PDA08-069-01	9/17/18	Market Park North Site/ Retail	254-17-084	1590 Berryessa Road	Alum Rock	101,000	---
H18-045	9/27/18	200 Park Avenue	259-43-076	200 Park Avenue	Central	717,246	---
SP18-054	10/3/18	San Ignacio Data and Office	706-09-023	6320 San Ignacio Avenue	Edenvale	282,000	---
H18-048	10/11/18	231 Captiol Public Storage	462-19-013	231 W. Capitol Expressway	South	359,232	---
PD18-044	10/30/18	1605 Industrial Avenue Warehouse	237-30-015	1605 Industrial Avenue	Berryessa	180,500	---
PD18-045	10/26/18	Santana West Phase 1	303-40-010	3161 Olsen Drive	West Valley	850,000	---
SPA17-031-01	10/31/18	Museum Place (amendment)	259-42-023	180 Park Avenue	Central	774,000	---
H19-004	1/31/19	South Almaden Office	264-28-023	northwest corner of Almaden Boulevard and Woz Way	Central	1,952,045	---
Total						**7,523,345**	
GRAND TOTAL						**19,120,046**	

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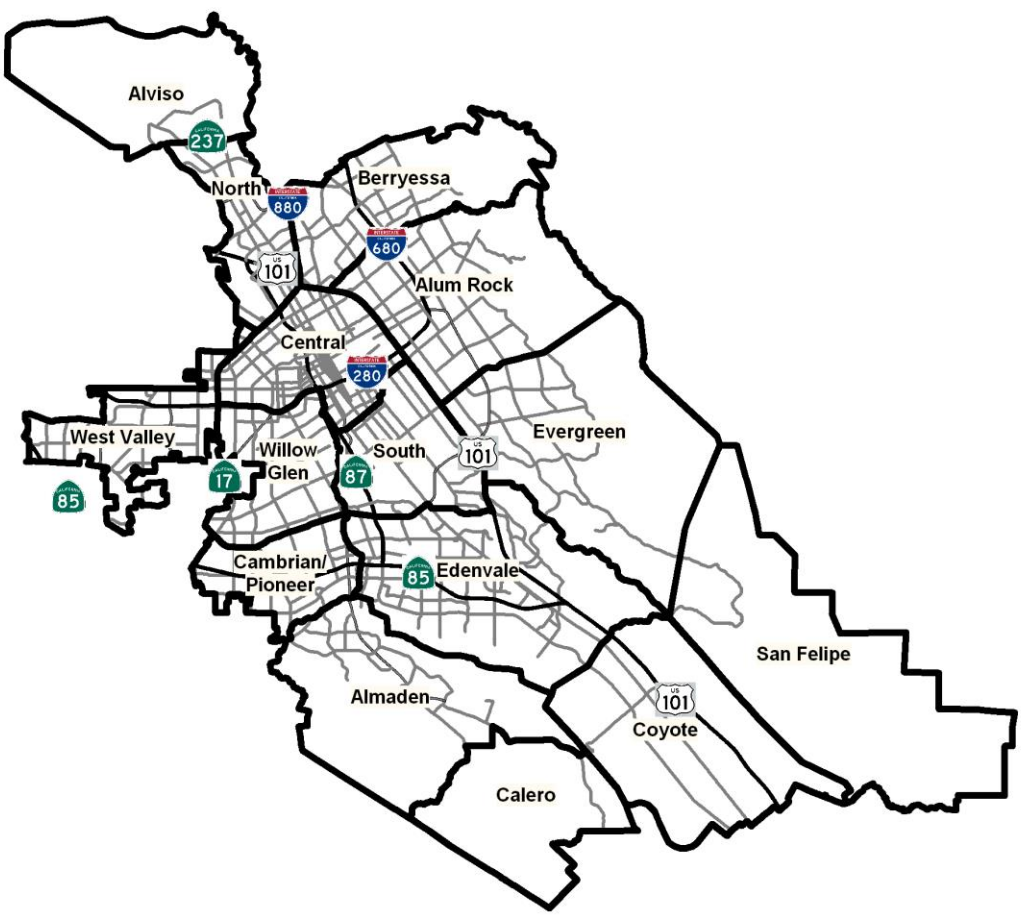
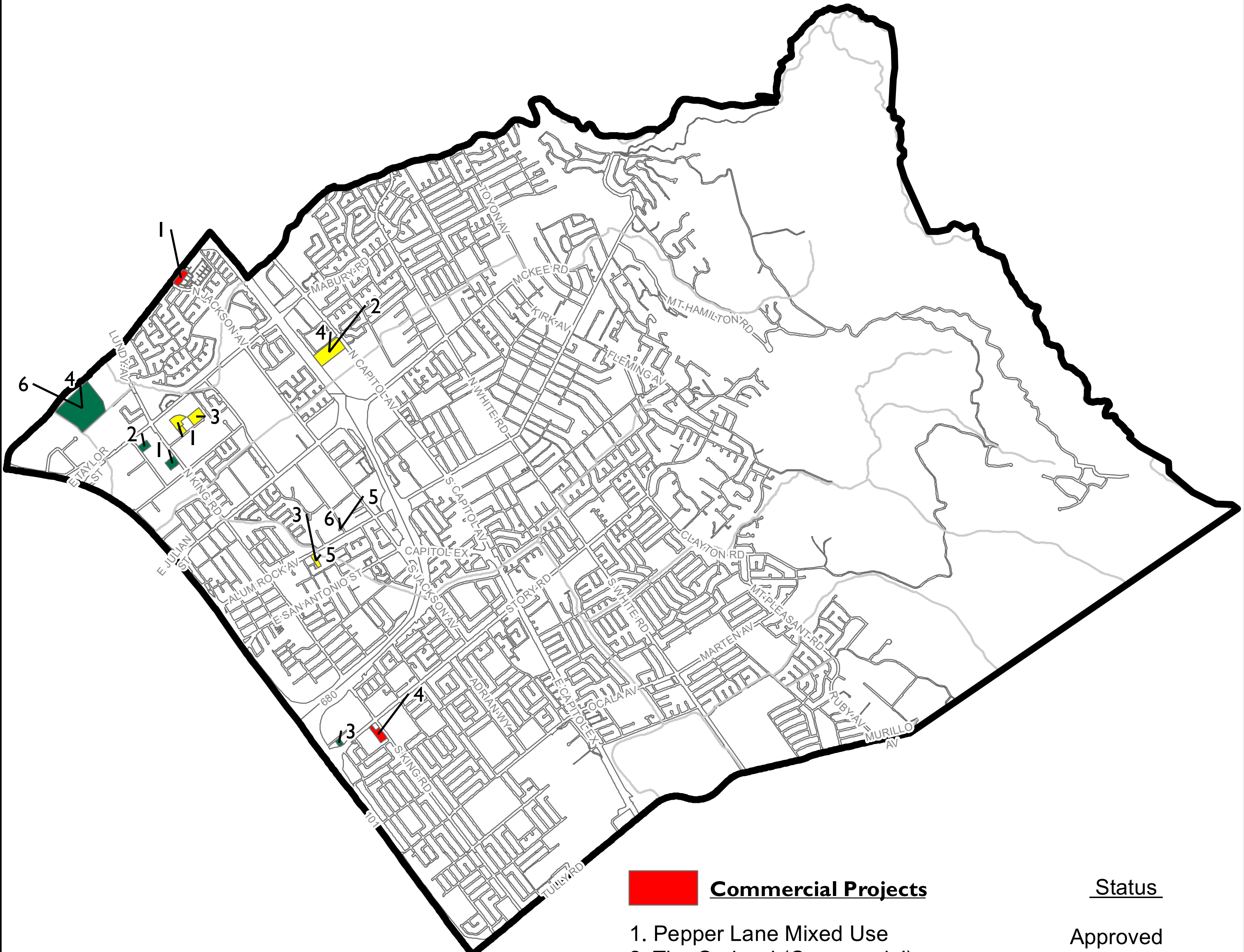
VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

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. 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

	Status
1. Onyx	Completed
2. King & Dobbin Transit Vilage Lot E	Approved
3. King & Dobbin Transit Vilage Lot H	Approved
4. The Orchard (Residential)	Approved
5. 1936 Alum Rock Avenue	Pending
6. Silicon Sage	Pending

Total Dwelling Units = 1,323

Commercial Projects

	Status
1. Pepper Lane Mixed Use	Approved
2, The Orchard (Commercial)	Approved
3. 1936 Alum Rock Avenue	Pending
4. Tropicana Shopping Center	Pending
5. Silicon Sage	Pending
6. Berryessa Retail	Pending

Total Commercial Square Feet = 266,224

Industrial Projects

	Status
1. Storage Pro	Complete
2. Public Storage (Lenfest Rd)	Complete
3. Knox Trojan Storage	Approved
4. Market Park North Site/ Retail	Pending

Total Industrial Square Feet = 427,626

Alviso Planning Area
Major Development Activity

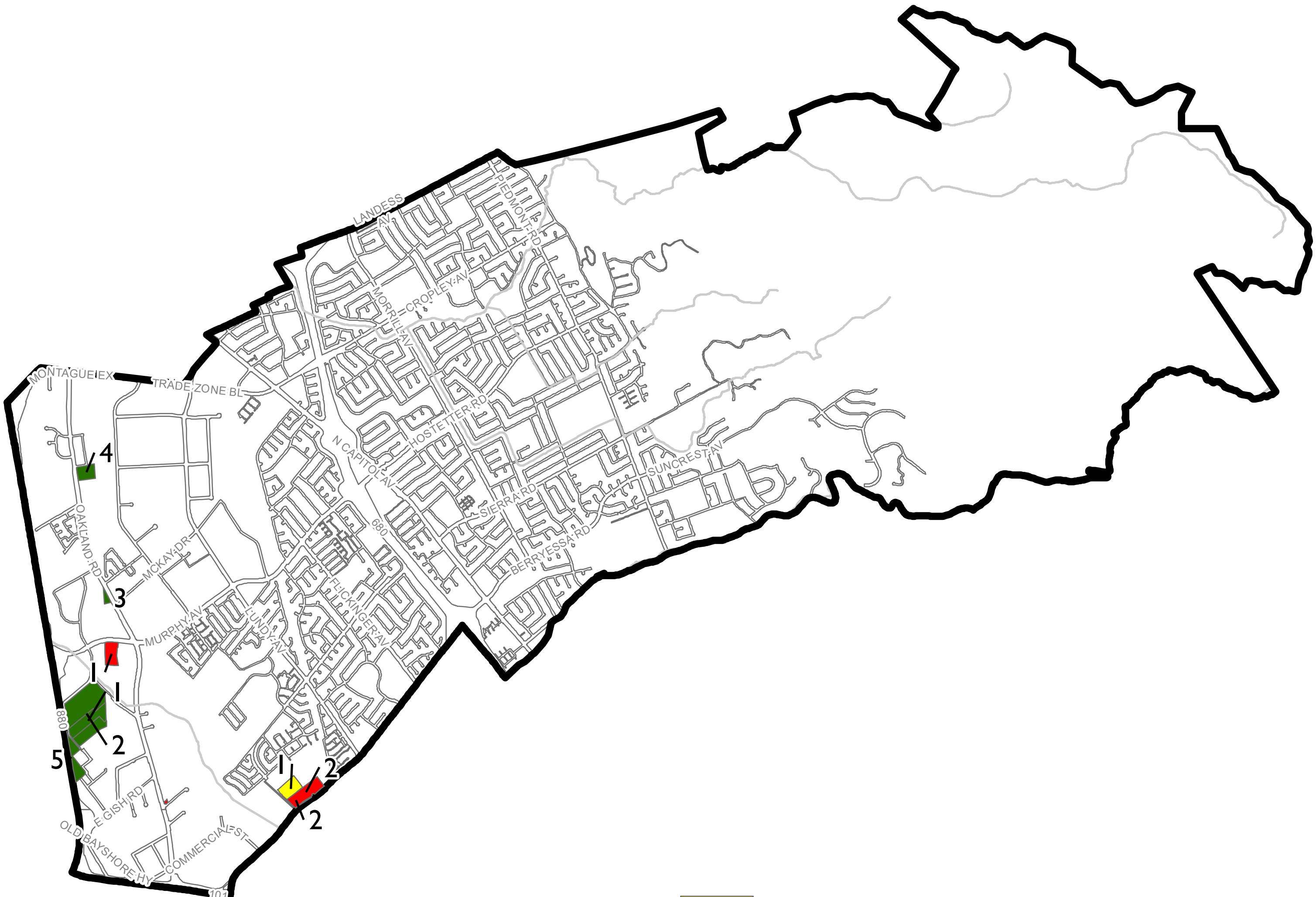
Commercial Projects	Status
1. Fairfield Inn & Suites	Under Construction
2. Top Golf	Approved
3. Shillay Stay Hotel	Pending

Total Commercial Square Feet = 453,103

Industrial Projects	Status
1. America Center	Approved
2. Cilker	Approved
3. 237 @ First Street	Approved

Total Industrial Square Feet = 1,048,901

Berryessa Planning Area
Major Development Activity



Residential Projects — Status

1. Berryessa Flea Market (KB) — Under Construction
2. Berryessa Flea Market (Market Park) — Under Construction

Total Dwelling Units = 713

Commercial Projects — Status

1. 1040 E. Brokaw Road — Complete
2. Berryessa Flea Market (Market Park) — Under Construction
3. Oakland road Comfort Suite — Pending

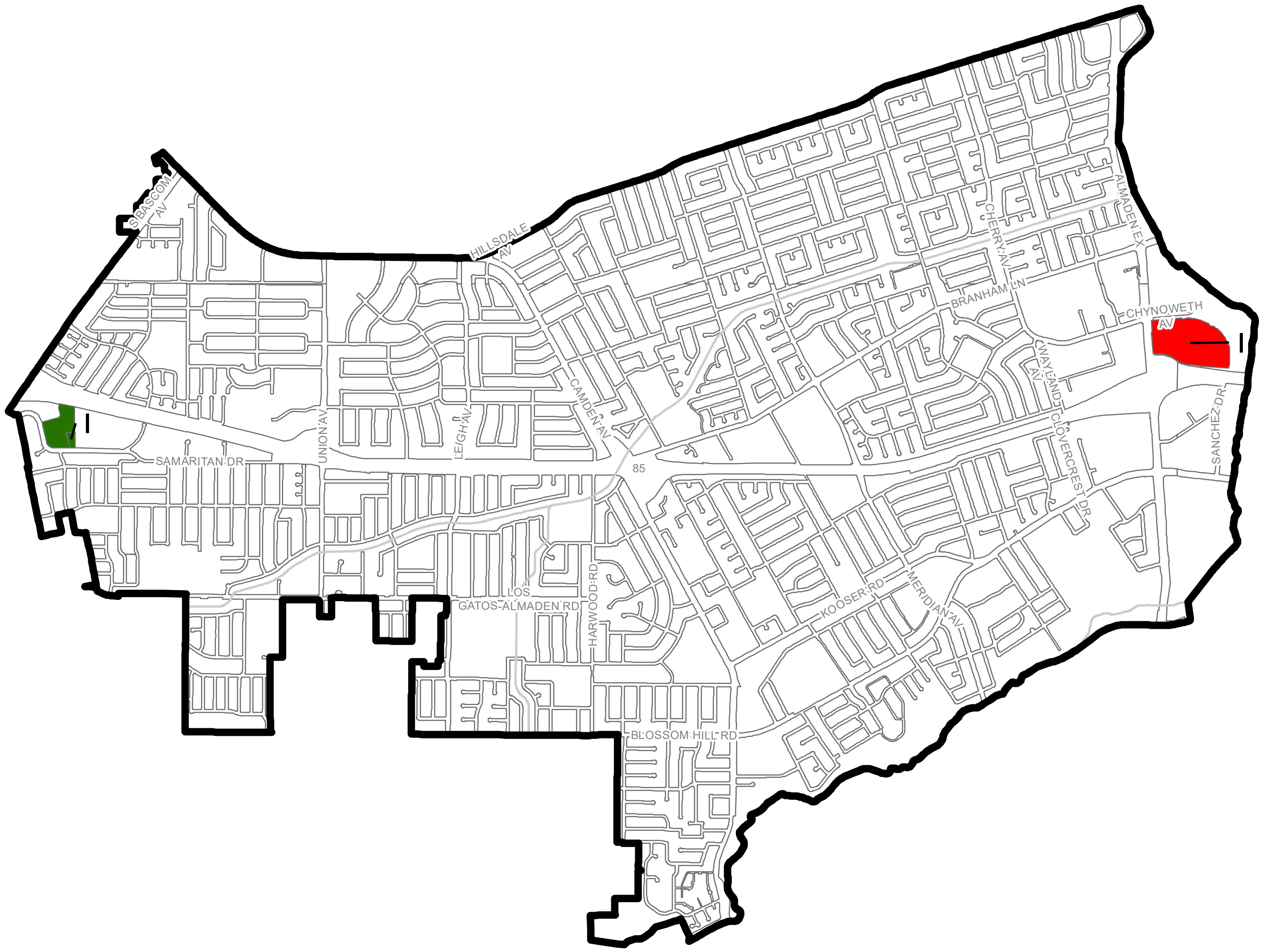
Total Commercial Square Feet = 220,400

Industrial Projects — Status

1. SuperMicro (Phase 2) — Under Construction
2. SuperMicro (Phase 3) — Under Construction
3. Oakland Rd Storage — Complete
4. Panattoni Distribution Center — Approved
5. 1605 industril Avenue Warehouse — Pending

Total Industrial Square Feet = 710,077

Cambrian/Pioneer Planning Area
Major Development Activity



Commercial Projects Status

1. Amaden Ranch Hotel Under Construction

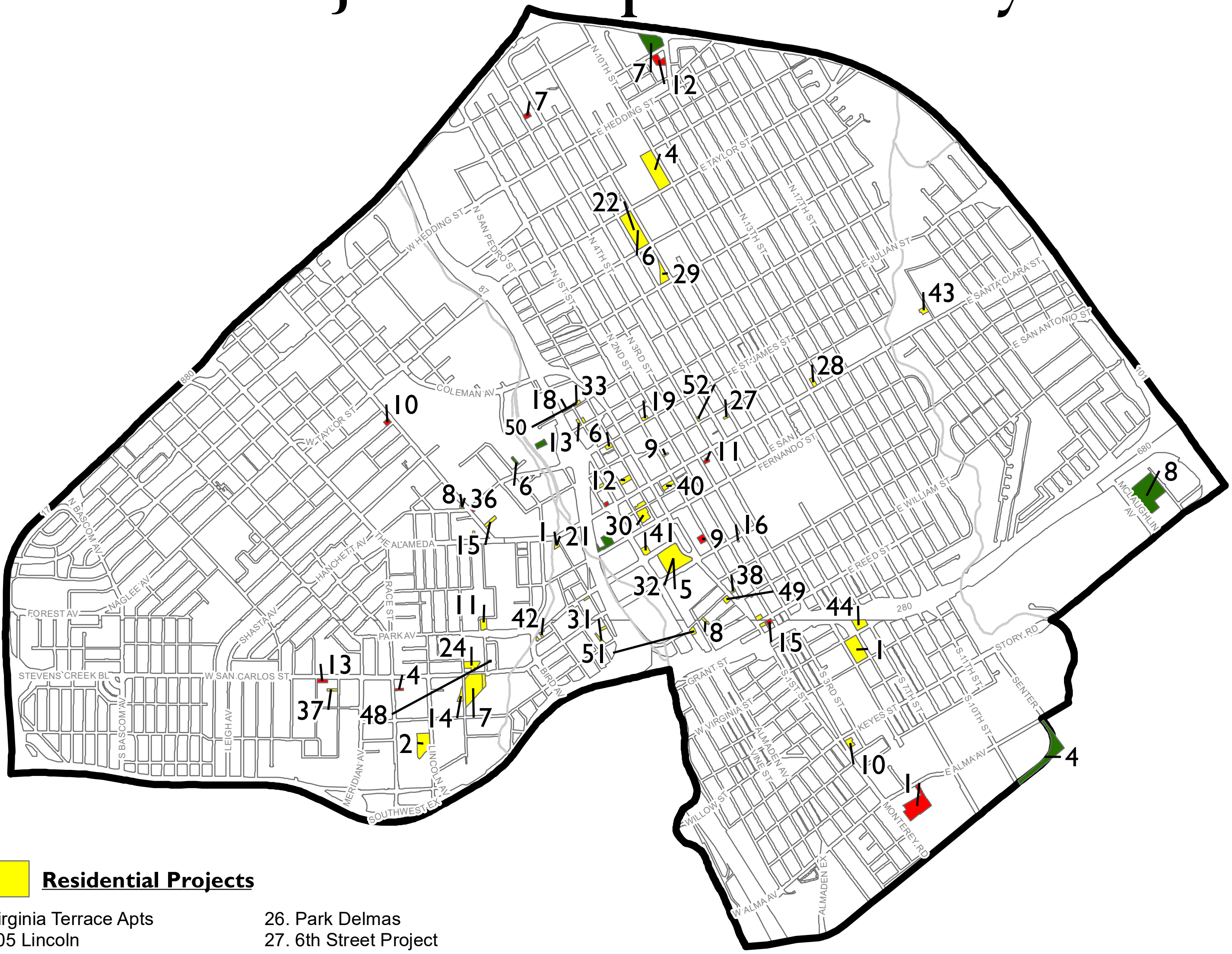
Total Commercial Square Feet = 56,032

Industrial Projects Status

1. Samaritian Medical Phase 1 Approved

Total Industrial Square Feet = 350,000

Central Planning Area
Major Development Activity



Residential Projects

1. Virginia Terrace Apts
2. 505 Lincoln
3. 787 Modera The Alameda
4. Hanover Cannery
5. San Pedro Square
6. Silvery Towers Apts
7. Fairfield at West San Carlos
8. Aura
9. Marshall Square
10. 2nd Street Studio
11. 777 Park Ave
12. Modera
13. NSP3 Tower
14. Ohlone
15. Vespasi @ Diridon (Residential)
16. The Graduate
17. Miro
18. North San Pedro Apt
19. Parkview Tower
20. First and Reed
21. Diridon TOD
22. Japantown Corp Yard
23. Montgomery 7
24. 777 West San Carlos St.
25. 363 Delmas Avenue
26. Park Delmas
27. 6th Street Project
28. Sparta
29. 7th & Empire
30. Greyhound Residential
31. 425 Auzerais Avenue
32. Museum Place (Residential)
33. Aviato
34. 750 West San Carlos
35. Post & San Pedro Tower
36. Julian/Stockton Mixed Use
37. Page Street Housing
38. Gateway Tower
39. Carlyside
40. S. 1st Street Ross Residential
41. City View Plaza
42. 543 Lorrain Ave Mixed Use
43. Roosevelt Park Apartments
44. Spart Keyes Senior Housing
45. Invicta Towers
46. Garden Gate Towers
47. Davidson Plaza Towers
48. McEvoy Affordable Housing
49. S. Market Mixed Use
50. Starcity
51. Balbach Affordable Housing
52. 4th Street Housing

Total Dwelling Units = 7,035

Commercial Projects

1. Sun Garden (Restaurant)
2. Vespaio @ Diridon (Commercial)
3. Miro
4. Smart and Final
5. Museum Place
6. Creative Center for the Arts
7. North Hotel
8. Julian/Stockton Mixed Use
9. Tribute Hotel
10. Stockton Ave Hotel
11. Hotel Clariana Addition
12. 995 Oakland Road Hotel
13. West San Carlos Hotel
14. Invicta Towers
15. 2nd Street Hotel
16. Stockton Ave Hotel
17. Almaden Corner Hotel
18. 27 West

Total Commercial Square Feet = 1,294,610

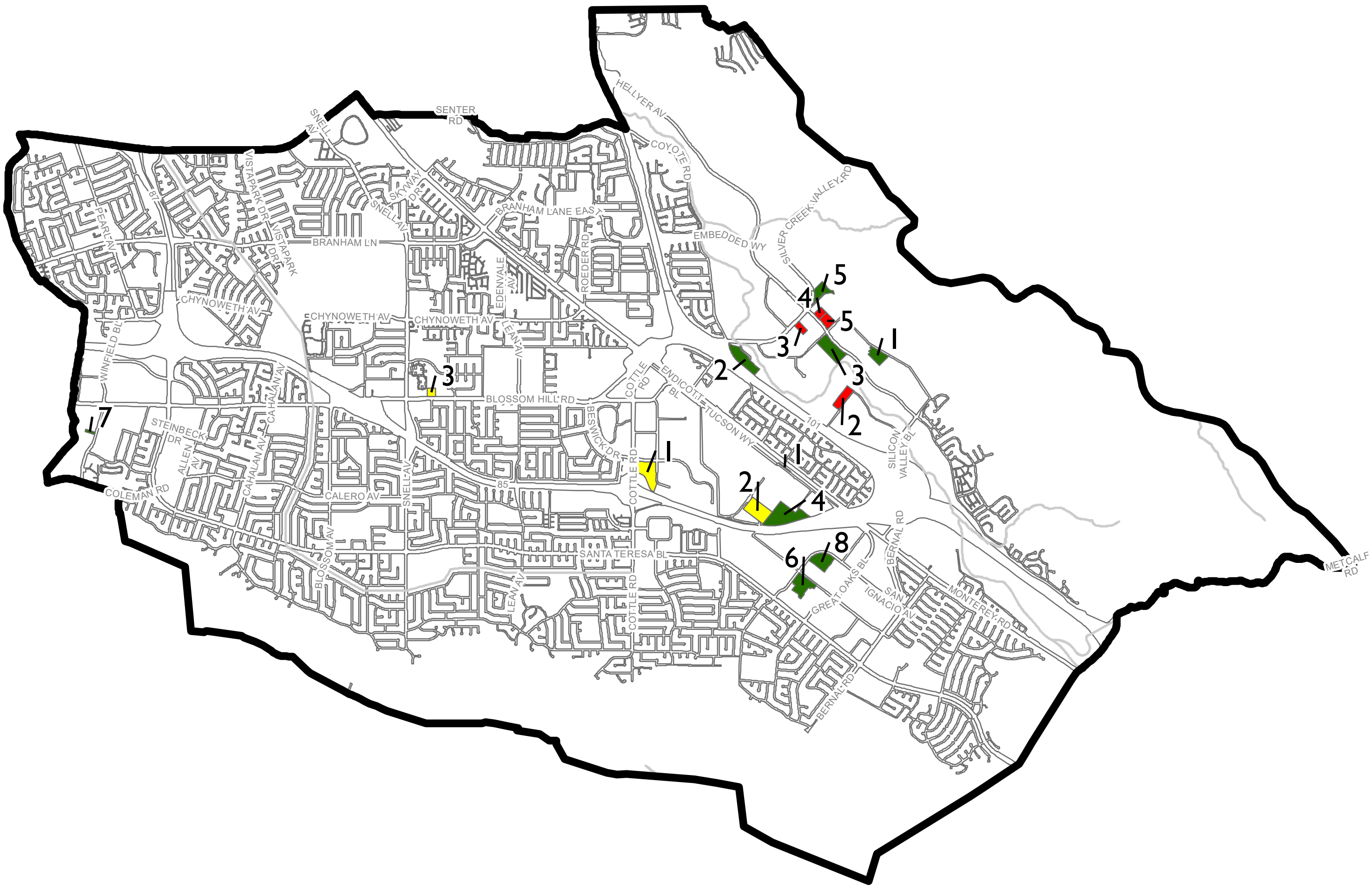
Industrial Projects

1. Diridon TOD (Office)
2. 335 W. San Fernando St
3. River Corp Center III
4. Senter/Alma Ministorage
5. Museum Place (amendment)
6. Akatiff
7. Oakland Road Self Storage
8. 970 McLaughlin Industrial
9. Adobe North Tower

Total Industrial Square Feet = 5,324,022

* This project incorporates all three sectors

Edenvale Planning Area
Major Development Activity



	Residential Projects	Status
1. Ascent Apts (Hitachi)		Constructed
2. Istar/Great Oaks		Under Construction
3. Blossom Hill Affordable Apartments		Pending

Total Dwelling Units = 1,098

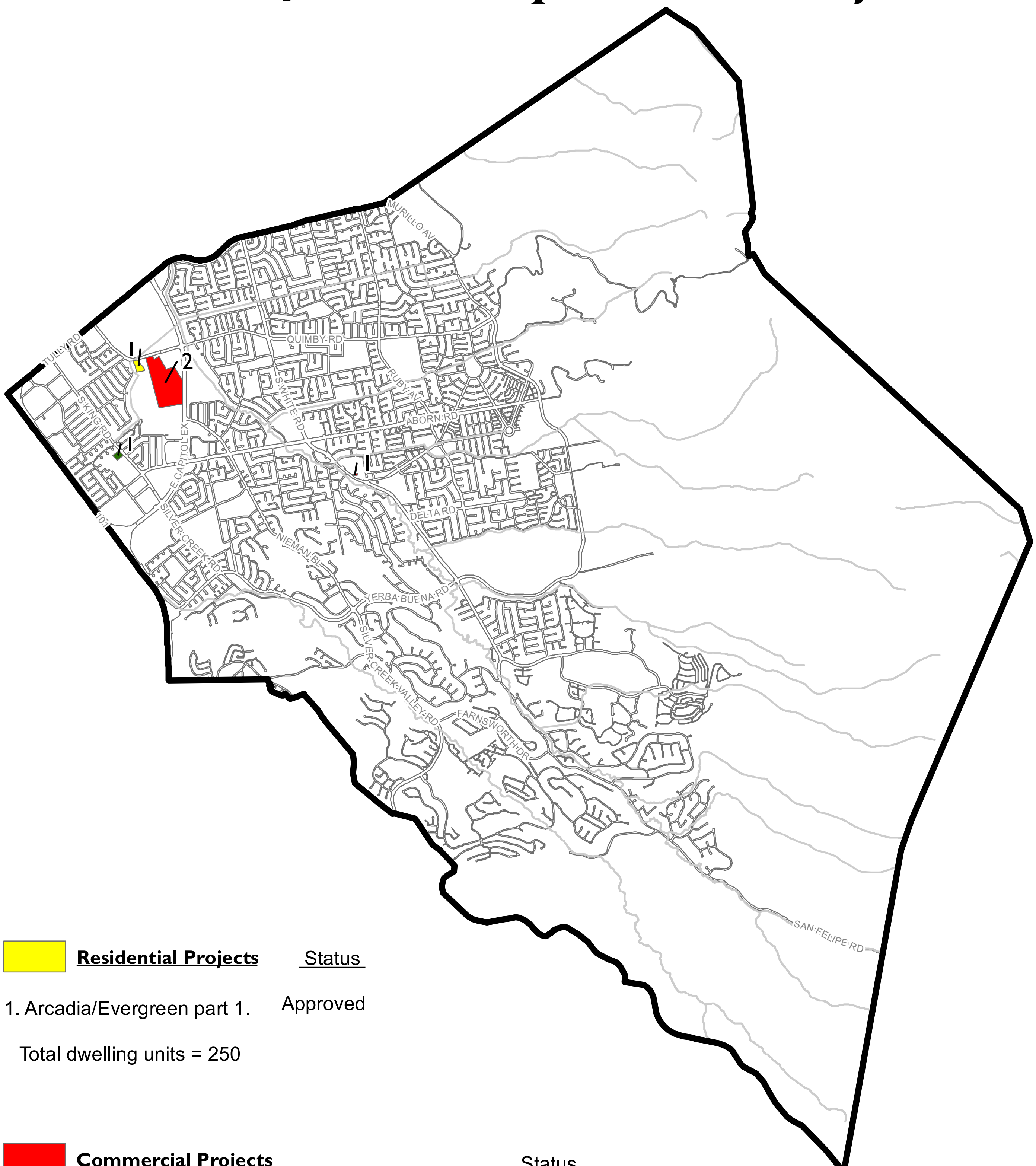
	Industrial Projects	Status
1. Silicon Valley Industrial Center		Constructed
2. Veteran Affairs Outpaitent Clinic		Constructed
3. Piercy Warehouse		Under Construction
4. Equinix(iStar)		Under Construction
5. Ednvale Self Storage Facility		Approved
6. Equinox		Approved
7. Winfield Self Storage		Pending
8. San Ignacio Data and Office		Pending

Total Industrial Square Feet = 2,016,817

	Commercial Projects	Status
1. iStar Costco		Constructed
2. Enzo Behvaior Hospital		Approved
3. Silver Creek Valley Road Hotel		Pending
4. Residence Inn		Pending
5. Piercy Hotel		Pending

Total Commercial Square Feet = 499,565

Evergreen Planning Area
Major Development Activity



Residential Projects Status

1. Arcadia/Evergreen part 1. Approved

Total dwelling units = 250

Commercial Projects Status

1. Oakmond Residential Care Approved
2. Evergreen Square /Evergreen Circle Costco Approved/Pending

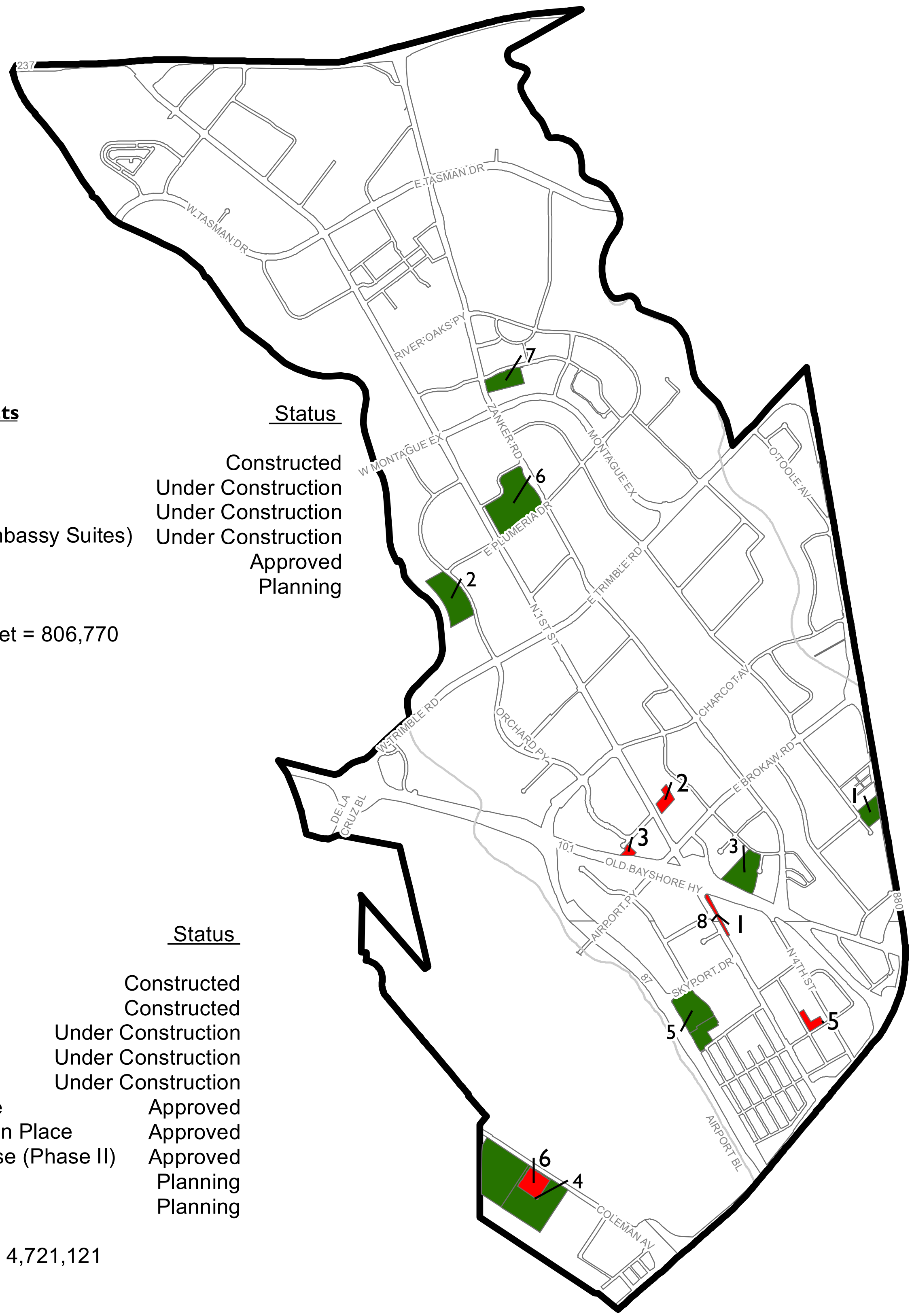
Total Commercial Square Feet = 554,714

Industrial Projects Status

1. Self-storage (King Rd) Approved

Total Industrial Square Feet = 198,000

North Planning Area
Major Development Activity



Commercial Projects — Status

Commercial Projects	Status
1. Bay 101 Casino/Hotel	Constructed
2. Hampton Inn/Holiday Inn	Under Construction
3. Hyatt Place	Under Construction
4. Bay 101 Casino/Hotel (Embassy Suites)	Under Construction
5. Hilton Garden Inn	Approved
6. Coleman Hotel	Planning

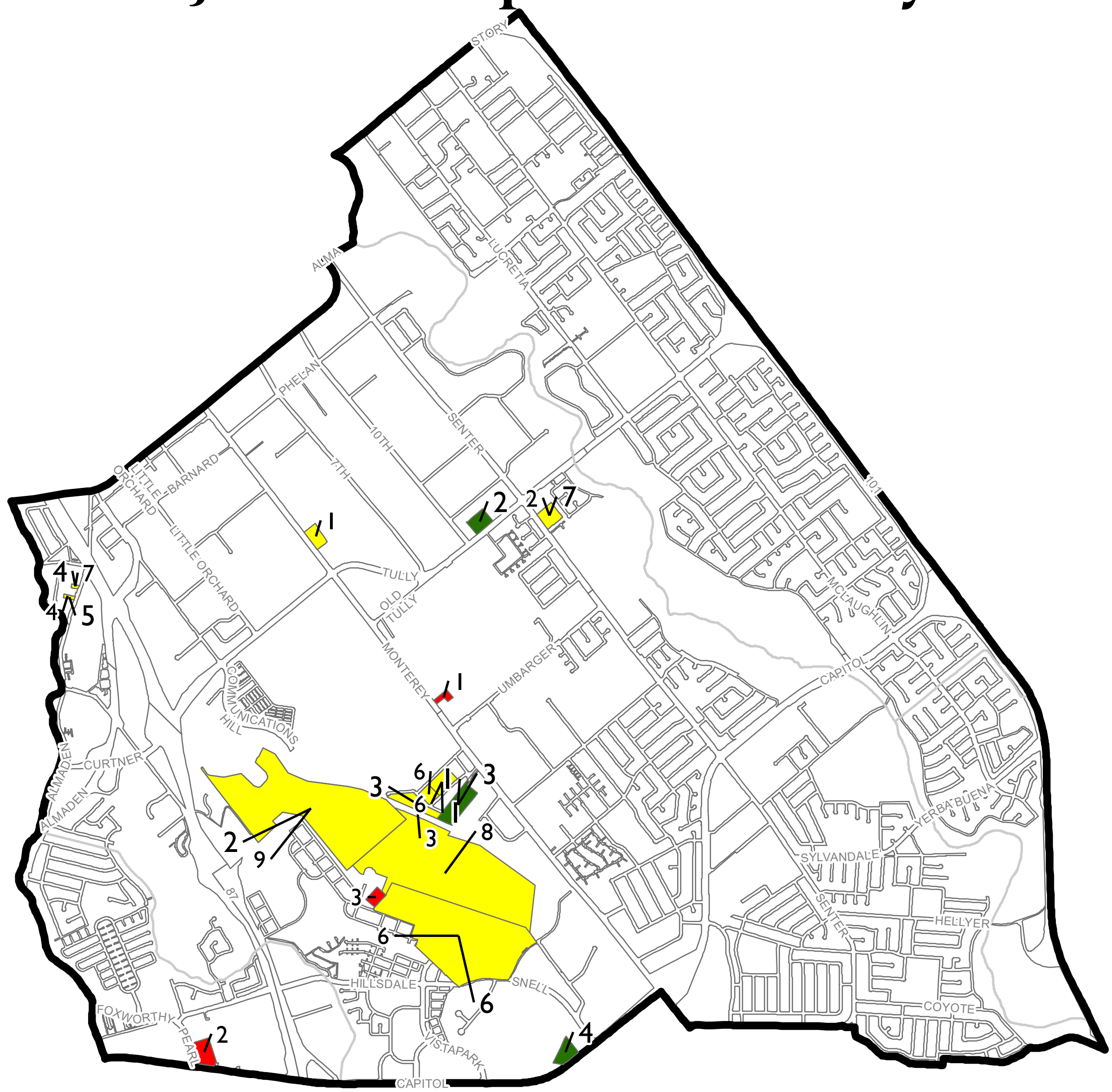
Total Commercial Square Feet = 806,770

Industrial Projects — Status

Industrial Projects	Status
1. 2777 Orchard Parkway	Constructed
2. Skyport Kaiser	Constructed
3. SAF Keep Storage	Under Construction
4. Peery Arrillaga	Under Construction
5. Coleman Highline Office	Under Construction
6. 2890 North 1st Street Office	Approved
7. Boston Properties Innovation Place	Approved
8. Bay 101 Casino & Mixed Use (Phase II)	Approved
9. Coleman Highline Phase 2	Planning
10. Cloud 10 Skyport Plaza	Planning

Total Industrial Square Feet = 4,721,121

South Planning Area
Major Development Activity



Residential Projects — Status

1. Vicenza at Montecito Vista — Approved
2. Communication Hill Village Center — Approved
3. Murano at Montecito Vista — Under Construction
4. Scotia Apartments — Under Construction
5. 1807 Almaden Rd — Under Construction
6. Communication Hill (Phase 1) — Under Construction
7. 2500 Senter Road — Under Construction

Total Dwelling Units = 740

Commercial Projects — Status

1. Holiday Inn — Under Construction
2. Capitol Toyota — Under Construction
3. Communication Hill — Approved

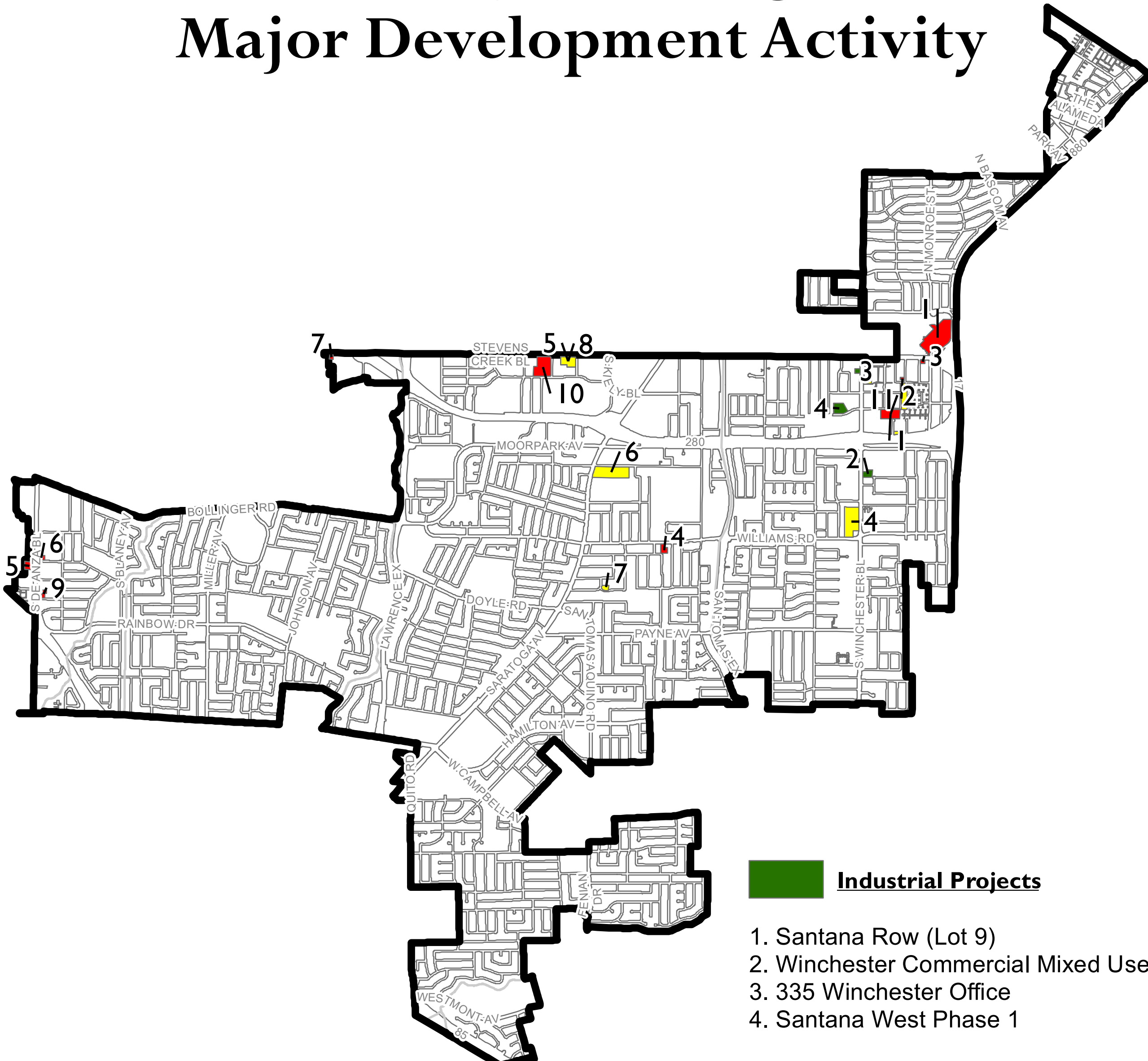
Total Commercial Square Feet = 377,386

Industrial Projects — Status

1. Monterey Rd Self Storage — Approved
2. 475 Tully Road Mini Storage — Pending
3. 2829 Monterey Distribution — Pending
4. 231 Capitol Public Storage — Pending

Total Industrial Square Feet = 443,148

West Valley Planning Area
Major Development Activity



Industrial Projects

	Status
1. Santana Row (Lot 9)	UC
2. Winchester Commercial Mixed Use	A
3. 335 Winchester Office	P
4. Santana West Phase 1	P

Total Industrial Square Feet = 1,318,996

Residential Projects

	Status
1. Volar (Residential)	A
2. Santana Row Lot 17	A
3. Santana Row Lot 12	A
4. The Reserve	P
5. Stevens Creek Lopina Signature Project	P
6. Saratoga Ave Mixed Use	P
7. Mitzi Place	UC
8. Stevens Creek Promenade/ Fortbay*	A

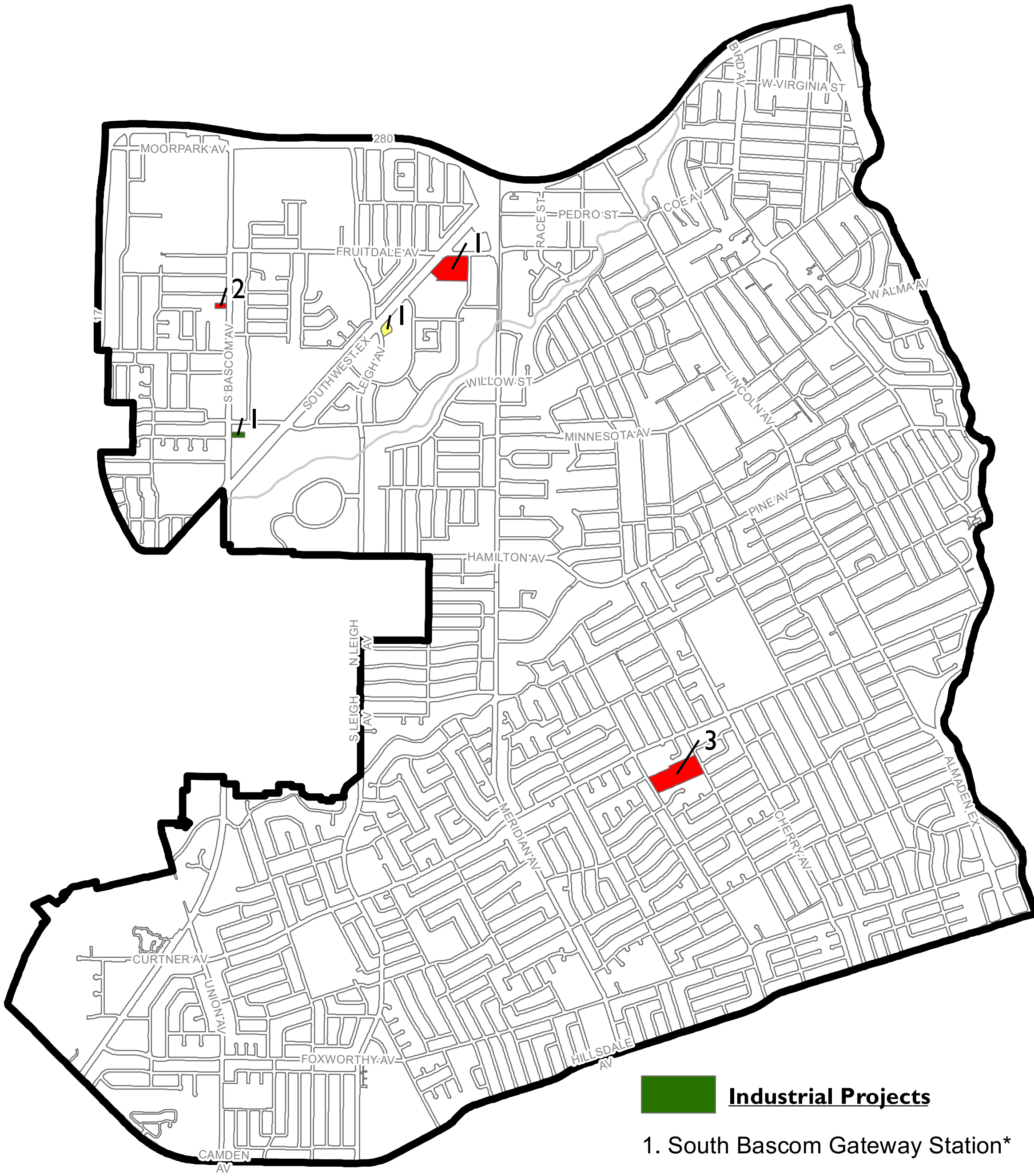
Total Dwelling Units = 2,187

Commercial Projects

	Status
1. Valley Fair Shopping Center	UC
2. Santana Row Commercial (Lot 9)	UC
3. Boutique Hotel	A
4. Williams Rd Residential Care Facility	A
5. Scandinavia	A
6. Hampton Inn (De Anza Blvd)	A
7. AC Hotel Stevens Creek Blvd	A
8. Stevens Creek Promenade / Fortbay*	A
9. Holiday Inn Express & Suites (Bark Ln)	P
10. Mercedes Auto	P
11. Hotel Baywood	P
	A

Total Commercial Square Feet = 1,496,178

Willow Glen Planning Area
Major Development Activity



Industrial Projects | Status

1. South Bascom Gateway Station* — P

Total Industrial Square Feet = 213,500

Residential Projects | Status

1. Lee Ave Apartments — A
2. Bascom Gateway Station — P

Total Dwelling Units = 654

Commercial Projects | Status

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

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.

Data Collection and Analysis

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.

Review of Publications

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.