2016-2017
City Manager's Budget Request

&

2017-2021
Five-Year Forecast
and
Revenue Projections

For the
General Fund and Capital Improvement Program

Office of the City Manager

February 2016

2016-2017
CITY MANAGER'S BUDGET REQUEST
&
2017-2021
FIVE-YEAR ECONOMIC FORECAST AND REVENUE PROJECTIONS

For the
General Fund and Capital Improvement Program

TABLE OF CONTENTS

Prepared by
Office of the City Manager
February 2016

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Norberto Dueñas

SUBJECT: **2016-2017 CITY MANAGER'S BUDGET REQUEST AND 2017-2021 FIVE-YEAR FORECAST**

DATE: February 29, 2016

INFORMATION

EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2016-2017 City Manager's Budget Request (2016-2017 Budget Balancing Strategy Guidelines) and the 2017-2021 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 small General Fund surplus of $5.7 million is projected for 2016-2017. This projection is derived by comparing the 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 are projected, ranging from -$4.2 million to -$15.8 million annually. These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from -0.7% to 0.3% of the projected annual budget (combined total of revenues and expenditures). Over the five-year period, a total shortfall of $30.3 million is anticipated, which equates to approximately $6.1 million annually. This average shortfall figure equates to 0.3% of the projected General Fund annual budget (revenues and expenditures).

2017-2021 General Fund Forecast
Incremental General Fund Surplus/(Shortfall)

2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
$5.7 M	($11.1 M)	($15.8 M)	($4.2 M)	($4.8 M)

- 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) impacts associated with any new revenue measures; 2) the implementation of the alternative pension reform settlement framework agreements approved in August 2015 and December 2015 with the City's bargaining units; 3) costs associated with services that were funded on a one-time basis in 2015-2016; 4) costs associated with the restoration of key services (police, fire, community centers, and street maintenance) to

January 1, 2011 levels; 5) costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions); 6) costs associated with unmet/deferred infrastructure and maintenance needs; and 7) 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 out years of this Forecast, the General Fund position is worse than that presented in the previous Forecast with shortfalls ranging from -$4.2 million to -$15.8 million annually. In the February 2015 Forecast, a small shortfall of $1.4 million was projected in only one year. This change reflects lower growth rates in the economically sensitive revenues, such as Property Tax and Sales Tax, due to an expected economic slowdown along with an overall increase in the expenditure growth rates. For example, retirement costs are increasing at a faster rate than in the prior Forecast and the Committed Additions are higher.

- While the City's revenues and expenditures remain in relatively close alignment, the City continues to run a "service deficit" and there is little room to address the major gaps in services that impact our community, from public safety to neighborhood and other basic services. There are also significant unmet deferred infrastructure and maintenance needs, especially for street repair and maintenance, that will have a long-term impact on the City.

- The chart on page 3 compares the 2016-2017 Forecast to the 2015-2016 Adopted Budget. The combined result of the Adopted to Forecast changes is a General Fund surplus of $5.7 million. The first element of the chart is the carry-over from the 2015-2016 Adopted Budget of $30,000 and represents the ongoing funding made available as part of the 2015-2016 Adopted Budget that was allocated to one-time needs, resulting in the carryover of ongoing resource capacity to the following year. The next major comparison element is the change in revenue sources year-over-year. Ongoing revenues are projected to increase by $41.4 million, driven primarily by increases in the Property Tax, Sales Tax, and Transient Occupancy Tax revenue estimates. When comparing expenditures (the third element), base costs are expected to increase by $35.7 million from 2015-2016 ongoing budget levels, with the largest increase in employee general pay.

2016-2017 General Fund Forecast
Reconciliation from 2015-2016 Adopted Budget

2016-2017 General Fund Forecast Components (Ongoing)	$ in Millions
Carry-Over from 2015-2016 Adopted Budget	**$ .03**
Revenue Changes	
- Property Tax	17.42
- Sales Tax	6.14
- Transient Occupancy Tax	3.12
- Business Tax	4.00
- Overhead Reimbursements	2.11
- Licenses and Permits	2.03
- Utility Taxes	1.92
- Transfers	1.69
- Franchise Fees	1.32
- Beginning Fund Balance	1.10
- Departmental Charges	(2.44)
- Other Net Revenue Net Increases	2.97
Total Revenue Changes (Increase)	**$ 41.38**
Expenditure Changes	
- Employee General Pay Increases (includes associated retirement costs)	20.80
- Non-Management Step/Management Pay-For-Performance Increases (includes associated retirement costs)	3.50
- Cultural Facilities Capital Maintenance Reserve (TOT Growth)	3.12
- Committed Additions (e.g., Police, Parks, Traffic, and Library)	1.86
- Healthcare/Dental	1.67
- Debt Service (City Hall and Energy Services Company)	1.52
- Living Wage	1.20
- Water	0.83
- Workers' Compensation Claims	0.70
- Human Resources/Payroll/Budget System Maintenance	0.60
- Contingency Reserve	0.50
- Business Incentive Programs	0.30
- Vacancy Rate Adjustments	(3.83)
- Transfer to Other Funds (support for Hayes Mansion /Municipal Golf Courses)	(0.70)
- Retirement (Federated/Other $1.8m; Police and Fire -$2.5m)	(0.68)
- Other Expenditure Net Costs	4.36
Total Expenditure Changes (Increase)	**$ 35.75**
2016-2017 Projected General Fund Surplus	**$ 5.66**

- For the 2016-2017 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 $737.0 million projected personal services total for 2016-2017, salaries and other compensation costs amount to $429.1 million (58.2% of projected personal services), retirement costs amount to $253.3 million (34.4% of projected personal services), and health and other fringe benefits costs amount to $54.6 million (7.4% of projected personal services). Over the forecast period, modest growth is expected in each of the personal services categories.

- Committed Additions, expenses that address previous City Council direction, are included and total $1.9 million in 2016-2017, rising to $3.8 million by the end of the forecast period. The largest expense in this category is the inclusion of costs related to the maintenance and operation of body worn cameras in the Police Department.

- As with all forecasts, there is 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. 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 as approved by the Federated and Police and Fire Department Retirement Boards. Consistent with past practice, as part of the preparation for the 2016-2017 Proposed and Adopted Budgets, the Administration will continue to update the City Council on both the revenue and expenditure estimates as new information becomes available.

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

- In approaching the 2016-2017 budget, the Administration proposes the use of the budget balancing strategy guidelines outlined in this memorandum (2016-2017 City Manager's Budget Request). The overall City of San José Budget Principles, the City Council-approved Guiding Principles for Restoring City Service Levels, and the Service Restoration Decision Making Framework, combined with City Council approval of the March Budget Message and priorities identified in prior policy sessions, will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed 2016-2017 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.

- 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 significant backlog of unmet/deferred infrastructure and maintenance needs. In addition, it is necessary to maintain competitiveness as an employer to ensure budgeted services can be delivered in an effective manner.

- Projections for the selected Capital Improvement Program (CIP) revenues are also included in this document. These revenues total $330.5 million over the five-year period, up 2% from the $325.6 million included in the 2016-2020 Adopted CIP. The projected collections for the Construction and Conveyance (C&C) Tax receipts over the five-year period are 1% above the revenue estimates used in the prior forecast. Modest increases to the Building and Structure Construction Tax (5%) and the Construction Excise Tax (1%) are also included in this Forecast.

BACKGROUND

In compliance with City Charter Section 1204 and the City Council's Adopted Budget process, this document provides both the recommended 2016-2017 City Manager's Budget Request and the 2017-2021 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 2016-2017 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 2016-2017 is an integral part of the Administration's proposed approach to preparing the 2016-2017 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2016-2017, and the subsequent four years, is provided as part of this document.

ANALYSIS

This section includes the following: a discussion of the 2016-2017 City Manager's Budget Request; an overview of the 2017-2021 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program; and a description of the next steps in the 2016-2017 budget process.

2016-2017 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 2016-2017 Proposed Budget. These proposed guidelines have been formulated in the context of projections for a small General Fund surplus in 2016-2017 followed by deficits in the remaining four years of the Forecast period. 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. This includes keeping General Fund revenues and expenditures in balance while maintaining or adding resources, in some limited cases, to continue programs funded on a one-time basis in 2015-2016, as appropriate, to address significant organizational or community risk, and/or to address key service restorations 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, the City Council-approved Guiding Principles for Restoring City Service Levels, and the Service Restoration Decision Making Framework that are attached as an appendix 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 2016-2017, a General Fund surplus of $5.7 million is projected, representing 0.3% of the General Fund annual budget (revenues and expenditures). In the out years of the Forecast, General Fund shortfalls range from

-$4.2 million to -$15.8 million annually. These shortfall amounts are relatively small when put into context of the size of the projected General Fund budget, ranging from -0.2% to -0.7% of the projected annual budget, but point to a negative trend that would indicate that the City lacks capacity to address significant ongoing funding needs absent new revenue sources. In order to avoid future service disruptions, it is critical that the City does not over-commit its resources in this environment. Although overall service levels are clearly not at adequate levels for the San José community, the Administration continues to recommend aligning new ongoing service commitments with ongoing funds to support additions, to the extent possible. As in past years, the Administration recommends that one-time funding identified in the budget process be strategically invested to address one-time needs, such as addressing a portion of the City's unmet/deferred infrastructure and maintenance needs or building reserves.

In addition to the difficulty of keeping forecasted revenues and expenditures in alignment, 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:

- Any new revenue measures identified in the City Council-approved Fiscal Reform Plan that are not yet implemented.

- The implementation of the alternative pension reform settlement framework agreements approved in August 2015 and December 2015 with the Police and Fire and Federated bargaining units, respectively, regarding Measure B, which included retiree healthcare. While the terms of the settlements have been reached, the implementation of the new agreements are underway. This forecast assumes the extension of current retiree healthcare rates until actual implementation of the alternative pension reform settlement framework agreements.

- The costs to continue services funded on a one-time basis in 2015-2016 in the General Fund. The major items funded on a one-time basis include San José Learns, San José Works, Police Department Downtown Foot Patrol and Police Video Unit, Office of Immigrant Affairs, Information Technology Department Critical Security Remediation, Small Business Activation and Assistance, Workers' Compensation Backlog and Pilot Program Extension, Business Development and Economic Strategy Activities, Manufacturing Jobs Initiative, Human Resources Department Employment Services and Service Delivery and Strategic Analysis Temporary Staffing, City Attorney's Office Training, Family College Success Center, and Silicon Valley Talent Partnership. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2015-2016. This analysis will be conducted during the 2016-2017 budget process and funding recommendations for these programs and services will be included in the 2016-2017 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.

- The costs to restore key services, including police, fire, community centers, and street maintenance, to January 1, 2011 levels as previously directed by the City Council (see *Appendix A*).

- The costs associated with a Police Staffing Restoration Strategy (to increase budgeted sworn officers from 1,109 to 1,250 positions) that was approved with the adoption of the 2014-2015 budget. As part of this strategy, ongoing cost savings from new police officers who receive

Tier 2 retirement benefits are to be dedicated to restoring sworn police staffing. However, accumulated savings through 2016-2017 have been used to offset San Jose Police Officers' Association (SJPOA) increases approved in August 2015. In the out years, the forecast sets aside estimated unspent sworn police retirement savings that grow to $3.3 million ongoing by 2020-2021.

- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs were updated and approved by the City Council on February 9, 2016 at $12 million annually in the General Fund ($174 million all funds). In addition, there is a one-time backlog of infrastructure needs totaling $34 million in the General Fund ($1.08 billion all funds).

- One-time revenues that may become available or one-time expenditure needs. This includes one-time Sales Tax funding associated with the "Triple Flip" wind-down that is projected to generate approximately $10 million to $13 million in one-time funding in 2015-2016 that will be available for allocation in 2016-2017 as well as potentially higher Property Tax funding due to excess Educational Revenue Augmentation Fund (ERAF) funds as described in the Revenue Forecast section of this document. Because the Forecast compares ongoing revenues and expenditures, it does not factor in one-time funding elements that may be available or required in any given year.

- It should be noted that the Development Fee Programs (Building, Fire, Planning, and Public Works) are designed to be 100% cost recovery and have been programmed to have a neutral impact on the Forecast by adjusting the revenue and costs to be equal. In the Planning, Building, Fire, and Public Works Development Fee Programs, budget gaps are currently projected for 2016-2017. Sufficient fee program reserves are available in each of these programs to address these variances and have been programmed into the Forecast.

2016-2017 Budget Balancing Strategy Guidelines

The 2016-2017 Budget Balancing Strategy Guidelines provide recommended direction on the general approaches to use in the development of the 2016-2017 Proposed Budget.

2016-2017 Budget Balancing Strategy Guidelines

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to ensure no negative impact on future budgets and to maintain the City's high standards of fiscal integrity and financial management. To the extent possible, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
3. Focus on business process redesign in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
4. Explore alternative service delivery models (e.g., partnerships with the non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use our resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
5. 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.
6. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources.
7. Establish a fee structure to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services, where appropriate.
8. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
9. If ongoing revenues are available, focus investments in the following areas: services included in the 2015-2016 budget on a one-time basis, as appropriate; additions that address significant organizational or community risks; service restorations to the baseline January 1, 2011 service levels previously identified by the City Council in the areas of fire, police, community centers, and street maintenance; and/or additions consistent with the Police Staffing Restoration Strategy.
10. In addition to considering service restorations previously identified by the City Council, take a holistic approach regarding the restoration of services. As outlined in the Guiding Principles for Restoring City Service Levels as approved by the City Council on March 20, 2012, allocate additional resources with the following goals in mind: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve efficiency and effectiveness of service delivery. Using a multi-pronged approach to restoring direct services, take into consideration the following factors: adequate strategic support resources; adequate infrastructure; service delivery method to ensure efficient and effective operations; service delivery goals and current performance status; service sustainability; and staffing resources.
11. Engage employees in department budget proposal idea development.
12. 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.
13. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

These guidelines are similar to those approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2015-2016. A few adjustments have been incorporated, such as the strategy to establish a Future Deficit Reserve to address any projected General Fund shortfall in the second year of the Forecast and inclusion as funding priorities of programs funded on a one-time basis in 2015-2016 and additions that address organizational or community risk.

Framework and Guiding Principles for Restoring City Service Levels

When considering any additions 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. 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 financial 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 regarding the restoration of services as additional resources become available. The City Council-approved Guiding Principles for Restoring City Service Levels and the Service Restoration Decision Making Framework (both included in *Appendix A*) provide the broader context that should be considered when analyzing potential service restorations. The Guiding Principles for Restoring City Service Levels, which were approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2012-2013, provide a solid guide to help the City determine not only the appropriate service levels and most cost-effective method for service delivery, but also the critical areas for investment. The principles include considerations such as infrastructure maintenance, technology improvements, and alternative service delivery models and fall into three general categories: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve the efficiency and effectiveness of service delivery. The Service Restoration Decision Making Framework provides a multi-pronged approach to restoring direct services to the community that takes into consideration various factors, including adequate strategic support resources, adequate infrastructure, service delivery method to ensure efficient and effective operations, service delivery goals and current performance status, service sustainability, and staffing resources.

As mentioned previously, one of the goals of the City Council is to restore services to January 1, 2011 levels (included in *Appendix A* for Service Restorations Previously Identified by City Council (January 1, 2011 Levels)). Another City Council goal is to implement the Police Sworn Staffing Restoration Strategy.

Incorporating Strategies into the 2016-2017 Budget Process

As noted above, the Administration proposes the use of the general budget balancing strategy guidelines outlined above in the 2016-2017 City Manager's Budget Request combined with the overall City of San José Budget Principles, the City Council-approved Guiding Principles for Restoring City Service Levels, and the Service Restoration Decision Making Framework to approach the 2016-2017 budget development process. In December 2015, the Administration directed the City departments to develop 2016-2017 budget proposals using a draft version of the

2016-2017 Budget Balancing Strategy Guidelines. Reduction targets were not issued to departments as the revenues and expenditures were expected to remain in relatively close alignment for 2016-2017. Instead of service reductions, departments were asked to analyze their core responsibilities and functions to drive the creation of proposals that improve service delivery methods and outcomes without increasing costs. These may include organizational reconfigurations to close service delivery gaps or reallocation of existing resources to adjust to shifting community needs. Budget proposals requesting a net addition of General Fund resources were to be limited to those that address truly significant community or organizational risks. As a standard practice, opportunities to reduce costs without impacting direct services, generate new revenues, and/or implement new service delivery models were also to be pursued. The Administration will continue to consider cost reductions and service delivery efficiencies that make sense, but does not anticipate any direct service reductions in 2016-2017 consistent with the approach over the past four years.

The Mayor is scheduled to issue a proposed March Budget Message on March 18, 2016, which will then be discussed, amended if necessary, and adopted by the City Council. The contents of that Message will provide specific guidance for the preparation of the City Manager's 2016-2017 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 22, 2016 and May 2, 2016, respectively. As part of the 2016-2017 Mayor's March Budget Message, the Administration requests confirmation of the proposed 2016-2017 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 on the Proposed Budget in each City Council District in May 2016. 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 2016.

2017-2021 Five-Year Forecast and Revenue Projections

The 2017-2021 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, the City Council-approved Guiding Principles for Restoring City Service Levels, the Service Restoration Decision Making Framework; and the Service Restorations Previously Identified by City Council (January 1, 2011 Levels). *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.

2017-2021 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 surplus or shortfall (assuming each preceding surplus or shortfall 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 surplus and/or shortfall 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.

2017-2021 General Fund Five-Year Forecast
($ in Millions)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Projected Revenues	$1,001.8	$1,029.0	$1,051.2	$1,080.3	$1,113.3
Projected Expenditures	$996.1	$1,034.4	$1,072.5	$1,105.8	$1,143.6
Total Cumulative Surplus/(Shortfall)	$5.7	($5.4)	($21.3)	($25.5)	($30.3)
Total Incremental Surplus/(Shortfall)	**$5.7**	**($11.1)**	**($15.8)**	**($4.2)**	**($4.8)**

Note: Does not incorporate impacts associated with any new revenue measures; the implementation of the alternative pension reform settlement framework agreements approved in August 2015 and December 2015 with the City's bargaining units; costs associated with services funded on a one-time basis in 2015-2016; costs associated with restoration of key services (police, fire, community centers, and street maintenance) to January 1, 2011 levels; costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions); costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses. 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 2017-2021 Forecast, a small incremental General Fund surplus is anticipated in the first year, followed by shortfalls in each of the following years. These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from -0.7% to 0.3% of the projected annual budget (revenues and expenditures). However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast. The Forecast also does not incorporate any new revenue measures.

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 2015-2016 Adopted Budget, the projected surplus of $5.7 million for 2016-2017 is the result of the following: a surplus carryover from the 2015-2016 Adopted Budget of $30,000, improved revenues of $41.4 million, offset by increased costs of $35.8 million.

General Fund revenues are estimated to improve $41.4 million when compared to the ongoing revenue performance assumed in the 2015-2016 Adopted Budget. Revenue performance in 2015-2016 continues to reflect moderate growth and is estimated to exceed current budgeted levels. In 2016-2017, revenue categories that are forecasted to grow year-over-year include: Property Tax based on the most recent information provided by the County of Santa Clara ($17.4 million), Sales Tax ($6.1 million); Business Tax ($4.0 million) primarily reflecting higher receipts in Marijuana and Cardrooms; Licenses and Permits ($2.0 million); Transient Occupancy Tax ($3.1 million) based on current year activity levels which will be allocated to a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve per previous City Council direction, and miscellaneous categories that have experienced a net increase based on actual collections experience ($8.7 million).

On the expenditure side, a number of upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of $35.8 million in 2016-2017. The most significant expenditure changes include employee pay increases that were recently negotiated ($20.8 million), non-management step/management pay-for-performance increases ($3.5 million), and funding for the Cultural Facilities Capital Maintenance Reserve ($3.1 million). These cost increases are partially offset by various vacancy rate adjustments ($3.8 million) and other small adjustments.

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

General Fund Committed Additions

Cost estimates for a number of specific "Committed Additions" that address previous City Council direction are included in this Forecast in the years that they are projected to be required. The Committed Additions category, summarized in the chart below, reflects projected additional operating and maintenance costs for new or renovated capital projects in the 2016-2020 Adopted Capital Improvement Program or for projects approved by the City Council during 2015-2016. The costs of the additions total $1.9 million in 2016-2017 and increase to approximately $3.8 million by the end of the Forecast period.

2017-2021 General Fund Committed Additions
Maintenance and Operations Costs

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
New Police Maintenance and Operations	$1,300,000	$1,339,000	$1,379,000	$1,420,000	$1,463,000
New Parks and Recreation Facilities	354,000	789,000	977,000	1,095,000	1,204,000
New Traffic Infrastructure Assets	199,000	237,000	243,000	250,000	259,000
New Library Maintenance and Operations	11,000	11,000	11,000	11,000	11,000
Measure P (Parks)	0	435,000	738,000	783,000	830,000
Total	**$1,864,000**	**$2,811,000**	**$3,348,000**	**$3,559,000**	**$3,767,000**

These Committed Additions are related to the maintenance and operation of body worn cameras in the Police Department, new parks and recreational facilities, new traffic infrastructure assets, Library Maker[Space]ship vehicle, and the Arcadia Softball Complex as part of the Measure P (Parks) Bond funds. A detailed listing of all committed additions with operating and maintenance costs are included in this 2017-2021 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 2017-2021 Proposed Capital Improvement Program. If certified by the City Council, the operating and maintenance costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents. It should be noted that the maintenance and operations costs for the Arcadia Softball Complex (previously titled Softball Complex) and Vietnamese Cultural Heritage Garden projects are estimated to exceed $100,000; however, these projects were established prior to the adoption of Budget Principle #8 and did not need to be certified by City Council.

Alternative Forecast Scenarios

In order to model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the "Base Case." "Optimistic" and "Pessimistic" cases model economic scenarios considered possible, but less likely to occur than the "Base Case." These alternatives are presented to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and is being used for planning purposes for the 2016-2017 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios. In addition, as directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in Transient Occupancy Tax receipts over the 2013-2014 actual collection level are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve, therefore no change in Transient Occupancy Tax growth is modeled as part of these cases as there is no impact to the operating margin.

The Base Case Forecast is built on the assumption of slowing, but still moderate, economic growth. At the local level, venture capital investment in the technology industry is reduced, resulting in a slowing of job growth, employment levels, and real estate activity. However, this is balanced against near-term foreign investment in the technology industry and local real estate market. Overall, this will result in a subdued decline in the growth rate of the local economy and ultimately the City's revenues. In the Base Case Forecast, General Fund revenue collections are anticipated to experience slow growth over the forecast period.

The Optimistic Case assumes somewhat faster economic growth than anticipated in the Base Case, but still slower than that experienced in recent years. When compared to the Base Case scenario, the real estate market remains strong with increased housing prices and increased non-residential construction. These factors contribute to higher inflation growth than in the Base Case. The optimistic case presumes that employment will continue to expand beyond what was included in the Base Case. This stronger growth results in increased collections in the economically sensitive revenue categories, such as Property Tax and Sales Tax. In the Optimistic Case, the City would experience a surplus of $9.5 million in 2016-2017, followed by deficits in the next two years of $8.7 million in 2017-2018 and $8.8 million in 2018-2019 and slight surpluses in the last two years of $2.6 million 2019-2020 and $3.1 million in 2020-2021.

The Pessimistic Case assumes that a combination of adverse factors deflate economic growth rates at a much more rapid rate 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 national or international level. In this scenario, the City's revenues, particularly Property Tax and Sales Tax, would be significantly impacted by an economic slowdown. In the Pessimistic Case, the City would experience a slight surplus of $584,000 in 2016-2017 followed by shortfalls of $20.9 million in 2017-2018, $25.1 million in 2018-2019, $12.0 million in 2019-2020, and $12.8 million in 2020-2021.

Capital Revenue Forecast

Section V of this report describes the Capital Revenue Forecast that will be used to develop several major elements of the 2016-2017 Capital Budget and the 2017-2021 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 [2017-2021]). 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 2016-2020 Adopted CIP. As shown below, revenues are anticipated to continue at the same levels as the prior Forecast with a projected increase of 2% over the 2016-2020 Adopted CIP, from $325.6 million to $330.5 million in the 2017-2021 Forecast.

Capital Revenue Forecast Comparison Summary
($ in Thousands)

	2016-2020 CIP	2017-2021 Forecast	Difference	% Change
Construction and Conveyance Tax	$175,000	$176,000	$1,000	1%
Building and Structure Construction Tax	62,000	65,000	3,000	5%
Construction Excise Tax	83,000	84,000	1,000	1%
Municipal Water System Fees	500	500	0	0%
Residential Construction Tax	950	875	(75)	(8%)
Sanitary Sewer Connection Fee	3,400	3,250	(150)	(4%)
Storm Drainage Connection Fee	750	875	125	17%
TOTAL	**$325,600**	**$330,500**	**$4,900**	**2%**

Real estate activity (primarily housing sales) determines the collection level of one of the major capital revenue sources, 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 reaching $41.2 million in 2014-2015. While below the most recent peak in 2014-2015, revenues are expected to remain strong in 2015-2016. Based on increased home prices and property transfers through December 2015 and the expectation for relatively strong performance in the second half of the year, collections in 2015-2016 are projected to conservatively end the year at $38 million, higher than the estimated $35 million in the 2016-2020 Adopted CIP. However, to hedge against volatility in this category, estimated revenues in the 2017-2021 Forecast are projected to generate $176 million, which is generally consistent with the estimate of $175 million in the 2016-2020 Adopted CIP.

The remaining economically sensitive capital revenue categories are directly linked to private development activity. Based on projections provided by the PBCE Department, construction activity valuation is anticipated to continue at high levels but lower than the peak levels experienced in 2013-2014. Construction valuation is estimated at $915 million in 2015-2016, a 33% decrease compared to $1.4 billion in 2014-2015. This level of activity is expected to increase to $1.2 billion in 2016-2017, then drop to approximately $1 billion each year in the out years of the forecast as projects move through the development pipeline and complete construction. For the largest categories, revenue increases are projected, including a 5% ($3 million) increase to the Building and Structure Construction Tax and a 1% ($1 million) increase to the Construction Excise Tax, due to an increase in industrial and commercial development activity as several projects are anticipated to be under construction in 2016-2017. Although development activity is projected to increase, the revenue estimates for Building and Structure Construction Tax and Construction Excise Tax discount some of this increased activity because several major projects fall within the Downtown High Rise Development Incentives Program and the North San José Area Development Policy. Under the Downtown High Rise Development Incentives Program, a single new high rise project for employment uses (Office R&D, Hotel, and Office) to obtain building permits by December 31, 2016 within the Downtown area will be exempt from the Building and Structure Construction Tax and the Construction Excise Tax. Under the North San José Area Development Policy, any Building and Structure Construction Tax collected for new developments will need to be set aside in a reserve for future transportation improvement projects within that area.

Next Steps in the 2016-2017 Budget Process

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

March 2016

- 2016-2017 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

April 2016

- 2016-2017 Proposed Capital Budget and 2017-2021 Capital Improvement Program Released

May 2016

- 2016-2017 Proposed Operating Budget and 2016-2017 Proposed Fees and Charges Released
- 2016-2017 Community Budget Meetings in Each City Council District
- City Council Study Sessions and Initial Public Hearing on 2016-2017 Proposed Operating Budget, 2017-2021 Proposed Capital Budget and Capital Improvement Program, and 2016-2017 Proposed Fees and Charges

June 2016

- 2016-2017 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2016-2017 Operating Budget, 2016-2017 Capital Budget and 2017-2021 Capital Improvement Program, and 2016-2017 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. In 2016-2017, a small General Fund surplus of $5.7 million is projected. However, in the remaining years of the Forecast, General Fund shortfalls ranging from -$4.2 million to -$15.8 million are projected annually. While these margins are relatively narrow when put into context of the size of the projected General Fund budget, they point to an overall weakening of the City's economic position, particularly when compared to the February 2015 Forecast that reflected surpluses in all but one year.

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) impacts associated with any new revenue measures; 2) the implementation of the alternative pension reform settlement framework agreements approved in August 2015 and December 2015 with the City's bargaining units; 3) costs associated with services that were funded on a one-time basis in 2015-2016; 4) costs associated with the restoration of key services (police, fire, community centers, and street maintenance) to January 1, 2011 levels; 5) costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions); 6) costs associated with unmet/deferred infrastructure and maintenance needs; and 7) 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 2016-2017 will continue to be refined over the next several months as additional information becomes available. This is particularly important in the areas of Sales Tax and Property Tax. For example, Sales Tax data for the second quarter of 2015-2015, which covers the 2015 holiday period, will be received in March 2016. Based on this additional data, any necessary adjustments will be incorporated into the 2016-2017 Proposed

Operating Budget, as appropriate. Similarly, as additional Property Tax data becomes available, it may be necessary to adjust the 2016-2017 revenue estimates.

This document also provides the recommended 2016-2017 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. With a projected surplus of only 0.3% of the budget in 2016-2017 and projected shortfalls in the out years of the Forecast, the Administration does not anticipate any major service enhancements this year. However, efforts will be taken to continue programs funded on a one-time basis in 2015-2016, as appropriate, to address the most urgent community needs and organizational risks, and to identify modifications to improve service delivery methods and outcomes without significantly increasing costs.

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. This diligence served the City well as it navigated through the most difficult financial crisis in recent history. Continued commitment to these strategies will help ensure the fiscal sustainability of the City's services moving forward.

Norberto Dueñas
City Manager

Five-Year Economic Forecast and Revenue Projections

2017-2021

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 2016-2017 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 moderate, economic growth. At the local level, venture capital investment in the technology industry is reduced, resulting in a slowing of job growth, employment levels, and real estate activity. However, this is balanced against near-term foreign investment in the technology industry and local real estate market. Overall, this will result in a subdued decline in the growth rate of the local economy and ultimately the City's revenues. In the Base Case Forecast, General Fund revenue collections are anticipated to experience slow growth over the forecast period.

- **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. When compared to the Base Case scenario, the real estate market remains strong with increased housing prices and increased non-residential construction. These factors contribute to higher inflation growth than in the Base Case. The optimistic case presumes that employment will continue to expand beyond what was included 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 deflate economic growth rates at a much more rapid rate 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 national or international level. In this scenario, the City's revenues, particularly Property Tax, Sales Tax, and Transient Occupancy Tax, would be 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 2016-2017 Proposed Operating Budget, scheduled to be published on May 1, 2016.

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

Current National Economic Conditions

The U.S. economy is currently growing at a relatively good pace. Real U.S. Gross Domestic Product (GDP) increased by 2.4% in 2015, similar to the rate in 2014. The real GDP in 2015 primarily reflected positive contributions from personal consumption expenditures, non-residential fixed investment, residential fixed investment, private inventory investment, state and local government spending, and exports.[1] The U.S. unemployment rate stood at 4.9% in January 2016, down from 5.7% in January 2015, according to the U.S. Department of Labor's Bureau of Labor Statistics February 5, 2016 report. The economy is operating at or very close to the traditional definition of full employment. However, because the employment to population ratio of 59.3% is four percentage points below the level prior to the start of the financial crisis in 2006, many residents across the country may feel that the job environment is less robust than compared to previous economic upswings.[2]

Some of the key drivers to the U.S. economy include new housing construction, automotive manufacturing and sales, and a still robust technology sector. Car sales are very strong at over 17 million cars per year, matching last year's pace. In addition to the relatively low unemployment rate, low interest rates and continued improvements in models, including electric vehicles, are pulling buyers into showrooms at a very strong pace. This high volume of sales is expected to continue into the foreseeable future. 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.

[1] U.S. Department of Commerce Bureau of Economic Analysis, GDP Increases in Fourth Quarter, January 29, 2016
[2] The UCLA Anderson Forecast for the Nation and California, December 2015 Report

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

The real estate market continues to improve on a national level, though new construction continues to lag. As the pace of nationwide sales slowed somewhat during the final three months of 2015, prices continued their upward trajectory in most of the U.S. According to Lawrence Yun, National Association of Realtors Chief Economist, "… [the] unshakeable trend of inadequate supply in relation to the overall pool of prospective buyers inflicted upward pressure on home prices…", as evidenced by a national median existing single-family home price in fourth quarter 2015 up 6.9% from the fourth quarter of 2014.[3] Regarding new housing stock, privately owned housing starts in December were at a seasonally adjusted annual rate of 1.15 million. This activity level was 2.5% below the revised November estimate of 1.18 million, but still 6.4% above the December 2014 rate of 1.08 million.[4] In a normal year, housing starts have historically averaged around 1.5 million to 1.6 million units per year.

Despite the strong growth in automotive sales, home sales, and large investments in the technology industry, the energy sector may be a potential economic drag. With recent improvements in extraction technologies, many countries have increased oil production, with the United States recently becoming one of the leading oil producers. The price of oil has seen a corresponding sharp decline from $90 a barrel for most of 2014 to around $30 a barrel (at the time of this forecast). There is both good and bad news about this radical shift; the price decline will free up consumer disposable income to spend on items other than gasoline and other petroleum products; however, the decline also means that some domestic oil producers cannot profitably extract oil and, in certain cases, creates a risk of loan defaults within the oil industry that may have some spillover effects into the broader economy.

National Economic Outlook

Moderate continued economic growth appears likely for the next several years, driven by growth across most sectors of the economy. According to the December 2015 UCLA Anderson Business School Forecast, continued job growth, along with wage increases, will power consumption in 2016, leading to a greater than 3% growth in real GDP for the first time since 2005. Higher wages along with a modest rebound in oil prices and higher housing costs will push the inflation rate above 2%. Strength is anticipated in housing and commercial construction along with a booming automobile market.

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) declined 0.1% in December 2015 (seasonally adjusted) and increased 0.7% over the last 12 months (before seasonal adjustment).[5] The Federal Reserve Board continues to target a core annual inflation rate of 2% and continues to signal that it will begin to gradually raise interest rates in 2016, though will be influenced by any changes in economic conditions as they arise.

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[3] National Association of Realtors, News Release, February 10, 2016
[4] U.S. Census Bureau and U.S. Department of Housing and Urban Development, News Release, January 20, 2016
[5] U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index News Release, January 20, 2016

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

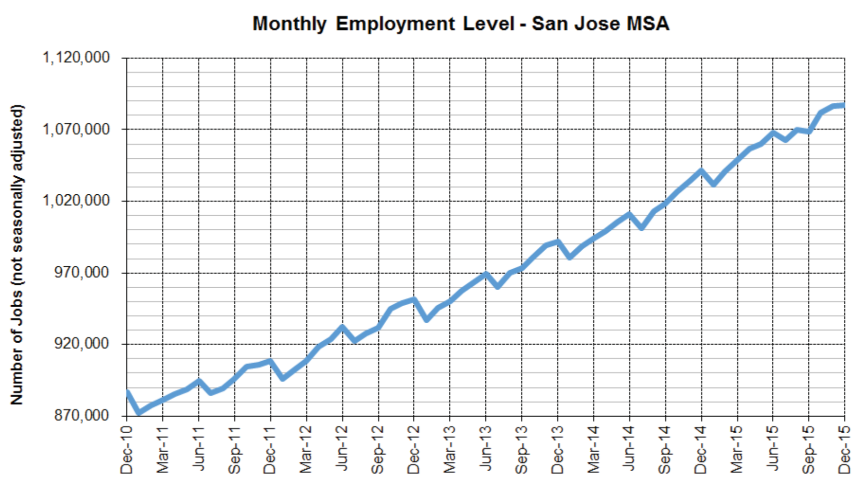
Base Case Forecast

The December 2015 UCLA Anderson Business School Forecast assumes that GDP growth will slow to 2.6% in 2017 as a result of the tightening labor market and the move towards interest rate normalization. The declining oil prices currently being experienced in the U.S. is dampening overall economic growth, however, oil prices will begin to rebound in 2016 as domestic output is cut back. Further, housing costs are rising, and inflation as measured by the core CPI, which excludes volatile food and energy prices, is projected to increase by 2.3% in 2016 and 2.6% in 2017.

At a global level, the significant slowdown of the Chinese economy and the continued weakness of many European economies should not be ignored; however, this forecast anticipates that those situations are managed without significant impact to the U.S. economy.

Current City of San José Economic Conditions

Economic performance in Silicon Valley continues to show strength above that experienced nationally and state-wide. Most local economic indicators, including employment, local construction, and real estate activity measures, show solid economic growth.



The San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) continues to report positive trends in employment. Total employment grew by 46,100, or 4.4%, above the 1.04 million jobs in December 2014 to a preliminary estimate of 1.09 million in December 2015. Professional and business services advanced by 17,200 jobs from last December, marking its 68th consecutive monthly gain on a year-over-year basis. Professional, scientific, and technical services posted more than four-fifths of the increase. Private educational and health services experienced an 8,600-job gain during 2015. Information (up 7,200 jobs), computer systems design (up 4,000 jobs), and computer and electronic products manufacturing (up 3,900 jobs), represented 15,100 jobs, or 32.8 percent of the net total job gain in the MSA.

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Unemployment Rate (Unadjusted)

	Dec. 2014	Nov. 2015	Dec. 2015**
San José Metropolitan Statistical Area*	4.5%	3.9%	3.8%
State of California	6.8%	5.7%	5.8%
United States	5.4%	4.8%	4.8%

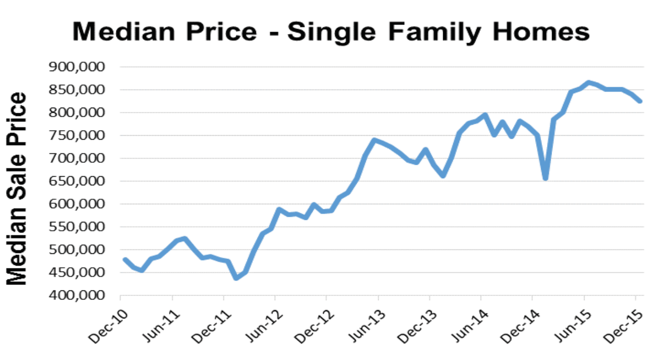
* San Benito and Santa Clara Counties
** Preliminary Estimate
Source: California Employment Development Department

The unemployment rates at the local, State, and national levels remain low. In December 2015, the unemployment rate for the San José MSA of 3.8% represents a slight decrease from the November 2015 rate of 3.9%, but is solidly below the 4.5% rate experienced a year ago. In this region, the December 2015 unemployment rate is less than the unadjusted unemployment rate for the State (5.8%) and the nation, which has a current unadjusted unemployment rate of 4.8%.

Private Sector Construction Activity (Valuation in $ Millions)

	July-Dec. 2014	July-Dec. 2015	% Increase/ (Decrease)
Residential	$ 363.3	$ 245.0	(32.6%)
Commercial	$ 130.7	$ 137.9	5.5%
Industrial	$ 138.2	$173.0	25.2%

Local construction activity remains relatively strong through December 2015; however, it is tracking below prior year levels, driven primarily by a significant drop in the residential sector. Although residential activity is significantly lower than the prior year, it is anticipated that activity will strengthen in the 3rd and 4th quarters of this fiscal year. Overall commercial valuation through December is above the 2014-2015 level ($137.9 million in 2015-2016 vs $130.7 million in 2014-2015). New industrial construction and alteration activity is up compared to prior year levels.



Performance in the housing market continues to be strong, with rising sale prices coupled with a high number of property transfers. The median single-family home price was $825,000 in December 2015, an increase of 10.0% from the median home price of $750,000 in December 2014. In addition, the number of property sales totaled 8,355 in 2015, an increase of 9.4% when compared to the 7,636 sales that occurred in 2014.

The number of listings of new single-family and multi-family dwellings has increased approximately 7.3%, from 300 listings in December 2014 to 322 listings in December 2015.

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

City of San José Economic Outlook

While most of the above metrics have improved or remained at elevated levels when compared to the previous year, the local economy is expected to enter a period of slower economic growth, and as such the economic indicators driving this forecast are lower than the previous year's forecast. One of the notable changes in the local economy from last year's forecast is the decline in Silicon Valley venture capital investment that started in the 3rd quarter 2015 and, in the 4th quarter, dropped below 2014 levels. Due to the concentration of technology firms in the Silicon Valley, this region is heavily influenced by the technology sector. With venture capital investment in new technology companies declining and the downward revisions assessed to some technology startups' valuations, future employment levels and job growth are at risk of slowing or declining. Should job growth in the region slow significantly, a moderation or decline in housing prices would likely follow.

In the near term, foreign investment, primarily from China, is anticipated to help maintain investment levels in the technology industry and local real estate. However, the weakened economic environment in China will continue to be monitored. China is a large consumer of investments in technology companies and real estate in Silicon Valley. Should the economy in China deteriorate and government controls are placed on the outflow of money, a loss or slowed investment in Santa Clara County may occur.

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

In the Optimistic Case, the economy is assumed to continue to grow at a somewhat more rapid pace than assumed in the Base Case. This growth is primarily due to greater employment growth and greater inflation in both the national economy and at the local level.

The Optimistic Case 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. With mortgage rates still low, employment increases and a well-performing stock market could spur a greater number of home purchases. As a partial result of more rapid new home construction, the country's overall employment and wage levels continue to improve.

Under the Optimistic Case, the economically sensitive revenues are expected to experience stronger performance as general increases in employment and consumer attitudes promote increased spending, which generates Sales Tax for the City. Improvement in the real estate market will result in higher Property Tax revenues. Conversely, Gas Taxes are slightly lower as a result of a faster return to normal oil prices and continued increases in mandated fuel economy, which is anticipated to cause the number of taxable gallons consumed to fall.

Elements of The General Fund Forecast

Assumptions Regarding the Economic Environment

Optimistic Case

It should be noted that, as directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in Transient Occupancy Tax receipts over the 2013-2014 actual collection level are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve, therefore no change in Transient Occupancy Tax growth is modeled as part of this case as there is no impact to the operating margin.

Pessimistic Case

The Pessimistic Case assumes significantly lower growth for several of the key determinants of the City's revenues. Local employment, local housing, and local inflation are all lower than those of the Base Case. Like the Optimistic Case, the prospects for a lower scenario could still occur and are likely more plausible at this time than the optimistic case.

Under the Pessimistic Case, employment and home prices decline beyond those in the Base Case. As home prices and related construction activity decline, job growth would negatively impact all sectors of the economy. Decreased revenue collections in categories such as Property Tax, Sales Tax, and Transient Occupancy Tax would be realized when compared to the Base Case. Lower employment levels, along with very low inflation also impact these revenues. Conversely, Gas Taxes are slightly up due to projected reductions in oil prices which typically results in increased gas consumption.

As noted in the Optimistic Case, as directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in Transient Occupancy Tax receipts over the 2013-2014 actual collection level are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve, therefore no change in Transient Occupancy Tax growth is modeled as part of this case as there is no impact to the operating margin.

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.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Impact of Forecasted Economic Conditions on Revenue Collections

An in-depth analysis of the General Fund revenue categories was completed to develop 2016-2017 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2015-2016 and build upon those projections to develop the 2016-2017 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 2016-2017 Proposed Operating Budget scheduled to be released on May 1, 2016.

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 $1.0 billion in 2016-2017 to $1.1 billion in 2020-2021, for an average growth rate of 2.67% per year.

February 2017-2021 Forecast
Revenue Summary

	Modified Budget	Forecast				
General Fund Revenue Category	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
General Revenues						
Property Tax	255,210,000	270,625,000	284,914,000	298,704,000	311,279,000	322,672,000
Sales Tax	190,260,000	194,196,000	199,652,000	204,644,000	212,379,000	221,809,000
Transient Occupancy Tax	17,136,000	17,821,000	18,712,000	19,648,000	20,434,000	21,251,000
Franchise Fees	47,582,232	48,903,000	49,857,000	50,889,000	52,039,000	53,538,000
Utility Tax	93,825,000	95,750,000	95,970,000	96,757,000	97,657,000	99,219,000
Telephone Line Tax	21,000,000	21,614,000	21,679,000	21,727,000	21,770,000	21,809,000
Business Tax	44,425,000	48,450,000	48,673,000	48,916,000	49,195,000	49,525,000
Licenses and Permits	50,221,223	50,818,000	52,952,000	55,282,000	57,272,000	59,506,000
Departmental Charges	42,684,658	39,328,000	40,979,000	42,783,000	44,323,000	46,051,000
Fines, Forfeitures & Penalties	15,356,042	14,911,000	15,084,000	15,394,000	15,542,000	15,699,000
Money and Property	4,207,909	3,864,000	3,906,000	3,965,000	4,064,000	4,206,000
Revenue from Local Agencies	16,447,530	22,875,000	23,150,000	23,254,000	23,524,000	23,768,000
Revenue from the State	12,314,002	10,442,000	10,265,000	10,265,000	10,265,000	10,265,000
Federal Revenue	12,860,061	2,439,000	1,117,000	0	0	0
Other Revenue	129,530,651	14,828,000	14,922,000	9,335,000	8,795,000	8,915,000
Gas Tax	16,900,000	17,500,000	17,642,000	16,772,000	15,819,000	15,701,000
Total General Revenues	969,960,308	874,364,000	899,474,000	918,335,000	944,357,000	973,934,000
Transfers & Reimbursements						
Overhead Reimbursements	37,431,363	40,053,000	41,736,000	43,572,000	45,141,000	46,901,000
Transfers	21,241,793	20,856,000	21,406,000	21,811,000	22,238,000	22,793,000
Reimbursements for Services	757,341	667,000	695,000	725,000	751,000	781,000
Total Transfers & Reimbursements	59,430,497	61,576,000	63,837,000	66,108,000	68,130,000	70,475,000
Total General Fund Revenues	1,029,390,805	935,940,000	963,311,000	984,443,000	1,012,487,000	1,044,409,000
Beginning Fund Balance	265,520,448	65,826,000	65,648,000	66,803,000	67,808,000	68,908,000
Grand Total Sources	1,294,911,253	1,001,766,000	1,028,959,000	1,051,246,000	1,080,295,000	1,113,317,000
Growth %			2.71%	2.17%	2.76%	3.06%

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 2016-2017 General Fund Forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

Property Tax receipts of $256.2 million are projected for 2015-2016, which is slightly above the modified budget estimate of $255.2 million. In 2016-2017, Property Tax collections are expected to increase 5.6% to $270.6 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 2015-2016, Secured Property Tax receipts are expected to total $234.0 million, reflecting an increase of 4.4% from the 2014-2015 collection level. Excluding the impact of payments resulting from excess Educational Revenue Augmentation Fund (ERAF) funds, Secured Property Tax receipts are projected to increase 6.4% in 2015-2016. This reflects an increase in assessed value for 2015-2016, due to the California Consumer Price Index (CCPI) increase of 1.998%, increased valuation due to changes in ownership or new construction, and the full or partial restoration of property values that were temporarily reassessed downwards under Proposition 8 due to the declining market value. On a County-wide basis, the 2015-2016 roll growth was driven primarily by changes in ownership (42.7%), new construction (15.8%), change in the CCPI (15.79%), and Proposition 8 adjustments (9.45%). In addition to the assessed value growth, a one-time payment of $2.0 million is currently projected in 2015-2016 as a result of excess ERAF funds. 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 2014-2015, the City received $6.0 million from excess funds in 2013-2014. Information regarding the payment this fiscal year is expected to be received from the County in March 2016 and could total last year's level, which would generate an additional $4.0 million in 2015-2016. The Administration will continue to monitor the distribution of ERAF receipts and may adjust the budget once further information is provided by the County.

In 2016-2017, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2016, are expected to increase by 6.0% to $248.3 million. Consistent with the current estimate for 2015-2016, an ERAF payment of $2.0 million is incorporated into the 2016-2017 Secured Property Tax estimate. This projected increase is related to two factors: the change in the CCPI and the net change in residential and commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CCPI adjustment for the 2016-2017 tax roll is 1.525%; below the prior year level of 1.998%. A net increase in residential and commercial valuation is also anticipated from the combination of changes in ownership, new construction, and the continued partial or full restoration of property values that had previously been reassessed downward under Proposition 8 due to declining home values. The majority of properties that had been adjusted downwards during the "Great Recession" have been fully or partially restored. As a result, these adjustments are expected to be less of a contributing factor to the growth in this category than experienced in recent years. The increases in property sale prices will continue to be a positive factor driving growth in this category. In

REVENUE FORECAST

Property Tax

calendar year 2015, residential real estate experienced gains as the December 2015 median sales price of $825,000 for single-family homes was 10.0% above the December 2014 level of $750,000.

It should be noted that final data on the actual tax levy for 2016-2017 is not yet available as adjustments are made through June 30, 2016. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Many of the adjustments, however, are not reflected until the latter months of a given fiscal year (April-June). The impact of reassessments of commercial property will not be known until the end of 2015-2016. As this information becomes available, refinements to the Property Tax estimates may be brought forward during the 2016-2017 budget process.

Unsecured Property Taxes are the second largest revenue source in this category. Growth in this category is driven primarily by increases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Based on actual collections through December, Unsecured Property Tax receipts are estimated at $14.0 million in 2015-2016, which is 5.7% above the prior year level of $13.2 million. Collections are expected to increase 2.0% in 2016-2017 to $14.2 million based on the current economic conditions.

SB 813 Property Taxes (supplemental taxes) represent payments for taxes owed on recent housing resales. In 2015-2016, receipts are estimated at $4.3 million, which is significantly below the prior year collection level of $6.3 million. In 2014-2015, the County continued to process a backlog of reassessments, resulting in higher collections in that year. The backlog has now been addressed, and receipts are expected to normalize in 2015-2016. In 2016-2017, collections in this category are projected to increase approximately 4.0% to $4.4 million.

The **Aircraft Property Tax** payment is estimated at $2.6 million in 2015-2016, a 12.9% increase from the 2014-2015 collection level. In 2016-2017, receipts are anticipated to remain flat at $2.6 million.

The **Homeowners Property Tax Relief** category is projected at $1.0 million for 2016-2017, which is consistent with the 2015-2016 revenue estimate and 2014-2015 actual collections.

In the out years of the Forecast, annual Property Tax receipts are projected to increase approximately 3.7% to 5.3% annually over the five-year period. A portion of this growth is due to an estimated 2% CCPI increase annually.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Sales Tax

The Sales Tax category includes General Sales Taxes and Proposition 172 Sales Taxes. Excluding all one-time revenues associated with the "Triple Flip[1]," 2015-2016 collections are expected to increase 3.6% over prior year levels to $187.6 million. In 2016-2017, year-over-year growth of 3.5% is expected, bringing the projected revenue to $194.2 million. Following is a discussion of the Sales Tax sub-categories.

For the General Sales Tax revenue category, only one quarter of 2015-2016 data is available. Based on this limited information, year-over-year growth of 3.7% is projected in 2015-2016 (excluding one-time Triple Flip payments), resulting in collections of $181.9 million. The 2015-2016 estimate reflects actual growth of 2.89% in the first quarter and projected underlying growth of 4.0% in the remaining three quarters based on recent sales tax performance and current economic conditions. In the 2015-2016 Adopted Budget, it was also assumed that $2.2 million would be received as a 2014-2015 Triple Flip true-up payment. With this true-up payment, collections in 2015-2016 are expected to reach the budgeted estimate of $184.1 million. This figure does not include the significant one-time funding that will be received with the wind down of the "Triple Flip".

While not assumed in the development of the 2015-2016 Adopted Budget due to uncertainty regarding the timing of the action, the Triple Flip wind down is now expected to occur in 2015-2016. On August 5, 2015, the Department of Finance notified the California State Board Equalization and the public that the State's Triple Flip "unwinding" process will be initiated with the defeasance of the Economic Recovery Bonds. It is estimated that the final true-up payment associated with the Triple Flip wind down will be made in August 2016 and will be accrued to 2015-2016. Based on information from the City's Sales Tax consultant, MuniServices, the anticipated final payments associated with Triple Flip are expected to generate additional revenue of $10.0 - $13.0 million above the budgeted estimate of $184.1 million.

For 2016-2017, the General Sales Tax revenue projection of $188.3 million assumes moderate growth of 3.5% in taxable sales from 2015-2016 levels. The Sales Tax revenue projections for 2015-2016 will continue to be refined over the next few months as additional information becomes available. Sales Tax data for the second quarter of 2015-2016, which covers the 2015 holiday period, will be received in March 2016. Based on this additional data, any necessary adjustments to the estimate will be incorporated into the 2016-2017 Proposed Operating Budget. Any further adjustments that may be recommended based on third quarter collections (January through March period) will be brought forward through a Manager's Budget Addendum in June or through the Annual Report that is released in September, as appropriate.

[1] As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), one-quarter cent of the City's one cent Bradley Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue. This action, which went into effect on July 1, 2004, remains in effect until the State's bond obligations have been satisfied, which is anticipated in 2016.

Elements of The General Fund Forecast

Revenue Forecast

Sales Tax

Proposition 172 Sales Tax collections (representing the one-half cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total $5.7 million in 2015-2016, which is at the prior year collection level. In 2016-2017, collections are projected to increase 3.5%, to $5.9 million.

In the out-years of the Forecast, annual Sales Tax performance is expected to show growth of 2.5% to 4.4% annually over the five-year period.

Transient Occupancy Tax

Currently, Transient Occupancy Tax (TOT) receipts in 2015-2016 are projected to reach $17.1 million, reflecting an increase of 16.3% from the 2014-2015 collection level. Current year receipts mark the sixth year of growth and the fifth year of double-digit strong growth in this category. While TOT receipts are up from prior year, occupancy levels through January 2016 as compared to the prior year decreased slightly by approximately 1%, while average room rates were up 11.8% from $165.85 to $185.43. The average revenue-per-available room, however, increased by approximately 11%, from $123.79 through January 2015 to $137.28 through January 2016.

In 2016-2017, growth of 4.0% from the 2015-2016 estimate to $17.8 million is anticipated based on information received from the City's consultant, Conventions, Sports and Leisure (CSL), which reflects continued strong performance in this category. In the out years of the forecast, revenues are anticipated to grow between 3.0% to 5.0% annually. As directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in Transient Occupancy Tax receipts over the 2013-2014 actual collection level are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve. In this Forecast, the annual amount allocated to this reserve increases from $5.9 million in 2016-2017 to $9.4 million in 2020-2021.

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Commercial Solid Waste, Cable, Tow, Water, and Nitrogen Gas/Jet Fuel Pipeline categories. Overall, collections are projected at $48.2 million in 2015-2016, an increase of 2.7% from prior year receipts of $46.9 million. The projected increase in 2015-2016 is primarily due to higher collections in Cable and Electricity receipts. In 2016-2017, Franchise Fees are expected to increase 1.6% to $48.9 million, due to growth in Gas (2.0%), Electricity (2.0%), and Cable (2.0%) categories.

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 2015-2016 are based on the calendar year 2015). Year-end estimates are typically based upon an examination of electricity

REVENUE FORECAST

Franchise Fees

and gas rate changes, industry actions, and actual collection patterns in the utility tax categories. The reconciliation of annual receipts from PG&E for 2015-2016 will be received in April 2016.

In the **Electricity Franchise Fee** category, collections in 2015-2016 are expected to reach $20.4 million, reflecting growth of approximately 3.0% compared to actual receipts in 2014-2015. In 2016-2017, growth of 2.0% from 2015-2016 estimates is projected. Based on the rate increases for January 2016 (average system-wide 6.2%) and March 2016 (average system-wide 1.5%), additional slight upward adjustments may be brought forward based on actual performance with these new rates.

In the **Gas Franchise Fee** category, the 2015-2016 estimated collections of $4.7 million reflect an increase of less than 1% from the $4.6 million received in the prior year. In 2016-2017, Gas Franchise Fee collections are projected to increase by approximately 2.0%. Rates are projected to increase in 2016, with the average residential gas bill expected to increase approximately 4%. However, actual collections can fluctuate significantly due to consumption changes associated with the weather as well as rate changes.

Commercial Solid Waste (CSW) Franchise Fee collections are estimated to reach budgeted levels of $11.4 million in 2015-2016, 2.0% above the prior year collections. 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 new 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 2016-2017 estimate of $11.4 million does not automatically assume growth from 2015-2016 as City Council approval of a rate increase would be required.

In the **Cable** Franchise Fee category, the estimated 2015-2016 collections of $10.4 million reflect growth of 4.0% from the prior year receipts. In 2016-2017, additional growth of 2% is projected, bringing the estimate to $10.6 million.

In **City Generated Tow**, projected revenues of $900,000 in 2015-2016 are consistent with prior year levels. Collections are anticipated to remain flat at $900,000 in 2016-2017.

Remaining categories, including **Water, Nitrogen Gas Pipeline**, and **Jet Fuel Pipeline**, are estimated to end 2015-2016 at $342,000 and increase to $383,000 in 2016-2017. In 2016-2017, collections are anticipated to remain flat for Nitrogen Gas Pipeline and Jet Fuel Pipeline. It is anticipated that Water will increase 15.2% to $311,000 in 2016-2017.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Franchise Fees

In the out years of the Forecast, Franchise Fee revenues are anticipated to increase from 2.0% to 2.9% annually. Over the next five years, however, there is a significant potential for fluctuations in growth rates depending on the outcome of rate cases as well as changes in consumption levels. In addition, it should be noted that the City's current Cable Franchise Fee agreement is scheduled to sunset in 2016, however as a new agreement is expected to be executed, these collections are assumed throughout the forecast period.

Utility Tax

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2015-2016 are anticipated to total $93.8 million, representing an increase of 2.4% from the 2014-2015 collection level. In 2016-2017, Utility Tax collections are projected to increase 2.1% to $95.8 million. Due to the uncertainty regarding the outcome of rate cases, the Forecast generally does not assume revenue increases associated with pending rate cases; however, it does take into account changes already approved. Rate cases will continue to be monitored and adjustments will be brought forward as appropriate based on the final outcomes.

The **Electricity Utility Tax** is anticipated to generate $43.9 million in 2015-2016, a 4.0% increase from prior year levels. In 2016-2017, revenues are estimated to increase 2.0% to $44.8 million. Based on rate increases for January 2016 (average system-wide 6.2%) and March 2016 (average system-wide 1.5%), slight additional upward adjustments may be brought forward based on actual performance with these new rates.

Gas Utility Taxes are projected at $8.8 million in 2015-2016, a 3.2% increase from 2014-2015 levels. In 2016-2017, revenues are projected to increase by approximately 2.0% to $8.9 million. Rates are projected to increase in 2016, with the average residential gas bill expected to increase approximately 4%, and the forecast reflects growth in both 2015-2016 and 2016-2017. However, actual collections can fluctuate significantly due to consumption changes associated with the weather as well as rate changes.

Water Utility Tax receipts of $12.0 million are anticipated to be received in 2015-2016, a 4.0% increase from 2014-2015. In 2016-2017, receipts are projected to increase 8.0% to $13.0 million based on the continued rising wholesale price of water with an estimated increase in price in April 2016, July 2016, and January 2017 totaling approximately 16% with continued dampened consumption levels.

In the **Telephone Utility Tax** category, revenues are collected on landlines, wireless, VoIP, and beginning January 1, 2016, prepaid wireless services sold at retail locations. Based on current tracking, receipts in 2015-2016 are anticipated to reach $29.1 million, which is close to the 2014-2015 actual collections of $29.3 million. Cellular receipts, however, are estimated to decline 8.0% compared to prior year actuals based on current collection trends.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Utility Tax

Beginning January 1, 2016, AB 1717 (otherwise known as the Local Prepaid Mobile Telephony Services Collection Act) will require California retailers to collect the local utility users tax on prepaid wireless services at the same time it collects the sales tax on its other retail products. Under this new law, all local jurisdictions are required to contract with the Board of Equalization in order to receive their portion of local taxes imposed on prepaid wireless services sold by retailers. In 2015-2016, it is estimated that that new tax will generate approximately $650,000 ($1.2 million on an annual basis).

In 2016-2017, Telephone Utility Tax revenues are anticipated to remain relatively flat at $29.05 million. Based on collection trends in recent years, cellular receipts are expected to continue to decline. This drop is expected to be roughly offset by the addition of local prepaid mobile services tax application that was implemented beginning January 1, 2016. Ongoing implications of the changes in service delivery of telecommunication activities through alternative services such as Wi-Fi and broadband are unknown.

In the out years of the Forecast, growth ranging from 0.2% to 1.6% annually is expected in the Utility Tax category. As discussed above, there is significant volatility and uncertainty regarding the performance in this category based on outstanding rate cases as well as consumption levels. The Water and Gas Utility Tax categories are significantly influenced by weather conditions.

Telephone Line Tax

Based on the current collection trend, receipts in 2015-2016 are estimated to total $21.4 million, a 1.4% increase from prior year levels. In 2016-2017, receipts are anticipated to increase to $21.6 million. Given the steady nature of collections in this category, receipts are anticipated to remain relatively flat in the out years of the Forecast with annual growth ranging from 0.2% to 0.3%.

Business Taxes

This category includes General Business Tax, Disposal Facility Tax, Cardroom Tax, and Marijuana Business Tax. In 2015-2016, Business Taxes are estimated to reach $50.4 million, a 6.5% increase from prior year levels. In 2016-2017, revenues are estimated to decrease 3.9% to $48.5 million due to a decreases in Marijuana Business Tax compliance revenue and Disposal Facility Tax as discussed below.

In 2015-2016, **General Business Tax** proceeds are expected to reach $11.5 million, a decrease of 3.0% from the prior year level of $11.9 million and takes into consideration the remaining billing cycles, account closeouts and cleanups anticipated in 2015-2016, and the historical collections rates of invoices. In 2016-2017, revenues are anticipated to remain flat at $11.5 million.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Business Taxes

Based on current performance, collections in the **Cardroom Tax** category are estimated at $17.8 million in 2015-2016, an increase of 4.6% from the prior year collection level of $17.0 million. In 2016-2017, receipts are anticipated to remain at 2015-2016 levels.

In the **Disposal Facility Tax** category, collections are estimated at $12.3 million in 2015-2016 based on current collection trends, which assume a decline of 4.5% from the prior year collection levels of $12.9 million. Disposal Facility Taxes (DFT) are business taxes based on the tons of solid waste disposed at landfills within the City. This revenue stream varies 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. In previous years, revenues in this category experienced year-over-year declines due, in large part, to increased waste diversion and the overall slowdown in the economy. However, in 2013-2014 and 2014-2015, collections increased due to increased activity from neighboring agencies dumping in San José landfills. In 2016-2017, revenues are projected to return to the former trend of slight declines as a result of waste diversion and fall 2.4% below estimated 2015-2016 levels to $12.0 million.

Marijuana Business Taxes are currently being collected at a 10% rate on gross receipts as approved by the voters in Ballot Measure U in 2010 on medical and non-medical, legal and illegal sales. In 2015-2016, collections are anticipated to increase to $8.8 million, an increase of approximately 57.3% from prior year levels of $5.6 million. A large portion of this increase is attributable to the compliance collections that are estimated at $1.8 million in 2015-2016, which is significantly above the prior year level of $115,000 ($1.2 million as of January 2016, compared to only $54,000 received in January 2015). Excluding compliance revenue, receipts are up projected to end the year at $7.0 million, which is 27.8% above the prior year level of $5.5 million. Beginning in June 2014, enforcement of the Medical Marijuana Regulatory Program decreased the number of collectives operating within San José. Only 16 collectives remain in operation to date, however, tax receipts have increased. In 2016-2017, regular collections are anticipated to remain flat at $7.0 million and compliance revenue is projected at $150,000.

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

Licenses and Permits and Departmental Charges

The Licenses and Permits and Departmental 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 2016-2017, the Licenses and Permits category is estimated at $50.8 million and the Departmental Charges category is estimated at $39.3 million.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Licenses and Permits and Departmental Charges

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. In cases where the development-related base costs are projected to exceed revenues, there are sufficient earmarked reserves to bring projected revenues and expenditures into alignment for a net-zero General Fund impact. For 2016-2017, the Building Fee Program, Planning Fee Program, Fire Fee Program, and

Public Works Fee Program base expenditures are projected to exceed the base revenue estimates. This Forecast assumes that in 2016-2017 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 2016-2017 estimates are based on current collection trends and an evaluation of program costs. The Departmental Charges category is anticipated to decrease 6.8% in 2016-2017 from $42.2 million to $39.3 million based on this review. The City Administration is in the process of examining various non-development-related fees to align costs with estimated revenue levels. Any revisions will be brought forward as part of the 2016-2017 Proposed Operating Budget, as well as the 2016-2017 Proposed Fees & Charges Report.

In the out years of the Forecast, both the Licenses and Permits and Departmental Charges categories are expected to experience growth ranging from 3.6% to 4.4%. The growth rates in the out years are tied to the expected increases in costs, which the fees are designed to recover, including increased retirement and health costs.

Fines, Forfeitures and Penalties

In 2015-2016, the Fines, Forfeitures and Penalties category is expected to generate $14.7 million. The largest component of this revenue category is Parking Fines, which are currently expected to generate approximately $11.0 million in 2015-2016, 3.6% higher than prior year collections of $10.6 million. In 2016-2017, Parking Fines are expected to increase by 1.1% to $11.1 million. Total revenue in 2016-2017 is estimated at $14.9 million in the Fines, Forfeitures, and Penalties category. In the out years of the Forecast, annual growth of approximately 1.0% to 2.1% 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 $4.1 million in 2015-2016. In 2016-2017, revenue is expected to decline by 6.6% to $3.9 million, primarily due to the rental expiration of two leases for City-owned facilities. In the out years of the Forecast, growth of 1.1% to 3.5% annually is assumed.

REVENUE FORECAST

Revenue from Local Agencies

In 2015-2016, revenue of $17.0 million is projected from other local agencies, such as the Successor Agency to the Redevelopment Agency of San Jose and the Central Fire District. This amount is significantly lower than levels received in prior years due to lower reimbursement from the Successor Agency to the Redevelopment Agency of San Jose.

The largest revenue estimate in this category is generally a reimbursement from the Successor Agency to the Redevelopment Agency for the payment of the Convention Center Debt Service. When the 2015-2016 Adopted Budget was developed, it was assumed that SARA would reimburse the City for the Convention Center Debt Service payment that is budgeted in the General Fund of $15.28 million. However, as part of the 2014-2015 Annual Report actions approved by the City Council in October 2015, the reimbursement was reduced by $9.8 million to $5.48 million as a result of Senate Bill 107 that disallowed the reimbursement mechanism used to pay this obligation. The General Fund has been advancing funds to SARA since 2012-2013 to pay debt service on certain City-backed debt, including the Convention Center payment. A reimbursement agreement was established between the City and SARA to reimburse the General Fund within the same fiscal year the advance was made for fiscal years 2012-2013 through 2014-2015, using redevelopment funds for the following period. Due to the passage of Senate Bill 107 on September 22, 2015, which amended redevelopment dissolution law, the mechanism allowing SARA to reimburse the City on an intra-year basis was disallowed. As such, the City did not receive reimbursement for the 2015-2016 loan from the General Fund of approximately $9.8 million in August 2015 to cover the Convention Center debt payment. The loan will not be repaid until there is sufficient property tax revenue to pay all other enforceable obligations, since obligations to the City are subordinate to all other enforceable obligations. Based on continued moderate tax increment growth, repayment is expected in 10 to 15 years. Using the current level of annual distributions from the Redevelopment Property Tax Trust Fund (RPTTF) and the continued ability to reserve RPTTF each year for debt service, it is anticipated SARA will be able to pay all of its debt service going forward. To technically account for the Convention Center Debt Service, there is a reimbursement from SARA of $15.3 million in 2016-2017 (with an offsetting expense in City-Wide Expenses).

The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. Based on information provided by the Central Fire District staff, payments of $5.8 million are anticipated in 2015-2016. This reflects a 2.2% increase from the prior year levels. In 2016-2017, collections are projected to increase 6.0% to $6.2 million.

The ongoing payment from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) was eliminated from the budget beginning in 2014-2015 and this Forecast continues to assume no revenue collections in 2016-2017. Beginning in 2013-2014, the County began withholding payments for the first responder advanced life support program (Paramedic Program) because the City had not met the response time performance standards set forth in the agreement with the County. In 2014, the City and County continued to negotiate

REVENUE FORECAST

Revenue from Local Agencies

regarding this issue and executed a Second Agreement to the 911 Emergency Medical Services (EMS) Provider Agreement in December 2014 that expired December 2015. Under this agreement, additional Annex B, Category A funds totaling approximately $450,000 are expected to be received in 2015-2016 and $2.0 million was received in 2014-2015 to account for back payments from April 2013 through 2014-2015. If an agreement is extended through the remainder of the year, approximately $900,000 may be received in 2015-2016. For 2016-2017 and beyond, the City and County will begin discussions over the next several months on a new 911 EMS Provider Agreement as the primary agreement expires June 30, 2016. If an agreement is reached, corresponding reimbursements revenue for next year will be incorporated in the budget, as appropriate. It should be noted that the direct incremental cost to the City to provide the paramedic program totals over $5.0 million annually.

In addition, other projected payments from local agencies total $1.4 million in 2016-2017, the largest of which are reimbursements for services provided by the Animal Care and Services Program ($930,000), and payments associated with the annexation in the Cambrian area to the City of Campbell ($199,000).

In the remaining years of the Forecast, the Revenue from Local Agencies category is projected to increase annually by approximately 0.45% to 1.2%.

Revenue from the State of California

The Revenue from the State of California category includes Tobacco Settlement payments, State grant revenues, and other State reimbursements. Collections in this category are estimated to reach $10.4 million in 2016-2017 and decline slightly to $10.3 million in 2017-2018 through 2020-2021. Tobacco Settlement payments account for the majority of revenue in this category and are estimated at $8.75 million in 2016-2017, consistent with the amount projected for 2015-2016.

The State grants and reimbursements expected in 2016-2017 include: Abandoned Vehicles Abatement Program ($675,000); Auto Theft reimbursement ($300,000); CALgrip Intervention Grant ($147,000); Highway Maintenance Charges reimbursement ($105,000); and Local Law Enforcement Agency Grant ($30,000). Vehicle License Fees Collection in Excess are also estimated at $435,000 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.

Adjustments to the grant amounts are reflected in the remaining years of the Forecast. A decrease of $177,000 is expected in 2017-2018 to reflect the elimination of the CALgrip Intervention Grant ($147,000) and the Local Enforcement Agency Grant ($30,000). No annual growth is projected in the remaining three out years of the Forecast.

Elements of The General Fund Forecast

Revenue Forecast

Revenue from the Federal Government

The Revenue from the Federal Government category consists of grant revenues and rental income. The following grants are anticipated in 2016-2017: SAFER Grant ($1.8 million); Metropolitan Transportation Commission Grant ($422,000); Urban Area Security Initiative – Fire (UASI) ($195,000), and FEMA Training Reimbursement ($35,000).

In the out-years of the Forecast, SAFER grant funding of $1.1 million is reflected in 2017-2018 only.

Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including the Arena Fixed Fee, 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 2015-2016, this category is expected to generate $131.0 million. The 2015-2016 estimate includes a number of adjustments not included in the 2016-2017 Forecast, the largest of which include: 1) $100.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits that are brought forward in August of each year; 2) $7.8 million in one-time financing proceeds associated with the Energy and Utility Conservation Measures Program; and 3) $1.0 million from a Calpine Settlement.

In 2016-2017, the revenue estimate of $14.8 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2016-2017 costs or agreements and the elimination of one-time funding sources. This figure excludes revenues associated with the issuance of the TRANs that will be brought forward in 2016-2017 with an offsetting expenditure based on estimated cash flow needs.

In 2016-2017, the Arena Fixed Fee will decrease by $750,000 to $5.1 million. Payments from Comcast and AT&T are estimated at $2.1 million. As defined in the Franchise Agreement, these funds will be used to support the Public, Education, and Government (PEG) Access facilities. There are associated City-Wide Expenses allocations for this purpose. The cost reimbursement for the Investment Program is estimated at $1.3 million based on the current allocation of staff to this function. In addition, the proceeds from the Sale of Surplus Property category has been set at $1.0 million based on the anticipated assets that will be sold next fiscal year. The Arena Fixed Fee is eliminated beginning in 2018-2019, which represents a significant decline in anticipated revenues in this category, to reflect the terms of a new agreement with Sharks Sports Entertainment to lease the San José Arena. Therefore, change in the out years range from a decline of 37.6% to a slight increase of 1.4%.

REVENUE FORECAST

Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2015-2016 are projected to reach $16.9 million, a decline of 5.3% from prior year actuals of $17.8 million. 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 the out years of the Forecast, collections are expected to experience growth and declines ranging between -5.7% and 0.8% annually.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2016-2017, a total of $40.0 million in reimbursements are projected based on 2016-2017 overhead rates for the majority of City funds prepared by the Finance Department applied against the projected 2016-2017 salaries for those positions for which an overhead rate is applied. In the remaining years of the Forecast, annual increases ranging from 3.6% to 4.4% are assumed, reflecting increases in costs, which the overhead rate is designed to recover, including increased personal services costs.

Transfers

The Transfers category is projected at $21.0 million in 2016-2017, which is slightly below the 2015-2016 estimate of $21.6 million. The largest component of this category ($11.9 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 2016-2017, these reimbursements have been built to cover the direct base costs as well as indirect costs. For the Fire Rescue reimbursement, the indirect costs have been discounted (to a cap of 25%) to help with cost competitiveness of this service.

Additional large transfers programmed for 2016-2017 include the Construction and Conveyance Tax Fund transfer ($3.5 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer ($1.8 million) for pavement maintenance activities; the General Purpose Parking Fund ($807,000); and the Workforce Investment Act Fund transfer ($548,000) for use of various community centers and Workforce Investment Act program services.

Annual increases in the out years range from 1.9% to 2.6%. 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.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2016-2017 of $667,000. In the remaining years of the Forecast, annual increases are expected to recover the projected cost increases from 3.6% to 4.4%.

Beginning Fund Balance

The $65.8 million forecast estimate of available 2016-2017 Beginning Fund Balance is based on the following assumptions:

- The current Contingency Reserve of $34.5 million is carried forward at the current level based on the assumption that this amount will not be used in 2015-2016 and will be available for use in 2016-2017. The current funding level is approximately enough to cover General Fund payroll costs for less than two and one-half weeks in an emergency. (On the expenditure side, the Contingency Reserve remains at $34.5 million in 2016-2017 and each of the out-years of the Forecast and complies with the City Council policy to set aside at least 3% of expenditures.)
- A total of $20.0 million in fund balance will be achieved in 2015-2016 for use in 2016-2017 from a combination of excess revenues and expenditure savings as well as the liquidation of prior-year carryover encumbrances.
- An additional $11.3 million reflects the liquidation of reserves: $6.8 million from the Building Development Fee Program Reserve; $1.5 million from the Salaries and Benefits Reserve; $1.4 million from the Public Works Development Fee Program Reserve; $939,000 from the Planning Development Fee Program Reserve; and $610,000 from the Fire Development Fee Program Reserve. The use of the Development Fee Program reserves have been included in the fund balance estimate to cover a portion of the 2016-2017 base costs associated with these programs that cannot be addressed with fee revenue.

In the out years of the Forecast, the beginning fund balance estimates assume that excess revenue of 1.0% and expenditure savings, including liquidations of carryover encumbrances, of 1.25% would be generated annually. The expenditure savings figure has been reduced from 1.75% in the 2016-2020 Forecast to 1.25% in this Forecast to reflect changes in retirement cost calculations to ensure the City does not over pay for unfunded liability. While this change lowered ongoing retirement costs, slightly lower expenditure savings, and subsequent ending fund balance will now be available as a funding source for the following year. In addition, it is assumed that the Contingency Reserve of $34.5 million would be carried over each year; and the use of the Development Fee Program Reserves for Building, Planning, Public Works, and Fire would continue in the out years to support projected development fee program costs in excess of revenues. In total, the Beginning Fund Balance ranges from $65.8 million in 2016-2017 to $68.9 million in 2020-2021.

EXPENDITURE FORECAST

An in-depth analysis of the General Fund expenditure categories was completed to develop the 2016-2017 expenditure estimates included in this Forecast. These expenditure estimates will be closely examined and updated again during the preparation of the 2016-2017 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from $996.1 million in 2016-2017 to $1.14 billion in 2020-2021, for an average growth rate of 3.5% per year.

February 2016 Forecast Expenditure Summary

Expenditure Category	Modified Budget 2015-2016	Forecast 2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Personal Services						
Salaries and Other Compensation	$ 424,846,881	$ 429,081,000	$ 444,027,000	$ 459,493,000	$ 475,500,000	$ 492,066,000
Retirement	242,390,719	253,335,000	267,179,000	276,948,000	284,256,000	296,578,000
Health and Other Fringe Benefits	53,315,056	54,580,000	58,079,000	61,803,000	65,765,000	69,982,000
Total Personal Services	**$ 720,552,656**	**$ 736,996,000**	**$ 769,285,000**	**$ 798,244,000**	**$ 825,521,000**	**$ 858,626,000**
Total Non-Personal/Equipment	**$ 114,296,568**	**$ 94,236,000**	**$ 95,926,000**	**$ 99,167,000**	**$ 102,340,000**	**$ 103,467,000**
City-Wide						
City-Wide Expenses	$ 234,525,646	$ 87,536,000	$ 88,111,000	$ 88,337,000	$ 88,691,000	$ 89,567,000
Capital Projects	57,487,599	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000
Transfers	27,149,755	27,262,000	29,628,000	33,995,000	33,866,000	33,982,000
Earmarked Reserves	106,399,029	8,463,000	8,855,000	9,625,000	12,025,000	14,439,000
Contingency Reserve	34,500,000	34,500,000	34,500,000	34,500,000	34,500,000	34,500,000
Total City-Wide	**$ 460,062,029**	**$ 163,011,000**	**$ 166,344,000**	**$ 171,707,000**	**$ 174,332,000**	**$ 177,738,000**
Committed Additions						
New Police Maint. & Operations		$ 1,300,000	$ 1,339,000	$ 1,379,000	$ 1,420,000	$ 1,463,000
New Parks and Recreation Facilities Maint. & Operations		354,000	789,000	977,000	1,095,000	1,204,000
New Traffic Infrastructure Assets Maint. & Operations		199,000	237,000	243,000	250,000	259,000
New Library Maint. & Operations		11,000	11,000	11,000	11,000	11,000
Measure P (Parks) Maint. & Operations			435,000	738,000	783,000	830,000
Total Committed Additions		**$ 1,864,000**	**$ 2,811,000**	**$ 3,348,000**	**$ 3,559,000**	**$ 3,767,000**
Total Base Exp. w/ Committed Additions	**$ 1,294,911,253**	**$ 996,107,000**	**$ 1,034,366,000**	**$ 1,072,466,000**	**$ 1,105,752,000**	**$ 1,143,598,000**
Growth %			**3.8%**	**3.7%**	**3.1%**	**3.4%**

It is important to note that adjustments are made to the Forecast to eliminate one-time additions/deletions and annualize partial-year allocations that were included in the 2015-2016 Adopted Budget. Various one-time additions totaling over $5 million are scheduled to expire in June 2016. The major items funded on a one-time basis include San José Learns, San José Works, Police Department Downtown Foot Patrol and Police Video Unit, Office of Immigrant Affairs, Information Technology Department Critical Security Remediation, Small Business Activation and Assistance, Workers' Compensation Backlog and Pilot Program Extension, Business Development and Economic Strategy Activities, Manufacturing Jobs Initiative, Human Resources Department Employment Services and Service Delivery and Strategic Analysis Temporary Staffing, City Attorney's Office Training, Family College Success Center, and Silicon Valley Talent Partnership. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2015-2016. This analysis will be conducted during the 2016-2017 budget process and funding recommendations for these programs and services will be included in the 2016-2017 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.

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 (2016-2017) projection for personal services costs in this Forecast has been calculated at a detailed level. An extract of payroll system information as of August 2015 was used as the starting point. This individual position-level information was then reviewed, corrected, and updated by each department to include current vacancies and filled positions, ensure accurate salary step and bi-weekly salary, as well as any position reallocations. Also, 2015-2016 ongoing position additions (cost increases) and reductions (cost savings) were annualized and all categories of benefit costs in the coming year were projected. In January 2016, the most recent retirement plan and health plan information for each position was also updated from the payroll system.

For the 2016-2017 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 $737.0 million projected personal services total for 2016-2017, salaries and other compensation costs amount to $429.1 million (58.2% of projected personal services), retirement costs amount to $253.3 million (34.4% of projected personal services), and health and other fringe benefits costs amount to $54.6 million (7.4% of projected personal services). Over the forecast period, modest growth is expected in each of the personal services categories.

Following is a discussion of the specific 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 a composite rate of approximately 4.1%.

EXPENDITURE FORECAST

Salaries and Other Compensation:

Pay increases for all employees are assumed in each year of this Forecast. These pay increases total $20.8 million for 2016-2017 and are based on current agreements reached with each of the City's bargaining units. With the majority of contracts set to expire in June 2018, modest increases are assumed for all bargaining units in the out-years of the Forecast in anticipation of negotiations for years beyond the current contract period. 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.

Total ongoing funding of $750,000 is also included in an Employee Market Competitiveness Reserve in 2016-2017 to provide funding for potential salary increases for specific job classifications where recruitment and retention issues are being experienced. Additional analysis is required to determine which classifications may be considered for a special employee compensation pay increase.

Salary step increases for current non-management employees and pay for performance for management employees for 2016-2017 are projected at $3.5 million, or an increase of 0.47%. With the exception of employees represented by the SJPOA and IAFF, non-management step increases have been calculated at a 2.5% step increase rate. For SJPOA and IAFF, a 5% step increase rate was applied in this Forecast. The out-years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

Overtime expenditures in the General Fund total $21.3 million for 2016-2017, with the majority of the expenditures for Police Department ($12.9 million) and Fire Department ($6.6 million) operations. The out-years of the Forecast continue these costs, with small adjustments using salary step growth as the inflationary factor.

Retirement:

The City's two retirement systems, the Federated 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. 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.

EXPENDITURE FORECAST

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). Effective January 18, 2015, Federated employees that had left City employment with prior dental coverage vesting and return to the City, retain that benefit (Tier 2C). 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 2016-2017, retirement costs total $253.3 million for the General Fund, which are up $10.9 million from the 2015-2016 Modified Budget of $242.4 million (and include pay increase assumptions described earlier). These costs represent 25.4% of the total General Fund base expenditure budget with committed additions and are based on the Federated Retirement System and Police and Fire Department Retirement Boards' approved economic and demographic assumptions. To generate budgetary savings, this cost assumes the pre-payment of the City's annual required contribution (ARC) for Federated Retirement System Tier 1 members and contributions for the Police and Fire Department Retirement Plan for Tier 1 police and fire members. These figures reflect action approved by the Federated and Police and Fire Retirement Boards in October 2015 to reduce the pre-payment savings by 30%, or $1.4 million ($1.8 million all funds). For 2016-2017, net budgetary savings from the pre-payment are estimated at approximately $5.3 million in the General Fund (includes borrowing costs) ($7.0 million in all funds).

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. The new 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 will decrease the disparity between retirement contribution calculations that arise from different City and actuarial payroll projections in order 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.

On June 5, 2012, voters approved a pension reform ballot measure known as Measure B. Measure B has been subsequently subject to various forms of litigation. In an effort to settle this case for budget stability and to provide certainty to the City's workforce, the City Council directed the City Administration to make any and all reasonable efforts to reach and implement a settlement this year. In August 2015 and December 2015, terms for the alternative pension reform settlement framework agreements with the Police and Fire and Federated bargaining units, respectively, were reached regarding Measure B, which included impacts to retiree healthcare. While the terms of the settlement have been reached, the implementation of the new agreements are underway. This Forecast assumes the extension of current retiree healthcare rates until actual implementation of the alternative pension reform settlement framework agreements.

Based on projections received from the Retirement Boards' actuary (Cheiron) and the City Manager's Budget Office's independent analysis, Table 1 details the General Fund's retirement costs and budgetary retirement contribution rates for the Federated Retirement System and the Police and Fire Department Retirement Plan and the respective pension and retiree healthcare costs for the forecast period.

For illustration purposes only, Table 2 depicts the Retirement Board approved contribution rates for 2016-2017 and the Cheiron projected rates for the out-years of the Forecast. It should be noted that the City budgetary rates differs from the Federated and Police and Fire Retirement Board approved rates to reflect the continuation of current retiree healthcare rates, apply the City's methodology to fund the Board approved UAL amounts, and the application of a pre-payment for Federated as well as Police and Fire Tier 1 contributions.

EXPENDITURE FORECAST

TABLE 1 - 2017-2021 CITY RETIREMENT CONTRIBUTION COSTS AND BUDGETARY CITY RETIREMENT CONTRIBUTION RATES
($ in Millions and with Pre-Payment Discount) *

Retirement Plan	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Fed. Ret. System Tier 1 – Pension	$67.7	$73.7	$78.0	$81.7	$82.6	$84.7
Fed. Ret. Syst. Tier 1 – Ret. Healthcare	$10.4	$9.9	$9.0	$8.3	$7.6	$6.9
Fed. Retirement Plan Tier 1 – Total	**$78.1**	**$83.5**	**$87.0**	**$90.0**	**$90.2**	**$91.6**
Budgetary Contribution Rates	*73.1%*	*77.8%*	*88.6%*	*99.3%*	*108.6%*	*121.1%*
Fed. Ret. System Tier 2A – Pension	$0.5	$0.5	$0.5	$0.5	$0.4	$0.4
Fed. Ret. Syst. Tier 2A – Ret. Healthcare	$0.9	$0.8	$0.7	$0.7	$0.7	$0.7
Fed. Retirement Plan Tier 2A – Total	**$1.4**	**$1.3**	**$1.2**	**$1.2**	**$1.1**	**$1.1**
Budgetary Contribution Rates	*15.9%*	*15.5%*	*15.5%*	*15.5%*	*15.5%*	*15.5%*
Fed. Ret. System Tier 2B – Pension	$2.1	$3.1	$3.9	$4.8	$5.6	$6.5
Fed. Ret. Syst. Tier 2B – Ret. Healthcare	$5.2	$6.4	$8.2	$9.9	$11.6	$13.4
Fed. Retirement Plan Tier 2B – Total	**$7.3**	**$9.4**	**$12.1**	**$14.7**	**$17.3**	**$19.8**
Budgetary Contribution Rates	*19.9%*	*18.7%*	*18.8%*	*18.8%*	*18.8%*	*18.8%*
Fed. Ret. System Tier 2C – Pension	$0.0	$0.1	$0.1	$0.1	$0.1	$0.1
Fed. Ret. Syst. Tier 2C – Ret. Healthcare	$0.0	$0.1	$0.1	$0.1	$0.1	$0.1
Fed. Retirement Plan Tier 2C – Total	**$0.1**	**$0.2**	**$0.2**	**$0.2**	**$0.2**	**$0.2**
Budgetary Contribution Rates	*20.1%*	*18.9%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*
Police Ret. Plan Tier 1 – Pension	$75.0	$74.8	$76.6	$76.0	$75.6	$77.4
Police Ret. Plan Tier 1 – Ret. Healthcare	$10.6	$9.7	$9.3	$8.7	$8.2	$7.6
Police Retirement Plan Tier 1 – Total	**$85.6**	**$84.5**	**$85.9**	**$84.7**	**$83.8**	**$85.0**
Budgetary Contribution Rates	*80.6%*	*87.5%*	*93.1%*	*98.0%*	*103.5%*	*112.2%*
Police Retirement Plan Tier 2 – Pension	$2.1	$3.1	$4.1	$5.2	$6.3	$7.4
Police Ret. Plan Tier 2 – Ret. Healthcare	$2.0	$2.9	$3.8	$4.9	$5.9	$7.0
Police Retirement Plan Tier 2 – Total	**$4.1**	**$5.9**	**$7.9**	**$10.1**	**$12.3**	**$14.4**
Budgetary Contribution Rates	*21.6%*	*21.3%*	*21.3%*	*21.3%*	*21.3%*	*21.3%*
Fire Retirement Plan Tier 1 – Pension	$56.2	$58.8	$62.4	$64.9	$67.4	$71.5
Fire Ret. Plan Tier 1 – Retiree Healthcare	$8.0	$7.9	$7.8	$7.7	$7.6	$7.4
Fire Retirement Plan Tier 1 – Total	**$64.2**	**$66.7**	**$70.3**	**$72.6**	**$75.0**	**$78.9**
Budgetary Contribution Rates	*82.7%*	*87.6%*	*92.9%*	*97.3%*	*102.2%*	*110.5%*
Fire Retirement Plan Tier 2 – Pension	$0.0	$0.5	$0.9	$1.3	$1.7	$2.3
Fire Ret. Plan Tier 2 – Retiree Healthcare	$0.0	$0.5	$0.9	$1.3	$1.7	$2.3
Fire Retirement Plan Tier 2 – Total	**$0.0**	**$0.0**	**$1.8**	**$2.6**	**$3.5**	**$4.6**
Budgetary Contribution Rates	*21.8%*	*21.2%*	*21.2%*	*21.2%*	*21.2%*	*21.2%*
Other Retirement Costs	$1.5	$0.8	$0.8	$0.8	$0.9	$0.9
Total General Fund	**$242.4**	**$253.4**	**$267.2**	**$276.9**	**$284.3**	**$296.6**
Total All Funds	**$316.3**	**$332.0**	**$351.0**	**$365.4**	**$375.1**	**$390.8**

* City budgetary rates differs from the Federated Retirement Board approved rates to reflect the continuation of current retiree healthcare rates, apply the City's methodology to fund the Board approved UAL amounts, and the application of a pre-payment of Federated, Police and Fire Tier 1 member contributions.

Source: 2015-2016 Modified Budget; Cheiron Letters dated January 13, 2016 and January 27, 2016 with applied City methodology to fund the Board approved UAL amounts and pre-payment discount for Federated Retirement System Tier 1, the Police Retirement Plan Tier 1, and the Fire Retirement Plan Tier 1.

EXPENDITURE FORECAST

TABLE 2 - 2017-2021 BOARD APPROVED CITY CONTRIBUTION RATES

Retirement Plan	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Fed. Ret. System Tier 1 – Pension	66.2%	78.1%	90.7%	103.4%	114.3%	129.0%
Fed. Ret. Syst. Tier 1 – Ret. Healthcare*	9.4%	11.9%	11.8%	11.6%	11.3%	11.0%
Fed. Retirement Plan Tier 1 – Total	**75.6%**	**90.0%**	**102.5%**	**115.0%**	**125.6%**	**140.0%**
Fed. Ret. System Tier 2A – Pension	5.7%	6.0%	6.1%	6.1%	6.1%	6.1%
Fed. Ret. Syst. Tier 2A – Ret. Healthcare*	9.4%	11.9%	11.8%	11.6%	11.3%	11.0%
Fed. Retirement Plan Tier 2A – Total	**15.1%**	**17.9%**	**17.9%**	**17.7%**	**17.4%**	**17.1%**
Fed. Ret. System Tier 2B – Pension	5.7%	6.0%	6.1%	6.1%	6.1%	6.1%
Fed. Ret. Syst. Tier 2B – Ret. Healthcare*	12.7%	16.7%	16.6%	16.1%	15.5%	15.0%
Fed. Retirement Plan Tier 2B – Total	**18.4%**	**22.7%**	**22.7%**	**22.2%**	**21.6%**	**21.1%**
Fed. Ret. System Tier 2C – Pension	5.7%	6.0%	6.1%	6.1%	6.1%	6.1%
Fed. Ret. Syst. Tier 2C – Ret. Healthcare*	12.9%	16.7%	16.6%	16.0%	15.5%	15.0%
Fed. Retirement Plan Tier 2C – Total**	**18.6%**	**22.7%**	**22.7%**	**22.1%**	**21.6%**	**21.1%**
Police Ret. Plan Tier 1 – Pension	73.0%	80.4%	86.4%	91.4%	97.2%	106.3%
Police Ret. Plan Tier 1 – Ret. Healthcare	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Police Retirement Plan Tier 1 – Total	**83.3%**	**90.7%**	**96.7%**	**101.7%**	**107.5%**	**116.6%**
Police Retirement Plan Tier 2 – Pension	11.3%	11.0%	11.0%	11.0%	11.0%	11.0%
Police Ret. Plan Tier 2 – Ret. Healthcare	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Police Retirement Plan Tier 2– Total	**21.6%**	**21.3%**	**21.3%**	**21.3%**	**21.3%**	**21.3%**
Fire Retirement Plan Tier 1 – Pension	75.0%	81.6%	87.3%	92.0%	97.5%	106.3%
Fire Ret. Plan Tier 1 – Ret. Healthcare	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Fire Retirement Plan Tier 1 – Total	**85.6%**	**92.2%**	**97.9%**	**102.6%**	**108.1%**	**116.9%**
Fire Retirement Plan Tier 2 – Pension	11.2%	10.6%	10.6%	10.6%	10.6%	10.6%
Fire Ret. Plan Tier 2 – Retiree Healthcare	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Fire Retirement Plan Tier 2 – Total	**21.8%**	**21.2%**	**21.2%**	**21.2%**	**21.2%**	**21.2%**

* Federated Retiree Healthcare reflects the full annual required contribution. However, this Forecast (budgetary contribution rates in Table 1) assumes the 2015-2016 retiree healthcare rates throughout the forecast period.

Source: Cheiron Letters dated January 13, 2016 and January 27, 2016.

EXPENDITURE FORECAST

Health and Other Fringe:

A projected health rate increase of 7.5% is included in the 2016-2017 Forecast 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 7.5% annually for the out-years of the forecast.

Based on actuarial information from the Human Resources Department and an evaluation of funding levels in the Dental Insurance Fund, a no dental rate increase is anticipated in 2016-2017. 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 2015-2016, current funding available in the Unemployment Insurance Fund, and projected future claims, the unemployment insurance rate continues to be suspended through the five-year forecast period.

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total $94.2 million in 2016-2017. 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 2015-2016, 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 2016-2017 estimates represent a decrease of $20.1 million from the 2015-2016 Modified Budget level of $114.3 million, primarily due to the elimination of rebudgeted or carryover projects.

Departmental gas and electricity funding for 2016-2017 totaling $13.6 million has been slightly adjusted in this Forecast to reflect projected rate increases, full year costs of new facilities coming online, and consumption changes; this funding assumes anticipated energy savings related to Energy Services Company (ESCO) funded projects that are projected to come online by July 1, 2016. Major non-personal/equipment increases are included, primarily in the Parks, Recreation and Neighborhood Services Department for changes in water costs ($844,000), Finance Department for Human Resources/Payroll/Budget Systems maintenance ($600,000), and Planning, Building and Code Enforcement Department for grant-funded urban village development ($422,000). Vehicle maintenance and operations costs in the General Fund including fuel, inventory, and fleet staffing reflect a $772,000 decrease (total of $13.6 million) from the 2015-2016 Adopted Budget, primarily due to decreased fuel costs, partially offset by increases in parts and personnel costs. The 2016-2017 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 $2.7 million to $2.3 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 $19.1 million.

For the out-years of the Forecast, growth rates ranging from 1.1% to 3.4% have been assumed from the 2016-2017 non-personal/equipment base levels in each of the four years, adjusted for police vehicle replacement costs in those years. With this adjustment, the average growth rate for the non-personal/equipment category is 2.4% annually.

City-Wide

City-Wide Expenses in the first year of the Forecast (2016-2017) total $87.5 million, a decline from the 2015-2016 Modified Budget of $234.5 million. This large reduction primarily reflects the impact of deleting the $100.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits; of eliminating one-time allocations that were rebudgeted to 2015-2016 ($33.4 million); and the elimination of one-time budget actions ($6.7 million).

The line-items in this category are primarily made up of cross-departmental, grant, and general city-wide expenditures. The 2016-2017 allocation includes anticipated cost adjustments based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2016-2017 allocations in the City-Wide Expenditures category include: Workers’ Compensation Claims ($21.2 million); Convention Center Lease Payments ($15.3 million); San José BEST and Safe Summer Initiative Programs ($5.6 million); Sick Leave Payments Upon Retirement ($5.0 million); General Liability Claims ($4.0 million); ESCO Debt Service ($3.1 million); Homeless Rapid Rehousing ($2.5 million); FMC Debt Service Payments ($2.2 million); Parking Citations/Jail Courthouse Fees ($2.2 million); Banking Services ($1.9 million); Property Tax Administration Fee ($1.9 million); Sidewalk Repairs ($1.8 million); Public, Educational and Government Access Facilities – Capital ($1.6 million); Homeless Response Team ($1.5 million); Property Leases ($1.4 million); and Successor Agency City Subsidy ($1.2 million) (administrative support costs).

In the out-years of the Forecast, City-Wide Expenses are projected to increase minimally at an average growth rate of less than 1%. While the majority of the individual line-items are expected to remain at 2015-2016 levels over this period, there are some categories that are expected to experience growth over the five years, including Workers’ Compensation Claims (from $21.2 million to $23.9 million). Also increasing over the next five years is the FMC debt service payment, which is expected to go up in the out-years (from $2.1 million to $2.7 million) based on higher variable interest rate assumptions. Property leases, which grow over the five year period (from $1.4 million to $1.6 million), reflect an annual increase of 3%. Insurance Premiums (increase from $554,000 to $645,000) and the Property Tax Administration

Fee (increase from $1.8 million to $2.2 million) are increasing over the five years to reflect additional costs to administer these city-wide programs. Funding for many non-grant related City-Wide expenses has stabilized, and include ongoing allocations for the Homeless Rapid Rehousing ($2.5 million), Homeless Response Team ($1.5 million), and San José BEST and Safe Summer Initiative Programs ($5.6 million).

The General Fund **Capital Projects** category totals $5.3 million in 2016-2017 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). The investment in fire apparatus replacement in this Forecast is based on an analysis of projected replacement schedules, replacement costs, and apparatus changes to meet safety needs. It also assumes that the Fire Construction and Conveyance Tax Fund will contribute $400,000 annually for these costs over the five-year period. The Capital Projects category also includes the continuation of annual allocations for Arena repairs ($100,000), unanticipated maintenance of City facilities ($800,000), fuel tanks and methane monitoring control and replacement ($400,000), and annual capital expenditures ($200,000) to maintain sufficient power backup for the City Hall and the 9-1-1 Police Communications Building.

The **Transfers** category totals $27.3 million in 2016-2017 and increases to $29.6 million in 2017-2018 and approximately $34.0 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 and totals $19.1 million in 2016-2017 ($19.8 million to $21.4 million in the remaining years of the Forecast). Other large transfers include the following: funding to cover a portion of the debt service payments and operating costs for the Hayes Mansion Conference Center ($3.4 million in 2016-2017) and Rancho del Pueblo and Los Lagos Golf Courses ($2.2 million in 2016-2017); payments in accordance with the San José Arena Management agreement extension ($750,000 in 2016-2017 and 2017-2018 and $2.3 million in the remaining years of the Forecast) for Arena capital rehabilitation and enhancements; and a transfer to the Vehicle Maintenance and Operations Fund for general fleet replacement ($1.0 million annually).

All of the debt service and maintenance and operations costs for the Hayes Mansion Conference Center and golf courses are funded in the Community Facilities Revenue and Municipal Golf Course Funds, respectively, however, revenues in those funds are not projected to be sufficient to completely cover these costs. The transfer from the General Fund for the Hayes Mansion Conference Center decreased from a $4.9 million subsidy level in 2016-2017 in the last forecast to $3.4 million required in 2016-2017 in this Forecast. In the out-years of the Forecast, the subsidy totals $4.4 million in 2017-2018, $4.7 million in 2018-2019, $3.8 million in 2019-2020 and $3.9 million in the last year of this Forecast based on projected debt service payments for that facility. These transfers are lower than those projected in the last Forecast due to better recent performance of the facility. The transfer for the golf course subsidy decreased from a $2.6 million subsidy level in the out-years of the last Forecast to $2.2 million required in 2016-2017 ($2.4 million to $2.5 million in the remaining years of the Forecast) also due to slightly better recent performance by the City's two golf courses.

EXPENDITURE FORECAST

The payments for Arena capital rehabilitation and enhancements are in compliance with the San José Arena Management Agreement Extension from 2009-2018. Annual funding of $750,000 is maintained through 2017-2018 of the Forecast for this agreement expiring on June 30, 2018. Due to a new agreement beginning in 2018-2019 that alters the City's capital payment obligations, annual funding increases to $2.3 million in the remaining years of the Forecast.

This Forecast includes transfers to the Service Yards Construction and Conveyance Tax (C&C) Fund to cover Central Service Yards Phase 1 debt service payments ($650,000 annually starting in 2019-2020) as there is not sufficient revenue in that fund to cover all required costs.

The transfer to the Vehicle Maintenance and Operations Fund ($1.0 million annually) is included to fund a vehicle replacement schedule for the General Fleet as well as transfers to the Communications C&C Fund ($400,000 in 2017-2018 to $1.3 million in the out-years) to fund the City's share of capital costs for the Silicon Valley Regional Interoperability Authority.

The Transfers category also includes payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas ($850,000 to $928,000 annually).

The **Earmarked Reserves** category totals $8.5 million in 2016-2017 and increases to $14.4 million in 2020-2021. This category includes a Deferred Infrastructure and Maintenance Reserve of $800,000 to fund critical capital maintenance or address urgent technology needs. These resources will be allocated as part of the 2016-2017 Proposed Budget. In addition, annual funding of $240,000 is allocated to the General Plan Update Reserve to set aside fees collected by developers toward the future update or revision of the General Plan.

The Forecast does not include a number of Earmarked Reserves that may remain unspent in 2015-2016 and later recommended for rebudget or use in 2016-2017. Some of the larger current Earmarked Reserves include the Development Fee Program Reserves, Workers' Compensation/General Liability Catastrophic Reserve, Budget Stabilization Reserve, Salaries and Benefits Reserve, Retiree Healthcare Solutions Reserve, and Sick Leave Payments Upon Retirement Reserve.

Per City Council policy, the **Contingency Reserve** ($34.5 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 2016-2017 budget. This amount would be sufficient to cover approximately one pay period of payroll costs (two and one-half weeks). This amount is carried in the remaining four years of the Forecast and remains in compliance with the reserve policy.

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,

Elements of The General Fund Forecast

Expenditure Forecast

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 $1.9 million in 2016-2017 and increase to approximately $3.8 million by 2020-2021. These Committed Additions, as well as a discussion of General Fund Capital Operating and Maintenance/Budget Principle #8, are explained in more detail in Section III of this document.

The approved bond measure from the November 2000 election for parks (Measure P) has only one remaining project, the Arcadia Softball Complex, and will require additional maintenance and operations funding ($435,000 in 2017-2018, increasing to approximately $830,000 in 2020-2021).

Also included in the Committed Additions are maintenance and operations costs associated with non-bond projects such as Body Worn Cameras in the Police Department ($1.3 million in 2016-2017 and increasing to $1.5 million in 2020-2021), the Library's Mobile Maker[Space]ship, new parks and recreation facilities, and new traffic infrastructure assets. The non-bond projects committed additions costs in the Forecast range from $1.9 million in 2016-2017 and increases to $2.9 million by 2020-2021.

General Fund Capital Operating and Maintenance/Budget Principle #8

Budget Principle #8 states that Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding $100,000 without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including operations and maintenance costs, will not require a decrease in existing basic neighborhood services. Consistent with that direction, this Forecast includes a detailed list and discussion of capital projects that were previously certified by the City Council with annual operating and maintenance costs in the General Fund greater than $100,000. Capital funding for these projects have been included as part of approved Capital Improvement Programs or approved by City Council in 2015-2016. It should be noted that the maintenance and operations costs for the Arcadia Softball Complex (previously titled Softball Complex) and Vietnamese Cultural Heritage Garden projects are estimated to exceed $100,000; however, these projects were established prior to the adoption of Budget Principle #8 and did not need to be certified by City Council.

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 2016-2017, a surplus of $5.7 million is projected, followed by deficits in 2017-2018 ($11.1 million), 2018-2019 ($15.8 million), 2019-2020 ($4.2 million), and 2020-2021 ($4.8 million). Base Case expenditures, including committed additions, increase from $996.1 million in 2016-2017 to $1.14 billion in 2020-2021, for an average annual growth rate of approximately 3.7%. The sources of revenue total $1.00 billion in 2016-2017 and grow to $1.11 billion in 2020-2021, increasing at a slightly lower average annual growth rate of 2.8%.

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 2016 Forecast is compared to the comparable year in the February 2015 Forecast.

2017-2021 General Fund Forecast
Changes in Operating Margin
($ in Millions)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
February 2015 Incremental Surplus/(Shortfall)	**$5.2**	**$0.3**	**($1.4)**	**$5.8**	**N/A**
June 2015 Incremental Surplus/(Shortfall)	$5.2	N/A	N/A	N/A	
February 2016 Incremental Surplus/(Shortfall)	**$5.7**	**($11.1)**	**($15.8)**	**($4.2)**	**($4.8)**

Note: Does not incorporate impacts associated with any new revenue measures; the implementation of the alternative pension reform settlement framework agreements approved in August 2015 and December 2015 with the City's bargaining units; costs associated with services funded on a one-time basis in 2015-2016; costs associated with restoration of key services (police, fire, community centers, and street maintenance) to January 1, 2011 levels; costs associated with a Police Staffing Restoration Strategy (to increase the number of budgeted sworn officers from 1,109 to 1,250 positions); costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses. 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 2016 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2016-2017 and the remaining four years of the forecast period. The 2016-2017 projected surplus of $5.7 million reflects a slight improvement from the $5.2 million budget surplus projected in June 2015 (2015-2016 Adopted Budget). This change 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 position is worse than that presented in the previous Forecast with shortfalls ranging from -$4.2 million to -$15.8 million annually. In the prior Forecast, a small shortfall of $1.4 million was projected in only one year. This change reflects lower growth rates in the economically sensitive revenues, such as Property Tax and Sales Tax, due to an expected economic slowdown along with an overall increase in the expenditure growth rates. For example, retirement costs are increasing at a faster rate than in the prior Forecast and the Committed Additions are higher. While the General Fund position is weaker than in the prior Forecast, the margins in this Forecast are still relatively narrow when put into context of the size of the projected General Fund budget.

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Five-Year Economic Forecast and Revenue Projections

2017-2021

Section 2

Base General Fund Forecast

BASE CASE

February 2016 Forecast

REVENUE SUMMARY

	MODIFIED BUDGET 2015-2016	FORECAST 2017	2018	2019	2020	2021
PROPERTY TAX	255,210,000	270,625,000	284,914,000	298,704,000	311,279,000	322,672,000
		6.04%	5.28%	4.84%	4.21%	3.66%
SALES TAX	190,260,000	194,196,000	199,652,000	204,644,000	212,379,000	221,809,000
		2.07%	2.81%	2.50%	3.78%	4.44%
TRANSIENT OCCUPANCY TAX	17,136,000	17,821,000	18,712,000	19,648,000	20,434,000	21,251,000
		4.00%	5.00%	5.00%	4.00%	4.00%
FRANCHISE FEES	47,582,232	48,903,000	49,857,000	50,889,000	52,039,000	53,538,000
		2.78%	1.95%	2.07%	2.26%	2.88%
UTILITY TAX	93,825,000	95,750,000	95,970,000	96,757,000	97,657,000	99,219,000
		2.05%	0.23%	0.82%	0.93%	1.60%
TELEPHONE TAX	21,000,000	21,614,000	21,679,000	21,727,000	21,770,000	21,809,000
		2.92%	0.30%	0.22%	0.20%	0.18%
BUSINESS TAX	44,425,000	48,450,000	48,673,000	48,916,000	49,195,000	49,525,000
		9.06%	0.46%	0.50%	0.57%	0.67%
LICENSES AND PERMITS	50,221,223	50,818,000	52,952,000	55,282,000	57,272,000	59,506,000
		1.19%	4.20%	4.40%	3.60%	3.90%
DEPARTMENTAL CHARGES	42,684,658	39,328,000	40,979,000	42,783,000	44,323,000	46,051,000
		(7.86%)	4.20%	4.40%	3.60%	3.90%
FINES, FORFEITURES & PENALTIES	15,356,042	14,911,000	15,084,000	15,394,000	15,542,000	15,699,000
		(2.90%)	1.16%	2.06%	0.96%	1.01%
MONEY & PROPERTY	4,207,909	3,864,000	3,906,000	3,965,000	4,064,000	4,206,000
		(8.17%)	1.09%	1.51%	2.50%	3.49%
REVENUE FROM LOCAL AGENCIES	16,447,530	22,875,000	23,150,000	23,254,000	23,524,000	23,768,000
		39.08%	1.20%	0.45%	1.16%	1.04%
REVENUE FROM THE STATE OF CALIFORNIA	12,314,002	10,442,000	10,265,000	10,265,000	10,265,000	10,265,000
		(15.20%)	(1.70%)	0.00%	0.00%	0.00%
FEDERAL REVENUE	12,860,061	2,439,000	1,117,000	0	0	0
		(81.03%)	(54.20%)	(100.00%)	N/A	N/A
OTHER REVENUE	129,530,651	14,828,000	14,922,000	9,335,000	8,795,000	8,915,000
		(88.55%)	0.63%	(37.44%)	(5.78%)	1.36%
GAS TAX	16,900,000	17,500,000	17,642,000	16,772,000	15,819,000	15,701,000
		3.55%	0.81%	(4.93%)	(5.68%)	(0.75%)
TOTAL GENERAL REVENUES	969,960,308	874,364,000	899,474,000	918,335,000	944,357,000	973,934,000
		(9.86%)	2.87%	2.10%	2.83%	3.13%

BASE CASE						
February 2016 Forecast	MODIFIED BUDGET	FORECAST				
REVENUE SUMMARY	2015-2016	2017	2018	2019	2020	2021
TRANSFERS & REIMBURSEMENTS						
OVERHEAD REIMBURSEMENTS	37,431,363	40,053,000	41,736,000	43,572,000	45,141,000	46,901,000
TRANSFERS	21,241,793	20,856,000	21,406,000	21,811,000	22,238,000	22,793,000
REIMBURSEMENTS FOR SERVICES	757,341	667,000	695,000	725,000	751,000	781,000
TOTAL TRANSFERS & REIMBURSEMENTS	59,430,497	61,576,000	63,837,000	66,108,000	68,130,000	70,475,000
		3.61%	3.67%	3.56%	3.06%	3.44%
TOTAL GENERAL FUND REVENUES	1,029,390,805	935,940,000	963,311,000	984,443,000	1,012,487,000	1,044,409,000
		(9.08%)	2.92%	2.19%	2.85%	3.15%
BEGINNING FUND BALANCE	265,520,448	65,826,000	65,648,000	66,803,000	67,808,000	68,908,000
GRAND TOTAL SOURCES	1,294,911,253	1,001,766,000	1,028,959,000	1,051,246,000	1,080,295,000	1,113,317,000
		(22.64%)	2.71%	2.17%	2.76%	3.06%

BASE CASE

February 2016 Forecast EXPENDITURE SUMMARY	MODIFIED BUDGET 2015-2016	FORECAST 2017	2018	2019	2020	2021
PERSONAL SERVICES						
Salaries and Other Compensation	424,846,881	429,081,000	444,027,000	459,493,000	475,500,000	492,066,000
Retirement	242,390,719	253,335,000	267,179,000	276,948,000	284,256,000	296,578,000
Health and Other Fringe Benefits	53,315,056	54,580,000	58,079,000	61,803,000	65,765,000	69,982,000
TOTAL PERSONAL SERVICES	720,552,656	736,996,000	769,285,000	798,244,000	825,521,000	858,626,000
		2.28%	4.38%	3.76%	3.42%	4.01%
TOTAL NON-PERSONAL/EQUIPMENT	114,296,568	94,236,000	95,926,000	99,167,000	102,340,000	103,467,000
		(17.55%)	1.79%	3.38%	3.20%	1.10%
CITY-WIDE						
CITY-WIDE EXPENSES	234,525,646	87,536,000	88,111,000	88,337,000	88,691,000	89,567,000
CAPITAL PROJECTS	57,487,599	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000
TRANSFERS	27,149,755	27,262,000	29,628,000	33,995,000	33,866,000	33,982,000
EARMARKED RESERVES	106,399,029	8,463,000	8,855,000	9,625,000	12,025,000	14,439,000
CONTINGENCY RESERVE	34,500,000	34,500,000	34,500,000	34,500,000	34,500,000	34,500,000
TOTAL CITY-WIDE	460,062,029	163,011,000	166,344,000	171,707,000	174,332,000	177,738,000
		(64.57%)	2.04%	3.22%	1.53%	1.95%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,294,911,253	994,243,000	1,031,555,000	1,069,118,000	1,102,193,000	1,139,831,000
		(23.22%)	3.75%	3.64%	3.09%	3.41%

OPERATING MARGIN

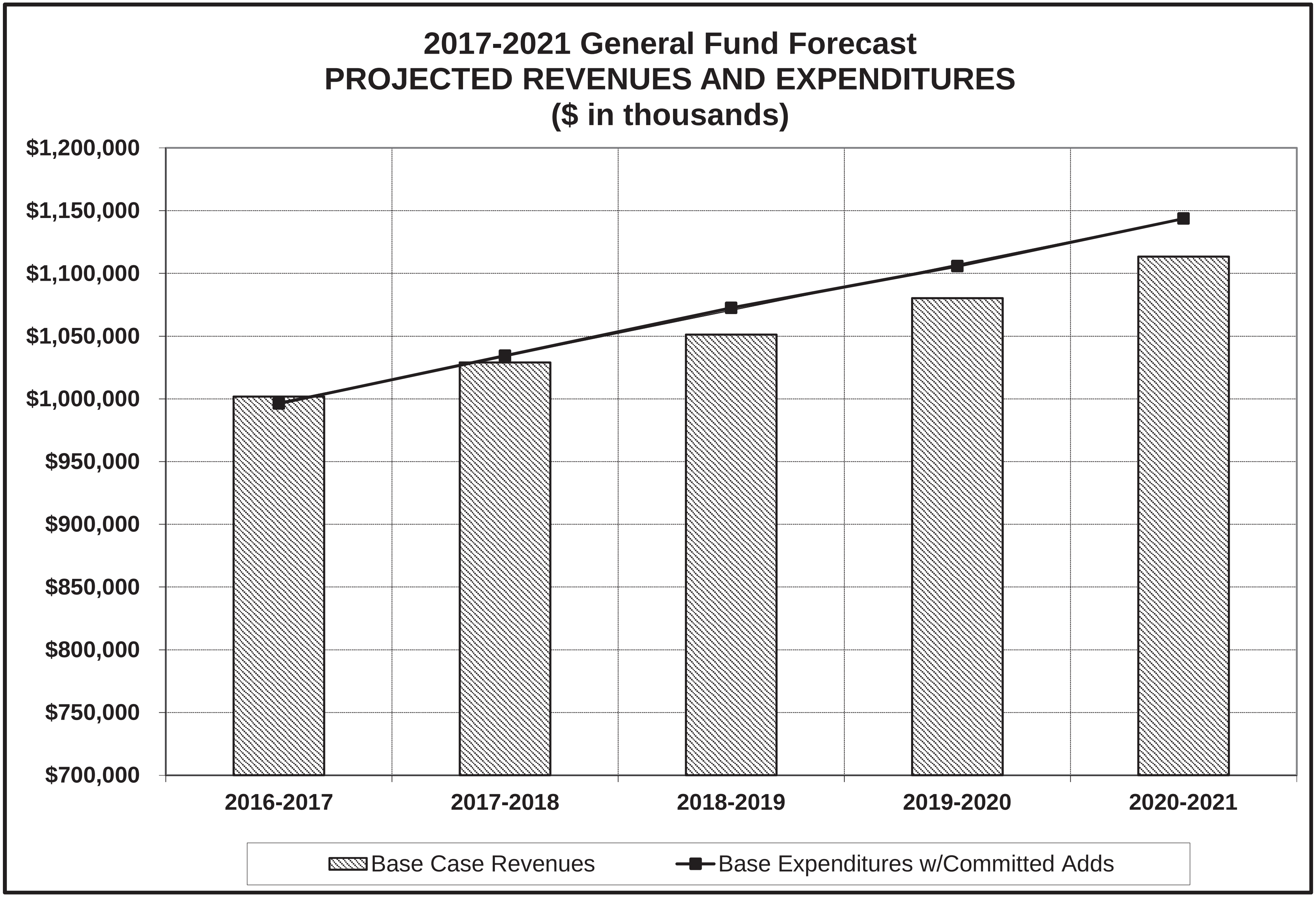
BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	MODIFIED BUDGET 2015-2016	FORECAST 2017	2018	2019	2020	2021
GRAND TOTAL REVENUE	1,294,911,253	1,001,766,000	1,028,959,000	1,051,246,000	1,080,295,000	1,113,317,000
GROWTH RATE		(22.64%)	2.71%	2.17%	2.76%	3.06%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,294,911,253	994,243,000	1,031,555,000	1,069,118,000	1,102,193,000	1,139,831,000
GROWTH RATE		(23.22%)	3.75%	3.64%	3.09%	3.41%
OPERATING MARGIN CHANGE *From Prior Year*		7,523,000	(10,119,000)	(15,276,000)	(4,026,000)	(4,616,000)

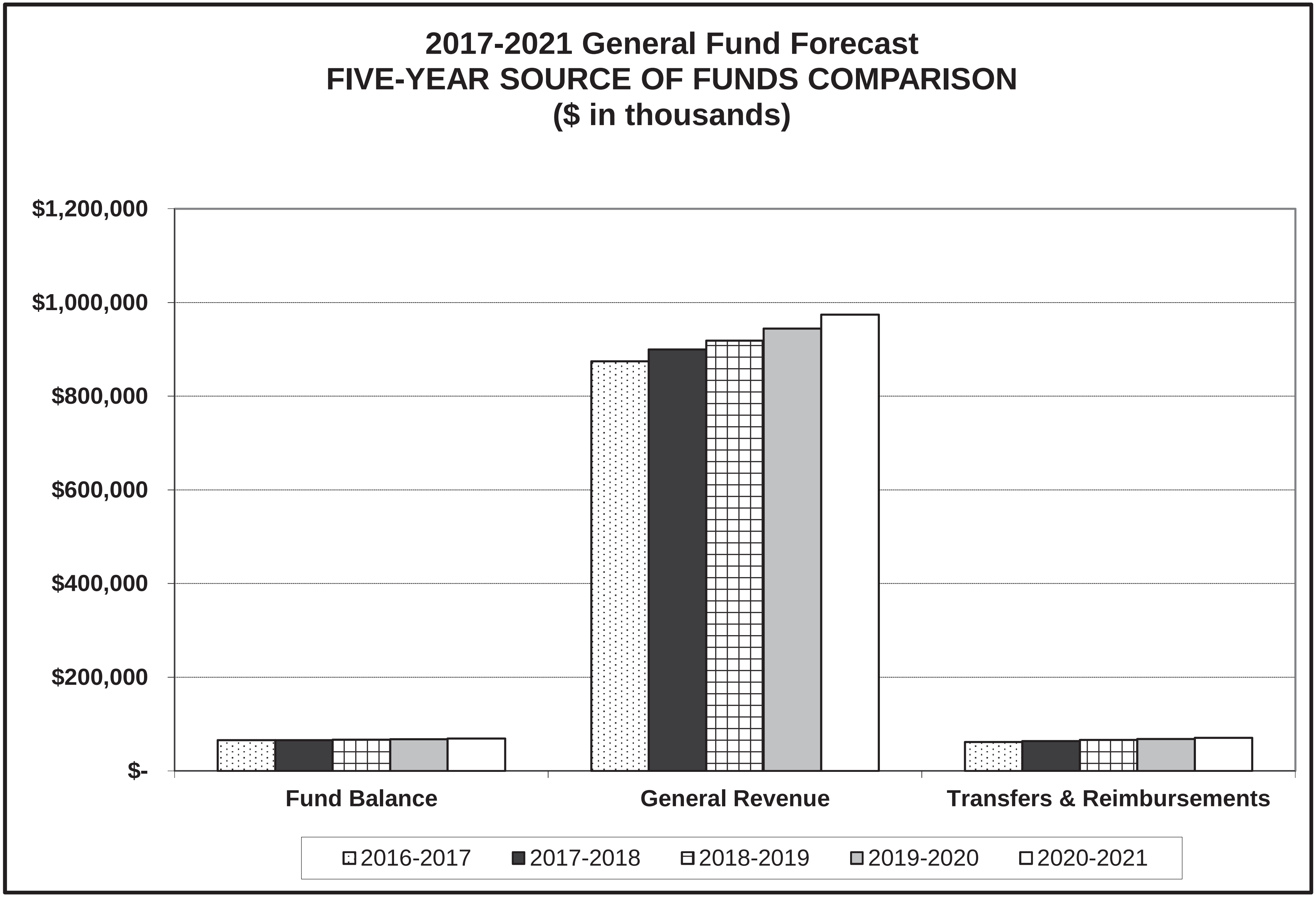
BASE CASE

February 2016 Forecast EXPENDITURE SUMMARY	MODIFIED BUDGET 2015-2016	FORECAST 2017	2018	2019	2020	2021
COMMITTED ADDITIONS:						
New Police Maintenance and Operations		1,300,000	1,339,000	1,379,000	1,420,000	1,463,000
New Parks and Recreation Facilities Maintenance and Operations		354,000	789,000	977,000	1,095,000	1,204,000
New Traffic Infrastructure Assets Maintenance and Operations		199,000	237,000	243,000	250,000	259,000
Measure O (Library) Maintenance and Operations		11,000	11,000	11,000	11,000	11,000
Measure P (Parks) Maintenance and Operations		0	435,000	738,000	783,000	830,000
TOTAL COMMITTED ADDITIONS	0	1,864,000	2,811,000	3,348,000	3,559,000	3,767,000
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,294,911,253	996,107,000	1,034,366,000	1,072,466,000	1,105,752,000	1,143,598,000
		(23.08%)	3.84%	3.68%	3.10%	3.42%

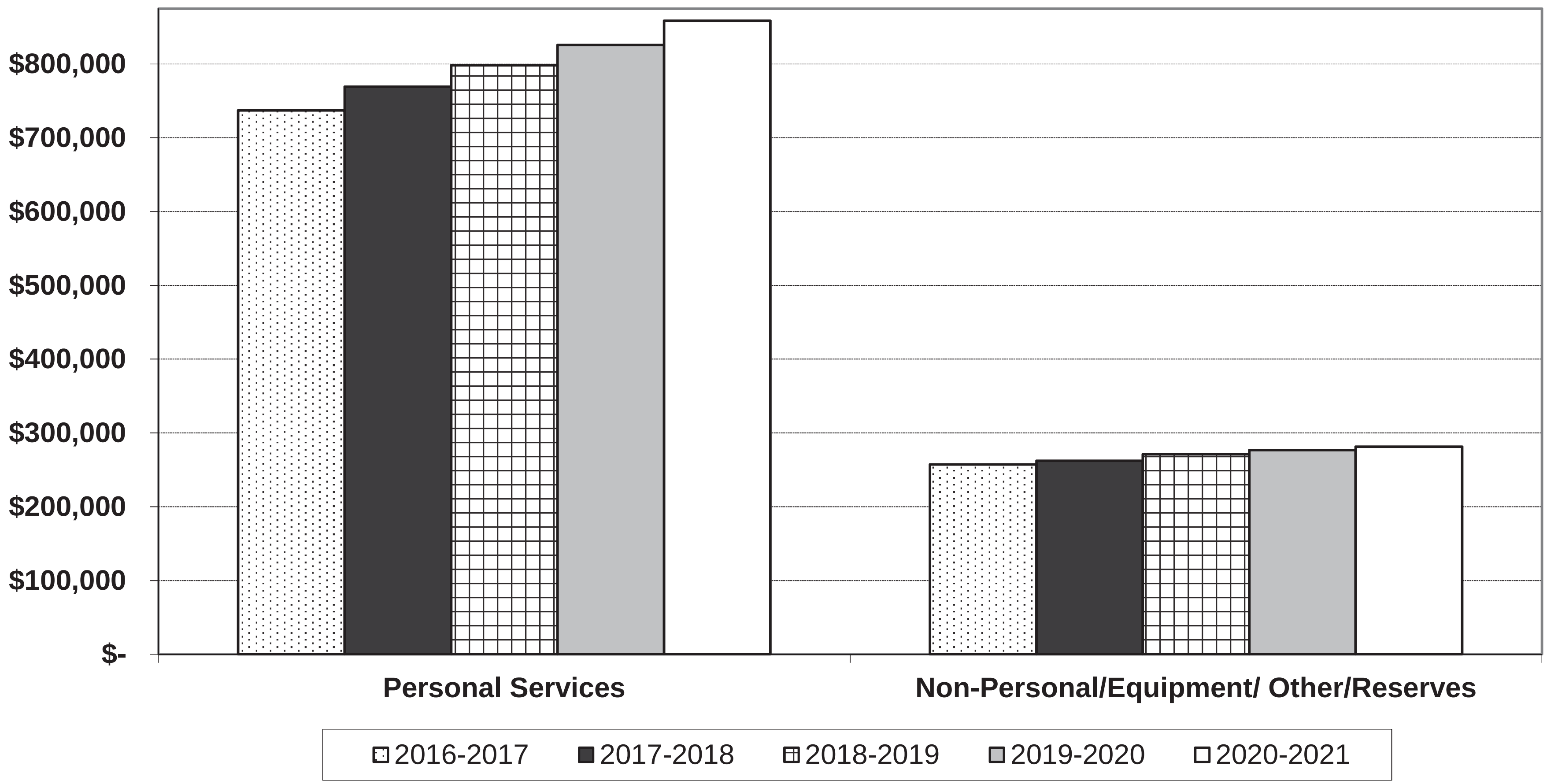
OPERATING MARGIN

BASE EXPENDITURES (w / COMMITTED ADDITIONS)	MODIFIED BUDGET 2015-2016	FORECAST 2017	2018	2019	2020	2021
GRAND TOTAL REVENUE	1,294,911,253	1,001,766,000	1,028,959,000	1,051,246,000	1,080,295,000	1,113,317,000
GROWTH RATE		(22.64%)	2.71%	2.17%	2.76%	3.06%
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,294,911,253	996,107,000	1,034,366,000	1,072,466,000	1,105,752,000	1,143,598,000
GROWTH RATE		(23.08%)	3.84%	3.68%	3.10%	3.42%
ONGOING OPERATING MARGIN CHANGE *From Prior Year*		5,659,000	(11,066,000)	(15,813,000)	(4,237,000)	(4,824,000)


2017-2021 General Fund Forecast
PROJECTED REVENUES AND EXPENDITURES
($ in thousands)
$1,200,000
$1,150,000
$1,100,000
$1,050,000
$1,000,000
$950,000
$900,000
$850,000
$800,000
$750,000
$700,000
2016-2017
2017-2018
2018-2019
2019-2020
2020-2021
Base Case Revenues
Base Expenditures w/Committed Adds


2017-2021 General Fund Forecast
FIVE-YEAR SOURCE OF FUNDS COMPARISON
($ in thousands)
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$-
Fund Balance
General Revenue
Transfers & Reimbursements
2016-2017
2017-2018
2018-2019
2019-2020
2020-2021

2017-2021 General Fund Forecast
FIVE-YEAR USE OF FUNDS COMPARISON
($ in thousands)



Note: Committed Additions ranging from $1.9 million to $3.8 million annually during this Forecast are not displayed.

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Five-Year Economic Forecast
and
Revenue Projections

2017-2021

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 "**<u>Committed Additions</u>**" section of the General Fund Forecast.

Committed Additions involve expense changes for projects that have been previously approved by the City Council and deemed relatively unavoidable. The largest item included in this category is the maintenance and operating expenses related to the purchase of body worn cameras. The remaining items included in this category are additional maintenance and operating expenses that will be required to operate and maintain approved capital projects scheduled for completion or to open within the five-year horizon of this forecast. These expenses are related to the maintenance and operations of new parks and recreational facilities, new traffic infrastructure assets, the Library's Mobile Maker[Space]ship vehicle, and the Arcadia Softball Complex as part of the Measure P (Parks) Bond funds. 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 2017-2021 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.

<u>Committed Additions Summary</u>

New Police Maintenance and Operations – This category reflects the projected maintenance and operations costs related to the purchase of body worn cameras. As part of the 2014-2015 Annual Report, the City Council approved the purchase of approximately 600 body worn cameras for sworn field personnel. Assumed in this category is funding to operate and maintain the cloud-based evidence management and network storage, and associated staffing to facilitate the body worn camera program.

2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
1,300,000	1,339,000	1,379,000	1,420,000	1,463,000

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. A number of parks scheduled to come online over the next five years include, but are not limited to, Communications Hill – Grand Staircase, a new ride and animal exhibit at Happy Hollow Park and Zoo, Iris Chang Park, and the Vietnamese Cultural Heritage Garden. The Vietnamese Cultural Heritage Garden project was included in prior Forecast reports, but it was excluded in the 2016-2020 Forecast because the Viet Heritage Society (VHS) is currently maintaining the facility as part of an agreement with the City. However, it is incorporated into this Forecast to reflect the City likely taking over the maintenance of the facility following the completion of the first phase of construction. The forecast also includes operating cost estimates for trail sections for Lower Silver Creek Trail and the Three Creeks Trail. Funding continues to be set aside for Future Trail Projects to help meet the City's goal to expand the City's trail system to 100 miles by the year 2022. The City currently has approximately 57 miles of trails.

2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
354,000	789,000	977,000	1,095,000	1,204,000

New Traffic Infrastructure Assets Maintenance and Operations – This category reflects the anticipated additional costs that will be necessary to operate and maintain transportation-related projects included in the City's Five-Year Capital Improvement Program. Funding to operate and maintain new traffic signals, landscaping, street lighting, pavement markings, and other traffic infrastructure is assumed in this category. Many projects are related to traffic safety enhancements for pedestrians and bicyclists, such as Bicycle and Pedestrian Facilities, Ocala Avenue Pedestrian Improvements, Pedestrian Oriented Traffic Signals (OBAG), Traffic Signal Improvement Program, and Developer Constructed Traffic Signal. Also assumed in this category is funding to maintain the pedestrian improvements completed along the Valley Transportation Authority's (VTA) Light Rail route on Capitol Expressway from Capitol Avenue to Quimby Road. The VTA had agreed to fund the costs for three years of the project, starting in 2013-2014, and the City would fund the costs starting in 2016-2017.

2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
199,000	237,000	243,000	250,000	259,000

Committed Additions Summary

New Library Maintenance and Operations – This category reflects the projected additional costs of maintaining and operating the Mobile Maker[Space]ship, which the purchase of the vehicle was approved as part of the 2015-2016 Adopted Capital Budget. This new vehicle will be outfitted with a variety of technology that includes 3-D printers, laptops and tablets, a vinyl cutter, laser cutter, and several robotic kits, and will serve as a mobile space for patrons to participate in a range of services that include learning digital content creation and advanced computer coding skills. Patrons will also be able to register for library cards, check out library materials, and learn to use the Library's electronic resources.

2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
11,000	11,000	11,000	11,000	11,000

Measure P (Parks) Maintenance and Operations – This category reflects the projected additional maintenance and operations costs of new and expanded parks and community facilities that were included as part of a bond measure approved by the voters in November 2000. The only project included in this forecast—and the last remaining Measure P park project—is the Arcadia Softball Complex (previously titled Softball Complex) tentatively scheduled to open in 2017-2018 with a projected net operating expenditure of $435,000, which reflects partial year funding. It should be noted that the City completed a Request for Proposal to obtain an outside operator for the Management, Operation, and Maintenance of the proposed new softball facility. Only one vendor submitted a proposal and the City began negotiations with the vendor. It is required that the selected vendor enter into a Qualification Management Agreement in compliance with Internal Revenue Service (IRS) Procedure 97-13 to manage, promote, operate, and maintain the proposed softball facility. The IRS regulation is intended to prohibit revenue sharing agreements for public bond funded projects as a way to prevent public funding being used to support corporate interests. The vendor decided to not enter into this type of an agreement with the City, therefore, the Administration is recommending a City-operated model as reflected in this Forecast. It should also be noted that the maintenance costs for the Softball Complex assumes the installation of natural turf as opposed to prior estimates that had assumed artificial turf. As a result of this change, the costs included in this Forecast to maintain the facility are significantly higher than those reported in prior Forecasts. Once the final project scope is completed, the operating costs and amount of anticipated revenue collected from field rental fees will likely be revised further.

2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
0	435,000	738,000	783,000	830,000

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 2015-2016, or align with previous City Council direction. All capital projects that were previously approved for certification by the City Council with annual maintenance and operating costs in the General Fund greater than $100,000 have been denoted in the chart with an asterisk. As denoted by a double asterisk in the chart, the maintenance and operations costs for the Arcadia Softball Complex (previously titled Softball Complex) and Vietnamese Cultural Heritage Garden projects were established prior to the adoption of Budget Principle #8 and did not need to be certified by City Council. By 2020-2021, the costs to maintain and operate all City Council approved projects expected to come online during the five-year period are estimated at approximately $3.8 million annually, of which approximately $830,000 is related to a voter-approved bond measure for parks.

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 - 2017-2021 GENERAL FUND FORECAST
Net Operating Impact of Committed Additions

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
NEW POLICE MAINTENANCE AND OPERATIONS					
Body Worn Cameras	1,300,000	1,339,000	1,379,000	1,420,000	1,463,000
TOTAL NEW POLICE MAINTENANCE AND OPERATIONS	**1,300,000**	**1,339,000**	**1,379,000**	**1,420,000**	**1,463,000**
NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
Future Trail Projects*	0	42,000	109,000	180,000	255,000
Alum Rock Avenue and 31st Street Park	0	23,000	23,000	24,000	24,000
Baypointe Park	9,000	18,000	19,000	19,000	19,000
Communications Hill - Grand Staircase	82,000	90,000	99,000	109,000	120,000
Communications Hill II - Hillsdale Fitness Staircase	0	22,000	38,000	39,000	41,000
Communications Hill II - Turnkey Park	0	36,000	37,000	38,000	38,000
Del Monte Park Phase II	0	33,000	58,000	59,000	61,000
Del Monte Phase III (Fencing and Weed Abatement)	7,000	14,000	15,000	15,000	15,000
Happy Hollow Park and Zoo - Amusement Ride	37,000	37,000	37,000	37,000	37,000
Happy Hollow Park and Zoo - Exhibit	80,000	80,000	80,000	80,000	80,000
Iris Chang Park	7,000	45,000	46,000	47,000	48,000
Pellier Park	0	0	20,000	20,000	21,000
Rincon South Park	0	12,000	29,000	30,000	31,000
Santana Park	0	0	0	14,000	15,000
Spartan Keyes (Fencing/Weed Abatement)	7,000	15,000	15,000	15,000	15,000
Tamien Park Phase I	19,000	40,000	40,000	41,000	42,000
Tamien Park Phase II	0	29,000	27,000	30,000	31,000
TRAIL: Lower Silver Creek (Alum Rock Ave to Highway 680)	0	20,000	40,000	41,000	41,000
TRAIL: Three Creeks Trail (Lonus Street to Minnesota Avenue)	11,000	83,000	85,000	87,000	89,000
Vietnamese Cultural Heritage Garden**	95,000	150,000	160,000	170,000	181,000
TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	**354,000**	**789,000**	**977,000**	**1,095,000**	**1,204,000**
NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS					
Bicycle and Pedestrian Facilities***	98,000	101,000	104,000	107,000	110,000
Capitol Expressway Light Rail Pedestrian Improvements	27,000	28,000	29,000	30,000	31,000
Neighborhood Traffic Calming	1,000	1,000	1,000	1,000	2,000
Ocala Avenue Pedestrian Improvements	2,000	11,000	11,000	11,000	12,000
Park Avenue Multimodal Improvements	1,000	4,000	4,000	4,000	5,000
Pedestrian Oriented Traffic Signals (OBAG)	14,000	15,000	15,000	16,000	16,000
The Alameda "Beautiful Way" Phase 2 (OBAG)	1,000	5,000	5,000	5,000	5,000
Traffic Signal Improvement Program	2,000	2,000	2,000	2,000	2,000
Developer Constructed Traffic Signal	53,000	70,000	72,000	74,000	76,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS	**199,000**	**237,000**	**243,000**	**250,000**	**259,000**
NEW LIBRARY MAINTENANCE AND OPERATIONS					
Mobile Maker[Space]ship Vehicle	11,000	11,000	11,000	11,000	11,000
TOTAL NEW LIBRARY MAINTENANCE AND OPERATIONS	**11,000**	**11,000**	**11,000**	**11,000**	**11,000**
MEASURE P (PARKS) MAINTENANCE AND OPERATIONS					
Arcadia Softball Complex**	0	435,000	738,000	783,000	830,000
TOTAL MEASURE P (PARKS) MAINTENANCE AND OPERATIONS	**0**	**435,000**	**738,000**	**783,000**	**830,000**
TOTAL OPERATING IMPACT OF COMMITTED ADDITIONS	**1,864,000**	**2,811,000**	**3,348,000**	**3,559,000**	**3,767,000**

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

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

***While this line item exceeds $100,000 annually, it is composed of several projects which have operating and maintenance costs well below $100,000. Since these projects have common traffic infrastructure components (e.g. pavement markings and detection sensors) in different locations throughout the City, they are displayed on one line item for ease of reference.

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Five-Year Economic Forecast and Revenue Projections

2017-2021

Section 4

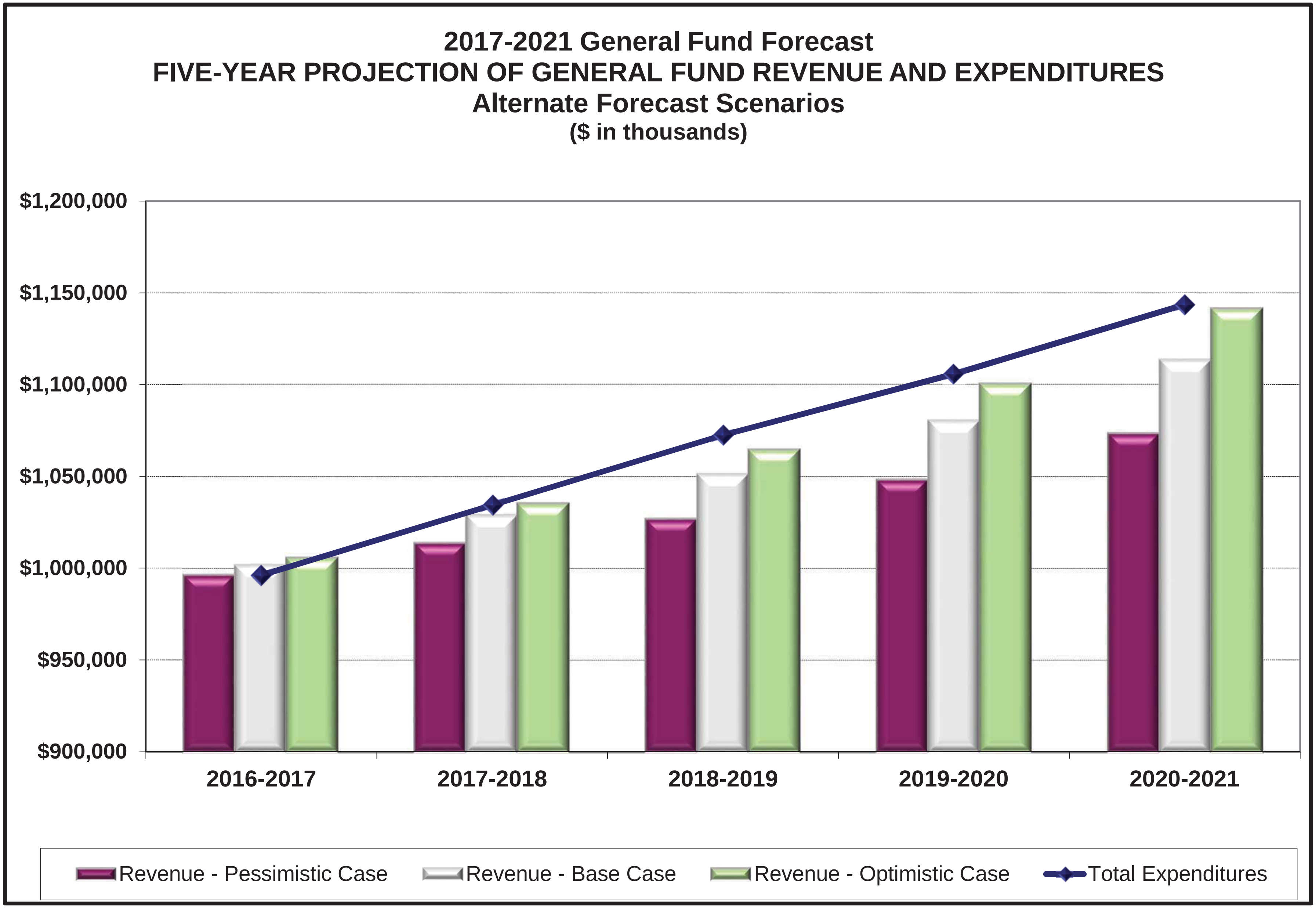
Alternate Forecast Scenarios

2017-2021 General Fund Forecast
PROJECTED FIVE-YEAR OPERATING MARGINS
Alternate Forecast Scenarios

BASE CASE					
	2017	**2018**	**2019**	**2020**	**2021**
TOTAL REVENUES ($)	1,001,766,000	1,028,959,000	1,051,246,000	1,080,295,000	1,113,317,000
GROWTH RATE		2.71%	2.17%	2.76%	3.06%
TOTAL EXPENDITURES ($)	996,107,000	1,034,366,000	1,072,466,000	1,105,752,000	1,143,598,000
GROWTH RATE		3.84%	3.68%	3.10%	3.42%
OPERATING MARGIN - BASE	**5,659,000**	**(11,066,000)**	**(15,813,000)**	**(4,237,000)**	**(4,824,000)**

OPTIMISTIC CASE					
	2017	**2018**	**2019**	**2020**	**2021**
TOTAL REVENUES ($)	1,005,610,000	1,035,164,000	1,064,450,000	1,100,335,000	1,141,320,000
GROWTH RATE		2.94%	2.83%	3.37%	3.72%
TOTAL EXPENDITURES ($)	996,107,000	1,034,366,000	1,072,466,000	1,105,752,000	1,143,598,000
GROWTH RATE		3.84%	3.68%	3.10%	3.42%
OPERATING MARGIN - OPTIMISTIC	**9,503,000**	**(8,705,000)**	**(8,814,000)**	**2,599,000**	**3,139,000**

PESSIMISTIC CASE					
	2017	**2018**	**2019**	**2020**	**2021**
TOTAL REVENUES ($)	996,691,000	1,014,071,000	1,027,112,000	1,048,353,000	1,073,376,000
GROWTH RATE		1.74%	1.29%	2.07%	2.39%
TOTAL EXPENDITURES ($)	996,107,000	1,034,366,000	1,072,466,000	1,105,752,000	1,143,598,000
GROWTH RATE		3.84%	3.68%	3.10%	3.42%
OPERATING MARGIN - PESSIMISTIC	**584,000**	**(20,879,000)**	**(25,059,000)**	**(12,045,000)**	**(12,823,000)**


2017-2021 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
($ in thousands)
$1,200,000
$1,150,000
$1,100,000
$1,050,000
$1,000,000
$950,000
$900,000
2016-2017
2017-2018
2018-2019
2019-2020
2020-2021
Revenue - Pessimistic Case
Revenue - Base Case
Revenue - Optimistic Case
Total Expenditures

Five-Year Economic Forecast and Revenue Projections

2017-2021

CAPITAL REVENUE FORECAST

MAJOR CAPITAL REVENUES

Overview

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

Construction and property resale-related Capital Program revenues are anticipated to increase slightly from the estimates provided in the 2016-2020 Adopted Capital Improvement Program (CIP). Activity in these areas in 2015-2016 is generally in line or slightly exceeding expectations and the continuation of this performance is reflected in the 2017-2021 revenue estimates. There is a projected increase of 2% over the 2016-2020 Adopted CIP, from $325.6 million in the 2016-2020 Adopted CIP to $330.5 million in the 2017-2021 Forecast. The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this Forecast with the 2016-2020 Adopted CIP.

FORECAST COMPARISON SUMMARY
($ in Thousands)

	2016-2020 CIP	2017-2021 Forecast	Difference	% Change
Construction and Conveyance Tax	$175,000	$176,000	$1,000	1%
Building and Structure Construction Tax	62,000	65,000	3,000	5%
Construction Excise Tax	83,000	84,000	1,000	1%
Municipal Water System Fees	500	500	0	0%
Residential Construction Tax	950	875	(75)	(8%)
Sanitary Sewer Connection Fee	3,400	3,250	(150)	(4%)
Storm Drainage Connection Fee	750	875	125	17%
TOTAL	**$325,600**	**$330,500**	**$4,900**	**2%**

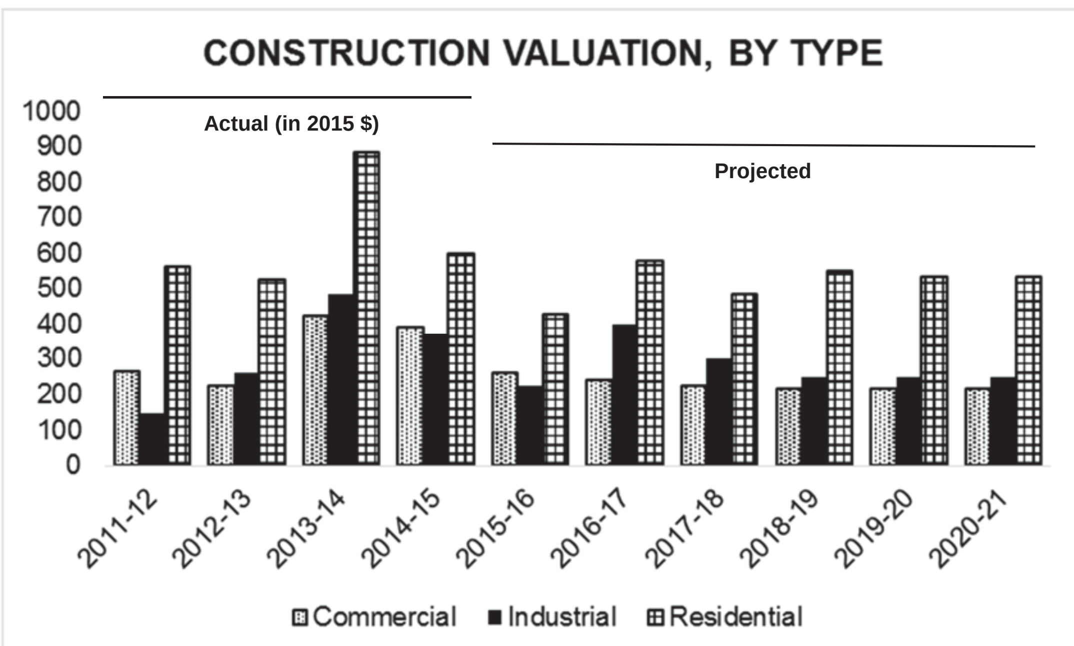
A discussion of major construction activity trends and each of the revenue categories are included in more detail on the following pages.

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 2015 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 (2017-2021)”, 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: $915 million for 2015-2016, a 33% decrease compared to $1.4 billion in 2014-2015. This level of activity is expected to increase to $1.2 billion in 2016-2017, then drop to approximately $1 billion each year in the out years of the forecast as projects are anticipated to be completed.

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



CONSTRUCTION ACTIVITY PROJECTIONS

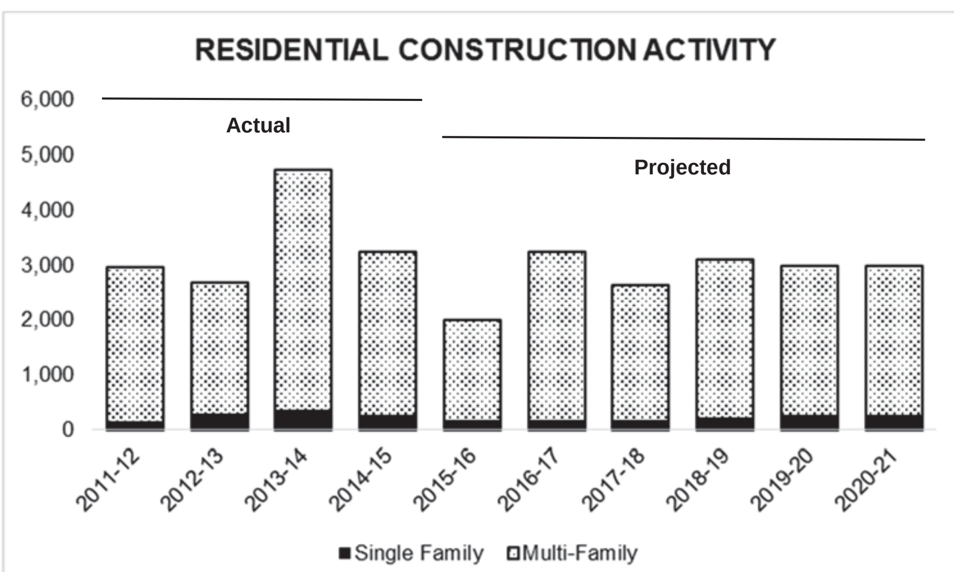
A summary of the PBCE Department construction activity projections and the corresponding revenue estimates are provided below. It should be noted that due to the highly volatile nature of the construction market, the reliability of the estimates can be expected to change over the period of the forecast. 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, reached 3,241 dwelling units in 2014-2015, and is projected to total 2,000 new dwelling units in 2015-2016, a significant decrease from the prior year of 38%.

The total value of residential construction activity projected in this Forecast is $2.7 billion, which is the same as the projected valuation included in the 2016-2020 Forecast. The PBCE Department expects residential construction activity to generate an estimated 3,250 new units in 2016-2017, 2,650 new units in 2017-2018, 3,100 new units in 2018-2019, and 3,000 new units in 2019-2020 and 2020-2021. This represents an average of 3,000 units per year or 15,000 units over the forecast period. This activity level has increased slightly by 3% compared to the 14,600 units included in the 2016-2020 Forecast.

This forecast expects a total of 14,000 multi-family dwelling units or approximately 93% of all dwelling units (single-family and multi-family) to be constructed. This figure represents a 5% increase compared to the projections in the 2016-2020 Forecast for this category. Only 1,000 new single-family dwelling units are anticipated during this forecast period, which is slightly lower than the projections in the 2016-2020 Forecast, demonstrating that high-density developments will continue to be strong. The following chart shows the number of new units, by housing type, anticipated in San José through 2020-2021.



CONSTRUCTION ACTIVITY PROJECTIONS

B. Commercial Construction Activity

In 2014-2015, commercial construction activity totaled $392 million, a decrease of 7% from 2013-2014. In 2015-2016, the PBCE Department expects commercial activity to drop by another 34% to $260 million in total permit valuation. This decline from 2013-2014 peak levels is the result of projects moving through the development pipeline and completing construction. As fewer new projects enter the pipeline, the valuation continues to decline slightly in 2016-2017 and beyond.

The total commercial construction valuation projected in this Forecast remained flat from the previous five-year forecast at $1.1 billion. As discussed in the attached report provided by the PBCE Department, a majority of commercial developments occurred in the last few years such as the San José Earthquakes Stadium, Coleman Landing Shopping Center, and the Hitachi Site along Cottle Road. It is projected that new commercial construction activity will remain modest in the next five years partly due to the lack of large vacant sites available. Information provided by real estate trade groups for the 4th Quarter 2015 indicated that the San José office and research and development (R&D) vacancy rate was 12.1% and the retail vacancy rate was 5.2%[1].

C. Industrial Construction Activity

In 2014-2015, industrial activity remained strong with total valuation of $372 million, but a decrease of 23% from 2013-2014 as a result of new construction tapering off. The PBCE Department expects valuation to decrease to $225 million in 2015-2016. In 2016-2017, valuation is anticipated to increase to $400 million due to several major projects going under construction in Downtown and North San José, and then drop to $300 million in 2017-2018 and further decrease to $250 million annually in 2018-2019 through 2020-2021 to reflect a more moderate level of activity. Information provided by real estate trade groups for the 4th Quarter 2015 indicated that the San José vacancy rate for industrial space was 3.0%[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. To that end, in November 2013, the City Council extended a partial suspension of construction taxes placed on new construction or alteration of office, research and development uses, data center uses and installation of solar photovoltaic systems until March 31, 2017 (R&D Facilities Incentive). Additionally, the City Council enacted the Downtown High Rise Incentive Program in May 2012 that reduced construction taxes by 50% for new downtown residential, commercial, and industrial projects. This program was effectively replaced by the Downtown Commercial High Rise Development Incentive Program approved by the City Council in December 2014, which suspends the collection of the Building and Structure Construction Tax

[1] Cushman and Wakefield, MarketBeat Reports, Q4 2015

CONSTRUCTION ACTIVITY PROJECTIONS

and the Construction Excise Tax for a single commercial high rise development project that obtains a building permit by December 31, 2016. How these incentive programs are applied to the Building and Structure Construction Tax and the Construction Excise Tax are discussed in the following pages.

Major Development Activity Data

As part of the attached Development Activity Highlights and Five-Year Forecast (2017-2021) 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

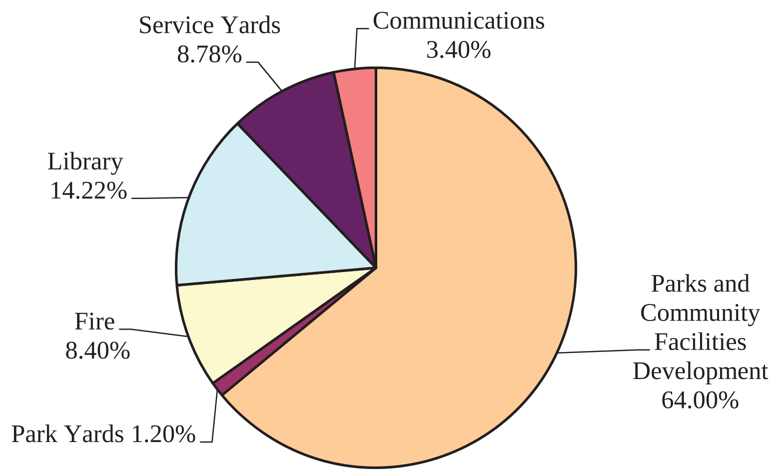
The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from $75 per unit located in a building containing at least 20 dwelling units to $150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

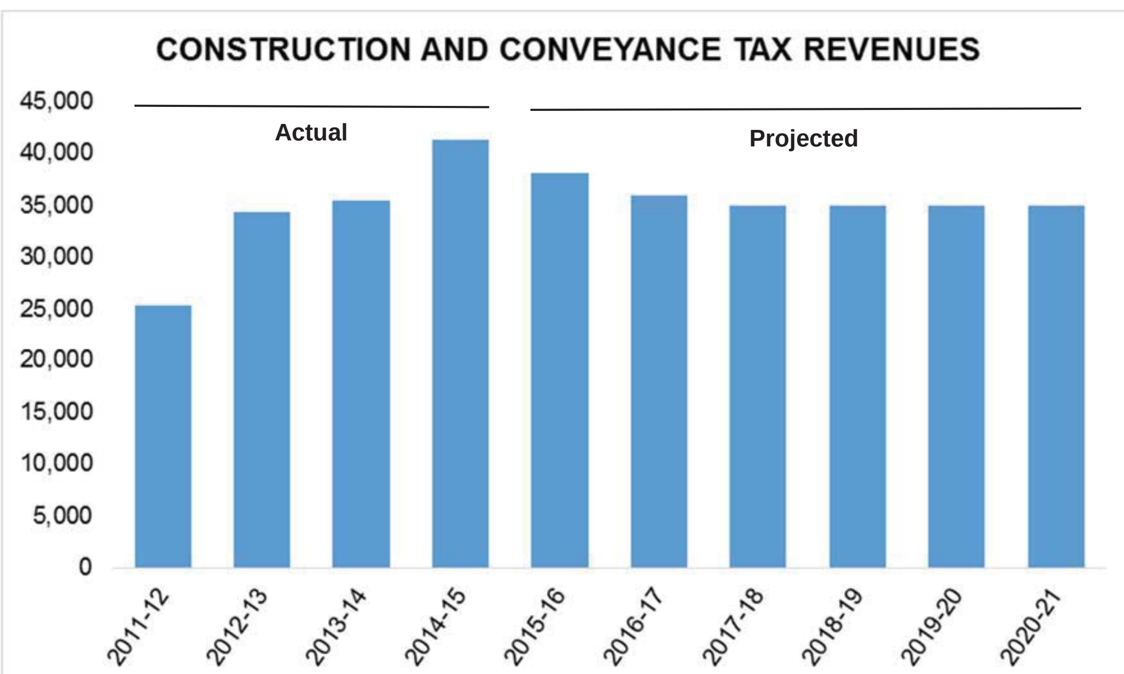
The five-year projection for Construction and Conveyance Tax revenue totals $176 million, which is consistent with the estimate of $175 million used to develop the 2016-2020 Adopted CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 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.

CONSTRUCTION AND CONVEYANCE TAX

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 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 reaching $41.2 million in 2014-2015.

While below the most recent peak in 2014-2015, revenues are expected to remain strong in 2015-2016. The median single-family home price in December 2015 was $825,000, which is an increase of 10% from the December 2014 price of $750,000. The number of listings of new single-family and multi-family dwellings on the market has increased 7.3%, from 300 listings in December 2014 to 322 in December 2015. As a result of the higher level of inventory, the number of property transfers (sales) for all types of residences increased 11.1%, from 613 in December 2014 to 681 in December 2015. However, the average days on market for single-family and multi-family homes increased 35% from 20 days in December 2014 to 27 days in December 2015. Based on increased home prices and property transfers through December and the expectation for relatively strong performance in the second half of the year, collections in 2015-2016 are projected to conservatively end the year at $38 million, higher than the estimated $35 million in the 2016-2020 Adopted CIP. However, to hedge against volatility in this category, collections are programmed to decrease slightly to $36 million in 2016-2017, then slightly down again to $35 million annually throughout the remaining forecast period.

The graph below shows actual and projected revenues for the combined Construction and Conveyance Tax revenues over a 10-year period.



BUILDING AND STRUCTURE CONSTRUCTION TAX

The Building and Structure Construction Tax is imposed upon the construction, repair or improvement of any building or structure where a building permit is required. Current rates are:

1) Residential – 1.75% of 88% of the Building Official's valuation.
2) Commercial – 1.5% of the Building Official's valuation.
3) Industrial – 1.0% of the Building Official's valuation.

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

As discussed above, the R&D Facilities Incentive and the Downtown Commercial High Rise Development Incentive Programs impact the Building and Structure Construction Tax. The R&D Facilities Incentive acts to reclassify buildings that were previously identified as commercial – such as research and development facilities and data centers – and treats them as industrial, which results in projects moving from a tax rate of 1.5% to 1.0%. The Downtown Commercial High Rise Development Incentive Program waives taxes for the first commercial tower that receives a building permit prior to December 31, 2016. It is anticipated that several major projects in Downtown will be under construction in 2016-2017, which is reflected in the projected increase for industrial valuation; however, because one of the major projects will qualify for this incentive, the estimated Building and Structure Construction Tax revenues from the project is not included.

In 2015-2016, Building and Structure Construction Tax receipts through January totaled $9.1 million, down 7% from the $9.8 million collected through the same period last year. The 2015-2016 Adopted Budget estimate of $14 million allows for a drop of 15% from the prior year. If collections continue at the current pace, revenues are expected to meet or slightly exceed the 2015-2016 Adopted Budget estimate by year-end.

Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections totals $65 million, an increase of $3 million (5%) from the estimate included in the 2016-2020 Adopted Capital Improvement Program (CIP). It is projected that collections will drop from the 2015-2016 estimate of $14 million to annual receipts of $13 million in the forecast 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

BUILDING AND STRUCTURE CONSTRUCTION TAX

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 will dedicate 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. As stated previously, it is anticipated that there will be several new major projects under construction in the North San José area in 2016-2017; however, because these projects fall within the North San José Area Development Policy, the estimated Building and Structure Construction Tax revenues are not included in this Forecast. 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. The current rates are:

1) Residential – 2.75% of 88% of the Building Official's valuation.
2) Commercial – 3.0% of the Building Official's valuation.

As mentioned above, this tax is a general purpose tax; however, the majority of the proceeds have generally been used for a variety of essential Traffic Capital projects that cannot be funded by the Building and Structure Construction Tax or grants. Typical projects funded with this tax include street maintenance and resurfacing, streetlights, bicycle and pedestrian facilities, and most strategic planning programs, which improve the City's ability to obtain State and federal grants 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.

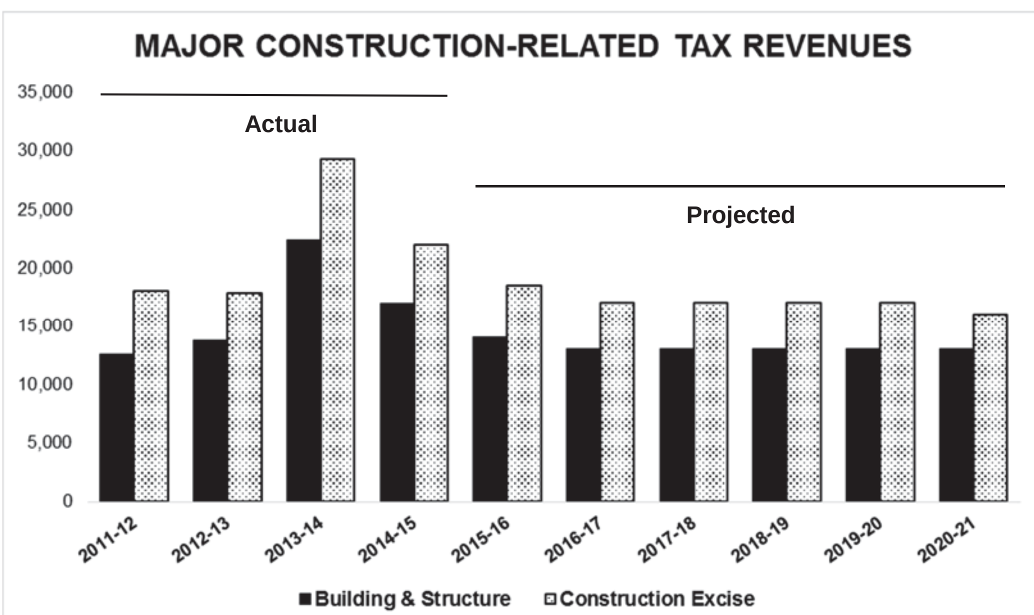
Unlike the Building and Structure Construction Tax, this tax does not apply to industrial development. As a result, changes in industrial building activity do not affect these tax receipts.

CONSTRUCTION EXCISE TAX

It is important to note that the R&D Facility Incentive reclassifies certain building uses from commercial to industrial. As the Construction Excise Tax does not levy a tax on industrial uses, these facilities are exempt, resulting in the R&D Facility Incentive having a larger impact on the Construction Excise Tax than the Building and Structure Construction Tax. The Downtown Commercial High Rise Development Incentive waives taxes for the first commercial tower that receives a building permit prior to December 31, 2016. It is anticipated that several major projects in Downtown will be under construction in 2016-2017, which is reflected in the projected increase for industrial valuation; however, because one of the major projects will qualify for this incentive, the estimated Construction Excise Tax revenues from the project is not included.

In 2015-2016, tax receipts through January for the Construction Excise Tax Fund totaled $10.8 million, 16% below the $12.9 million collected through the same period last year. The 2015-2016 Adopted Budget estimate of $19 million allows for a drop of 12% from the prior year. Collections are expected to end the year at $18.5 million, slightly below its 2015-2016 Adopted Budget estimate as a result of decreased residential development activity.

Based upon the construction projections provided by the PBCE Department and actual collections on this tax, Construction Excise Tax collections are projected to total $84 million over the five-year forecast period, with proceeds estimated at $17 million annually in 2016-2017 through 2019-2020, then dropping to $16 million in 2020-2021. This collection level represents a slight increase of $1 million (1%) from the 2016-2020 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 stay flat at $500,000 over the Forecast period. These fees are detailed in the chart below.

MUNICIPAL WATER SYSTEM FEES

($ in Thousands)

	2016-2020 CIP	2017-2021 Forecast	Difference	
Advance System Design Fee	125	125	0	0%
Meter Installation Fee	125	125	0	0%
Service Connection Fee	250	250	0	0%
TOTAL	500	500	0	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 2015-2016, receipts are projected to total $200,000 based on year-to-date activity levels. This collection level is lower than the budget of $250,000 as a result of less residential development activity. Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, collections are expected to drop to $175,000 in the forecast as a result of development activity returning to more moderate levels. A total of $875,000 is expected over the five-year period of this forecast, which is slightly lower than the total in the 2016-2020 Adopted CIP of $950,000.

SANITARY SEWER CONNECTION FEE

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

In 2015-2016, receipts are projected to total $700,000 based on year-to-date activity levels, which is below the budgeted estimate of $800,000. Annual collections are expected to drop to $650,000 in the forecast. The 2017-2021 Forecast projection for this fee is $3.3 million, which is a 4% decrease from the 2016-2020 Adopted CIP estimate of $3.4 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 2015-2016, receipts are projected to total $200,000 based on year-to-date activity levels, which is above the budgeted estimate of $150,000. The five-year forecast for Storm Drainage Connection Fees totals $875,000, with annual receipts of $175,000. This collection level is higher than the estimate included in the 2016-2020 Adopted CIP of $750,000.

ATTACHMENT A

CONSTRUCTION-RELATED REVENUE
2017-2021 FORECAST
(in $ thousands)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	5 Yr Total
Construction and Conveyance Tax							
2016-2020 Adopted CIP	35,000	35,000	35,000	35,000	35,000	N/A	175,000
2017-2021 FORECAST	38,000	36,000	35,000	35,000	35,000	35,000	176,000
Difference	3,000	1,000	-	-	-	N/A	1,000
Building and Structure Construction Tax*							
2016-2020 Adopted CIP	14,000	12,000	12,000	12,000	12,000	N/A	62,000
2017-2021 FORECAST	14,000	13,000	13,000	13,000	13,000	13,000	65,000
Difference	-	1,000	1,000	1,000	1,000	N/A	3,000
Construction Excise Tax							
2016-2020 Adopted CIP	19,000	16,000	16,000	16,000	16,000	N/A	83,000
2017-2021 FORECAST	18,500	17,000	17,000	17,000	17,000	16,000	84,000
Difference	(500)	1,000	1,000	1,000	1,000	N/A	1,000
Municipal Water Advance System Design Fee							
2016-2020 Adopted CIP	25	25	25	25	25	N/A	125
2017-2021 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Municipal Water Meter Installation Fee							
2016-2020 Adopted CIP	25	25	25	25	25	N/A	125
2017-2021 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Municipal Water Service Connection Fee							
2016-2020 Adopted CIP	50	50	50	50	50	N/A	250
2017-2021 FORECAST	50	50	50	50	50	50	250
Difference	-	-	-	-	-	N/A	-
Residential Construction Tax							
2016-2020 Adopted CIP	250	175	175	175	175	N/A	950
2017-2021 FORECAST	200	175	175	175	175	175	875
Difference	(50)	-	-	-	-	N/A	(75)
Sanitary Sewer Connection Fee							
2016-2020 Adopted CIP	800	650	650	650	650	N/A	3,400
2017-2021 FORECAST	700	650	650	650	650	650	3,250
Difference	(100)	-	-	-	-	N/A	(150)
Storm Drainage Connection Fee							
2016-2020 Adopted CIP	150	150	150	150	150	N/A	750
2017-2021 FORECAST	200	175	175	175	175	175	875
Difference	50	25	25	25	25	N/A	125
TOTAL							
2016-2020 Adopted CIP	69,300	64,075	64,075	64,075	64,075	N/A	325,600
2017-2021 FORECAST	71,700	67,100	66,100	66,100	66,100	65,100	330,500
Difference	2,400	3,025	2,025	2,025	2,025	N/A	4,900
% Change from 2016-2020 CIP	3%	5%	3%	3%	3%	N/A	2%

* While it is projected that industrial activity will increase in 2016-2017 and 2017-2018, the revenue estimates for Building and Structure Construction Tax do not assume this increased activity because it is anticipated that a majority of the projects will fall within the North San José Area Development Policy or the Downtown Incentive Program. Under the North San José Area Development Policy, any Building and Structure Construction Tax collected for new developments will need to be set aside in a reserve for future transportation improvements within the area, and under the Downtown High Rise Development Incentives Program, a single new high rise project for employment uses (Office R&D, Hotel, and Office) to obtain building permits by December 31, 2016 within the Downtown area will be exempt from the Building and Structure Construction Tax and the Construction Excise Tax.

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Five-Year Economic Forecast and Revenue Projections

2017-2021

Appendix A

City of San José Budget Principles
Guiding Principles for Restoring City Service Levels
Service Restoration Decision Making Framework
Service Restorations Previously Identified by City Council (January 1, 2011 Levels)

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.

Guiding Principles for Restoring City Service Levels

Ensure the Fiscal Soundness of the City

1. Develop the General Fund budget to support the City's mission and use the City Council-approved Budget Principles to ensure the long term fiscal health of the City *(City of San José Budget Principles)*
2. Ensure services that are restored can be sustained over the long-run to avoid future service disruption (Use Five-Year General Fund Forecast as one tool)
3. If possible, defer adding new permanent positions until new retirement system is in place

Choose Investments that Achieve Significant Outcomes

4. Ensure restored services represent City Council priorities and the highest current need in the community
5. Balance investments among three categories:
   - Restoration of services (public safety and non-public safety services, including critical strategic support services)
   - Opening of new facilities
   - Maintenance of City infrastructure and assets
6. Prioritize baseline service level restorations using performance goals *(Service Restorations Previously Identified by City Council – January 1, 2011 Levels)*
7. Focus funding on areas where there is a high probability of success and/or high cost of failure
   - Focus funding on infrastructure needs where there is a significant increase in cost if maintenance is delayed (such as street maintenance)
   - Focus investments in technology that have the greater return on investment in terms of services to the public and employee productivity

Improve the Efficiency and Effectiveness of Service Delivery

8. Before restoring prior service methods, evaluate options to determine if alternative service delivery models would be more cost effective
9. Ensure strategic support and technology resources are capable of supporting direct service delivery and effective management of the organization
10. Prioritize organizational investments that maximize workforce productivity, efficiency, and effectiveness
11. Pursue opportunities and methods, including performance, to retain, attract, and recognize employees within resource constraints

Approved by the City Council on March 20, 2012

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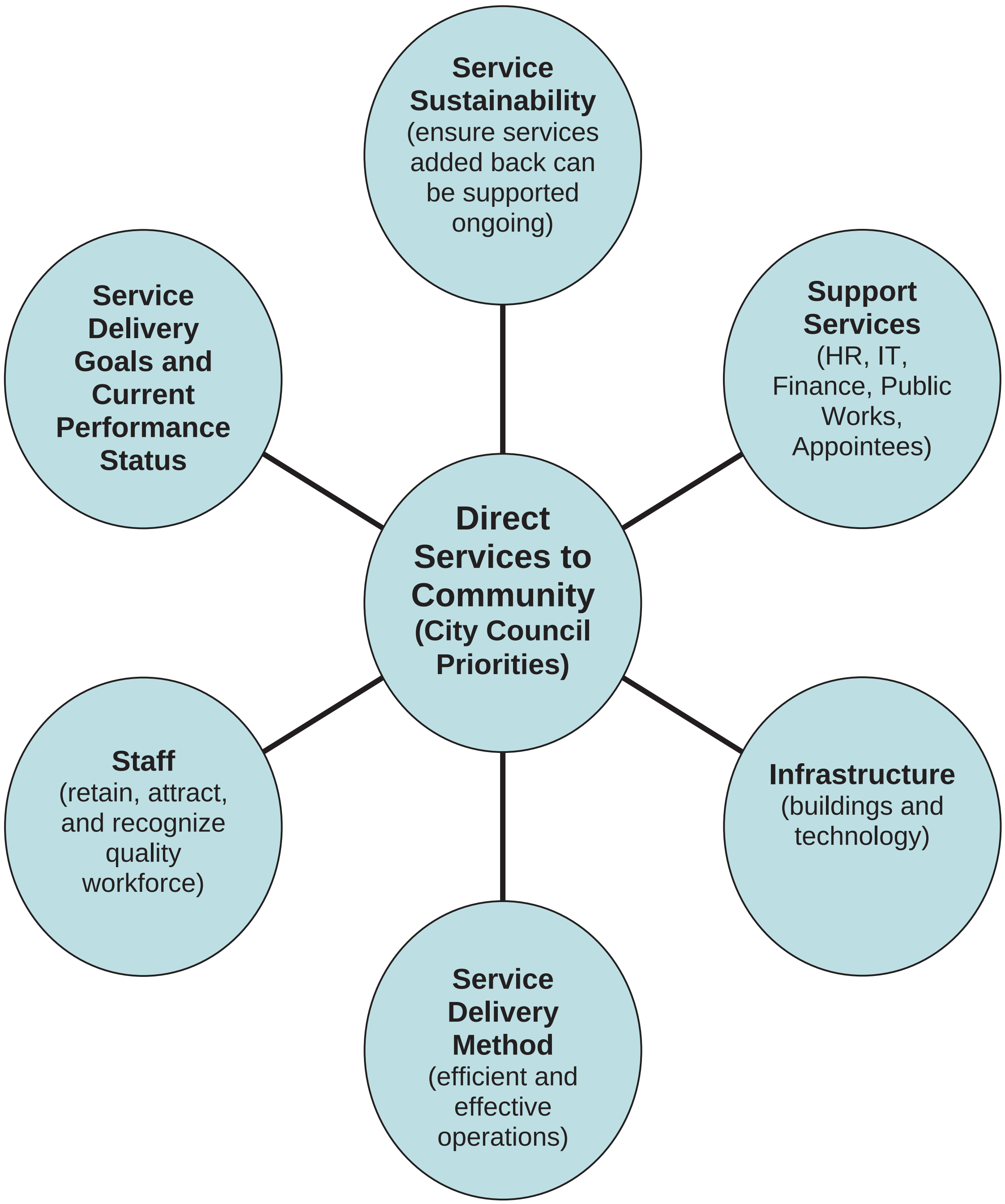
Service Restoration Decision Making Framework



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Service Restorations Previously Identified by City Council* (January 1, 2011 Levels)	
Fire	• 33 Fire Stations open; • On average, responding fire unit arrives within 8 minutes 78.7% of the time for Priority 1 calls**; • On average, responding fire unit arrives within 13 minutes 92.7% of the time for Priority 2 calls**. **Baseline performance data restated due to data collection issues in prior years; performance measures updated to include response time performance for Priority 1 and Priority 2 calls rather than first due and second due units.
Police	• On average, Citywide, average response time for Priority One police calls for service (present or imminent danger to life or major damage/loss of property) is 6.04 minutes; • On average, Citywide, average response time for Priority Two police calls for service (injury or property damage or potential for either to occur) is 12.74 minutes; • On average, overall, the clearance rate (number cleared / total cases) for Part 1 crimes is as follows: Homicide (65.00%), Rape (19.37%), Robbery (26.54%), Aggravated Assault (39.93%), Burglary (5.58%), Larceny (18.90%), and Vehicle Theft (8.85%).
Library	• On average, 18 library branches are open 39 hours per week.
Community Centers	• On average, 10 Hub Community Centers are open 63 hours per week; • On average, 9 Satellite Community Centers are open 40 hours per week; • On average, 8 Neighborhood Centers are open for 15 hours of programming per week.
Street Maintenance	• 72 miles of residential and arterial streets resealed and 6 miles of residential and arterial streets resurfaced with various Capital and Grant funds (no General Fund allocation). Maintaining this street maintenance level will be contingent upon receiving commensurate levels of regional, state, and federal funds annually.
Facilities Built or Under Construction/ Opening Deferred	• South San José Police Substation. (This facility was temporarily repurposed beginning in 2014-2015)

* This list has been updated to remove services that have been restored to January 1, 2011 service levels.

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Appendix B

General Fund Revenue Descriptions

PROPERTY TAX

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

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

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

In 2004-2005, the State budget included a permanent reduction of the Motor Vehicle In-Lieu (MVLF) tax rate from 2.00% 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, and will now grow 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 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. Recent voter approved changes include: a 1/8 cent increase enacted by the Santa Clara Valley Transportation Authority (VTA) on July 1, 2012 (limited to 30 years) to provide operating and maintenance expenses and capital reserve contributions for the Silicon Valley Rapid Transit Project Extension; a State of California 1/4 cent increase effective January 2013; and a Santa Clara County 1/8 cent increase effective April 2013.

Agency	Distribution Percentage
State of California	5.750%
City of San José*	1.000%
Santa Clara County	0.875%
Santa Clara Valley Transportation Authority	0.625%
Public Safety Fund (Proposition 172)	0.500%
Total Sales Tax	**8.750%**

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.

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.

The local Sales and Use Tax is collected and administered by the State Board of Equalization and is authorized by the Uniform Local Sales and Use Tax Law and the Bradley-Burns Uniform Local Sales and Use Tax Law.

* Note: 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 has been temporarily suspended and replaced dollar-for-dollar with property tax revenue (primarily Educational Revenue Augmentation Funds). This action is to remain in effect until the State's bond obligations have been satisfied. The City will, however, continue to record the replacement property tax revenues as sales tax receipts because the growth formula for these receipts is tied to sales tax and because this action is considered to be temporary. This mechanism is scheduled to sunset during 2015-2016 with the unwinding of the triple flip anticipated to be completed by July 2016.

TRANSIENT OCCUPANCY TAX

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

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

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

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

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 of the Transient Occupancy Tax was enacted as a general tax.

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 25054, and there are no authorized exemptions.

FRANCHISE FEES

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, that increased the amount collected for CSW to $3.34 per cubic yard in 2004-2005. In 2005-2006, the City Council increased the fee by 4.5% ($0.15 per cubic yard) to $3.49 per cubic yard. In 2006-2007, an additional 5.0% increase was approved by the City Council, which brought the fee to $3.67 per cubic yard. In 2009-2010, the elimination of the fee exclusion for the first 20,000 cubic yards hauled in the fiscal year was approved.

On October 19, 2010, the City Council amended the CSW fee to a fee for franchises based on geographic collection districts rather than volume. The base fee of $5.0 million per year for each of two geographic collection districts plus a supplemental fee of $1.0 million for the right to conduct CSW services in both the North District and the South District became effective July 1, 2012, and is subject to an annual Consumer Price Index (CPI) adjustment. The CSW fee is authorized by Title 9 of the Municipal Code, Chapter 9.08. For 2015-2016, CSW fees will total $11.4 million: $5.16 million per year for each of the two geographic collection districts plus a supplemental fee of $1.03 million, once adjusted for the 1.62% CPI increase that was approved for 2015-2016.

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

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

UTILITY TAX

Company due to a Santa Clara Superior Court ruling that states San José cannot impose a franchise fee on that company.

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

TELEPHONE LINE TAX

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

BUSINESS TAXES

The **General Business Tax** is assessed according to the following schedule:

Category	Annual Tax
1 – 8 Employees	$150
9 – 1,388 Employees	$150 plus $18 per Employee
1,389 and over Employees	$25,000

In addition to the rates listed above, City Ordinance number 21518 specifies the assessment of taxes by grouping taxed businesses (each at a different rate) in the following categories: Rental or Lease of Residential or Non-Residential property, Mobile Home Parks, and Water Companies. Rented or leased properties (if three or more residential rental units) are subject to the $150 minimum tax, but are also assessed $5/rental unit over 30 units for residential properties and $0.01 per square foot in excess of 15,000 square feet for non-residential properties. Taxes for both residential and non-residential properties are limited to a maximum of $5,000. Mobile home parks are treated as residential properties. Water companies are assessed by a schedule that assigns an amount (from $200 to $20,000) depending on the number of active metered

BUSINESS TAXES

connections. 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 (as reflected) were returned to the levels prior to November 1996.

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, and interstate commerce. On June 8, 1993, the City Council deleted the sunset provision of a business tax exemption for certain artists and craftpersons selling their wares at one location. The Business Tax is authorized by Title 4 of the Municipal Code, Chapter 4.76.

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, Council approved the establishment of a Cardroom Ordinance, which contained the provision of a **Cardroom Business Tax** to tax gross receipts from cardrooms located in the City. On June 9, 1992, the City Council approved an ordinance amending the San José Municipal Code, increasing the tax rate schedule and expanding the permissible games authorized. A gross receipt monthly tax schedule was established with taxes ranging from 1% to 13% of gross receipts. In 1993-1994, Council approved a revision to the Cardroom Ordinance, instituting a flat 13% gross receipts tax for all cardrooms located in the City with annual gross revenues in excess of $10,000. In June 2010, voters approved a ballot measure that increased the tax rate from 13% to 15% and increased the maximum number of card tables from 80 to 98.

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

LICENSES AND PERMITS

The City requires payment for the issuance of Building Permits, Fire Permits, and miscellaneous health and safety-related licenses and permits. For most licenses and permits, the various fees charged by a given department are based on full recovery of the estimated costs for providing each service. For example, the City requires fire safety inspections of all commercial property.

The fee provides for inspection charges and a number of special charges. Authorized exceptions include the addition and/or alteration of under 20 sprinkler heads and the installation of portable extinguishers. The fee is authorized by Title 17 of the Municipal Code, Chapter 17.12. Where appropriate, license and permit fees take into consideration approved exceptions to the City Council's full cost recovery policy, as well as applicable State laws. Specific prices and rates are determined by ordinance and each of the charges is fully explained in the City's Fees and Charges Report, which is released in May of each year.

FINES, FORFEITURES, AND PENALTIES

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

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

USE OF MONEY AND PROPERTY

The City invests idle funds in order to earn interest. The total income varies with the market rates of 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 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 payment from the County for the Senior Nutrition 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 two percent of the market value of the vehicle as determined by the DMV. In 1998-1999, the State reduced the license fees by 25%, but agreed to backfill local jurisdictions for the loss in revenue, which represented 67.5% of MVLF revenues received by the City at the time. In 2004-2005, as part of State budget actions, the MVLF rate was permanently reduced from 2% to 0.65% and all future receipts of the backfill were approved to be in the form of increased Property Tax receipts and are reflected in that category. Thus, the backfill amount due to the City has permanently become property tax revenue that now grows based on assessed valuations. The State withholds a portion of these fees for the support of the DMV. The remaining fees were divided equally between counties and cities, and their aggregate shares were 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.

DEPARTMENTAL CHARGES

Departmental 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 SAP Center rental, parking, suite, and naming revenues and cost reimbursements related to Finance Department staff in the Investment Program. The remaining revenues represent one-time and/or varied levels of reimbursements, sale of surplus property receipts, and miscellaneous revenues associated with the Office of the City Attorney.

TRANSFERS AND REIMBURSEMENTS

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

Overhead charges are assessed to recover the estimated fair share of indirect General Fund support services costs (staff and materials) that benefit other City program and fund activities.

Examples of support activities included in the charges are services provided by the following departments: Finance, Human Resources, Information Technology, Mayor and City Council, the Office of the City Manager, and the Office of the City Attorney. Each year the charges are calculated using Finance Department developed overhead rates applied to projected salary costs in most City funds. The most significant sources of overhead reimbursements are the Treatment Plant Operating Fund, the Sewer Service and Use Charge Fund, the Airport Maintenance and Operation Fund, and the Integrated Waste Management Fund.

TRANSFERS AND REIMBURSEMENTS

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.

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Five-Year Economic Forecast and Revenue Projections

2017-2021

Appendix C

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

Development Activity Highlights and Five-Year Forecast (2017-2021)

Prepared by:

City of San Jose
Department of Planning, Building and Code Enforcement
February 2016

Development Activity Highlights and Five-Year Forecast (2017-2021)

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 (2017-2021)

TABLE OF CONTENTS

Development Activity Highlights and Five-Year Forecast (2017-2021)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2017-2021)* 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 Jose; and,
3. A tool for distributing information on major development projects to the public.

II. SUMMARY

After the historic year of development in fiscal year 2013/2014, where the valuation of development was twice the amount of each of the three previous years, fiscal year 2014/2015 saw a modest return to the level of development found prior to the Great Recession. As the economy is recovering and pre-recession entitlements and projects were built, San José saw a surge in construction of new residential.

Fiscal year 2015/2016 is projected to be lower than the previous two year as the majority of the pre-recession entitlements are under construction or complete. However, the amount of major Planning and Building Check applications are expected to surpass the average of the previous three years. Entitlements and permitting are generally expected to remain strong in parallel with the stabilization of the economy. The valuations of those new entitlements are reflected in the increase level of expected developments in the next couple of years.

In fiscal year 2014/2015, valuation of new commercial construction hit a 13 year high ($246 million), buoyed by large retail and hotel projects. Vacancy rates for retail in San Jose have continued to stay low. As of the second quarter of 2015, the overall retail vacancy rate in San Jose was 4 percent, almost identical to the county averages. With the completion of a variety of large projects, new commercial construction activity is expected to return to more historical averages. Generally, most retail development in Silicon Valley consists of expansions or redevelopment of existing centers due in part to competition for land with office and residential development.

The overall office vacancy rate in Silicon Valley in the second quarter of 2015 was 7 percent - the region's lowest vacancy rate since 2000. Although the City's office vacancy rate is higher than the region as a whole, San Jose's office vacancy rate decreased from 16 to 13 percent between the second quarters of 2014 and 2015. Additionally, as of the second quarter of 2015, vacancy rates for industrial and warehouse uses in San Jose was at 3 percent. As result, new construction of industrial uses is estimated to remain robust, with a particularly strong year expected in fiscal year 2016/2017 due to several large projects currently in the entitlement process.

The following summary discusses current development activity and trends for each major land use category (residential, commercial, and industrial), providing some insight as to what may occur over the forecast period (2017-2021).

Residential Development

- *Residential development in 2014/15 saw a strong but reduced level of development in comparison to the record number of building valuation in 2013/14. Residential inventory and vacancy rates still remain at record lows for the bay area. Because the market has largely absorbed these new residential units, it is anticipated that there will be a new cycle of increased residential development.*

- *In November 2014, the City Council adopted a resolution that established an Affordable Housing Impact Fee (AHIF) of $17.00 per net livable square foot on new market rate rental housing developments of three or more units in San José. Through the pipeline exemption process of the AHIF, projects receiving development permit approval as of June 30, 2016, and receiving a Certificate of Occupancy by January 31, 2020 maybe exempted from the fee. The AHIF exemption is expected to stimulate residential entitlements for rental projects in the remainder of fiscal year 2015-2016, and result in construction of those projects prior to January 2020. As a result, this may contribute to keeping valuations for new residential construction strong over the five year horizon of this report.*

Commercial Development

- *In fiscal years 2013 to 2015, commercial construction activity amounted to approximately $480 million a year, predominately the result of the development of major commercial sites such as San José Earthquakes Stadium, Coleman Landing Shopping Center and the Hitachi Site along Cottle Road. In the last year, the Sun Garden and the renovations of Valley Fair were the drivers of the new construction and tenant improvement valuations.*

- *Hotel and entertainment projects were another area of growth that has recently driven new commercial development in the City. The recently completed Matrix Casino/Hotel, and the current construction of Bay 101 Casino/Hotel has help*

San José maintain a high level of commercial growth over the last couple of years. Levis stadium as a major event venue has increased the demand for additional hospitality services, and several hotel projects in North San Jose such as Aloft Hotel, Hyatt Place and Skyport Plaza Hotel are in various stages of entitlement and development.

- *In the last two fiscal years the City has nearly double the amount of new commercial growth compared to the previous three years combined. A lack of large vacant sites and the influx of new commercial development could reduce the demand for large commercial shopping centers. Additionally, most retail development in Silicon Valley consists of expansions or redevelopment of existing centers due in part to competition for land with office and residential development.*

- *A new emerging commercial sector of the market is for mixed-use projects with commercial and retail uses built within or adjacent to residential projects. The consistency of the valuation of commercial tenant improvements over the last five years is a result of the availability and demand for smaller commercial spaces that is near new urban residential development.*

- *For the five-year forecast period, total commercial construction activity is forecasted to average about $230 million annually. This average is consistent with the amount of commercial growth the City has experienced in the last decade, with the hotel market and Evergreen Square as the main commercial drivers in the next five years.*

Industrial Development

- *Similar to commercial activity, industrial construction activity averaged nearly $500 million per year in permit valuation over the five-year period of 1997-2001. Since that time, however, activity has been just a small fraction of that figure, dipping to an annual average construction valuation of less than $100 million following the 2008/09 recession. With the stabilization of the economy, there has been a noticeable increase in industrial construction activity in the San Jose area.*

- *In fiscal year 2014/2015 the total valuation of new construction and building improvements in the industrial sector reached approximately $360 million. 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. This has led to increasing interest in industrial space in San Jose and resulted in strong valuations in industrial alterations and new construction over the last two fiscal years.*

- *As technology and related sector companies continue to expand, San Jose can offer several advantages for firms looking for office space including campus settings, flexible office spaces, and significant housing, retail, transit, and other amenities. Major new office leases signed by Apple, Google, and other major firms suggest industrial activity will continue to be strong over the next couple years.*

- *Based on past trends, the valuation of tenant improvements is expected to remain steady over the forecast period. New construction is expected to peak in fiscal year 2016 – 2017 based on several large pipeline projects in the Downtown and North San Jose, and then return to more historical averages during a healthy economy.*

III. FIVE-YEAR FORECAST (2017-2021)

The Department of Planning, Building and Code Enforcement's five-year forecast of development activity is summarized in Tables 1 and 2 (next page). The construction valuation in fiscal year 2015/2016 is expected to normalize from the previous two years as previous pre-recession entitlements are developed or expired. Major projects such as Samsung, Almaden Ranch and the Earthquake Stadium generated significant valuations of construction in the last couple of years. The next development wave for San José will be continues to be driven by residential development and stronger interest in building new offices and industrial spaces in North San José and the Downtown area. San José is poised to capitalize on growing demand for large industrial and commercial spaces for expanding companies. Additional connectivity with the expansion of the BART (Bay Area Rapid Transit) into the Berryessa area and with plans for future expansion to Downtown is a positive indication for new development in San José.

Table 1
Construction Valuation: FY 10/11 to FY 20/21

Fiscal Year	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	Actual Valuation[1] (in millions)					Projected Valuation (in millions)					
New Construction											
Residential	$342	$471	$438	$772	$476	$300	$488	$398	$465	$450	$450
Commercial	$81	$82	$74	$187	$246	$120	$100	$85	$75	$75	$75
Industrial	$9	$12	$64	$275	$195	$125	$300	$200	$150	$150	$150
Subtotal	$432	$565	$575	$1234	$917	$545	$888	$683	$690	$675	$675
Alterations											
Residential	$88	$92	$90	$114	$123	$130	$90	$85	$85	$85	$85
Commercial	$165	$182	$150	$236	$146	$140	$140	$140	$140	$140	$140
Industrial	$92	$137	$198	$210	$177	$100	$100	$100	$100	$100	$100
Subtotal	$345	$411	$438	$559	$446	$370	$330	$325	$325	$325	$325
GRAND TOTAL	**$777**	**$976**	**$1013**	**$1793**	**$1363**	**$915**	**$1218**	**$1008**	**$1015**	**$1000**	**$1000**
Tax Exemptions											
Residential	*	*	*	*	*	$(50)	$(50)	$(50)	$(50)	$(50)	$(50)
Commercial	*	*	*	*	*	$(25)	$(25)	$(25)	$(25)	$(25)	$(25)
Industrial	*	*	*	*	*	$(25)	$(25)	$(25)	$(25)	$(25)	$(25)
Net Total (Taxable)						**$815**	**$1118**	**$908**	**$915**	**$900**	**$900**

*Note: Data on actual tax exemptions not available at the time of this report.
[1]Valuation figures adjusted to 2015 dollars, per Bureau of Labor Statistics Consumer Price Index (CPI), San Jose-San Francisco-Oakland, all items index.

Table 2
Residential Units and Non-Residential Square Footage: FY 10/11 to FY 20/21

Fiscal Year	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	Actual[1]					Projected					
Residential (Units)											
Single-Family	66	140	284	341	254	150	150	150	200	250	250
Multi-Family	2,142	2,833	2,418	4,383	2,987	1,850	3,100	2,500	2,900	2,750	2,750
TOTAL	2,208	2,973	2,702	4,724	3,241	2,000	3,250	2,650	3,100	3,000	3,000
Non-Residential (sq.ft., in thousands)											
Commercial	660	800	500	1,400	2,000	575	500	400	400	400	400
Industrial	98	200	790	1,200	1,000	400	3,000	1,000	400	400	400
TOTAL	758	1,000	1,290	2,600	3,000	975	3,500	1,400	800	800	800

[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 AND EXEMPTIONS

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.

Exemptions

Certain construction-related tax exemptions are provided in San Jose. These exemptions apply only in certain areas and/or to certain types of land uses, and are generally designed to accomplish one of the following objectives:

1. Reduce the economic constraints involved in the development of housing in high risk areas and/or housing for very-low income households;

2. Implement a separately administered funding arrangement that finances infrastructure and public service needs in an area only with revenue generated by development in such area (e.g., Evergreen Specific Plan Area); and,
3. Provide exemptions required by State or Federal law (e.g., hospitals, churches).

Planning staff estimates that $100 million in construction valuation will be exempted each year over the forecast period, or approximately 10% to 15% of total valuation during this time (see Table 1 on page 4).

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. This data collection effort has identified approximately 28,000 dwelling units and approximately 25 million square feet of commercial and industrial space submitted for Planning approval since January 1, 2008 that have been constructed or are likely to develop in the near future.

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

Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/08

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date

Projects Completed

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
H07-008	2/16/07	Centerra Apts	259-35-007	SW/c N. Almaden & W. St. John	Central	MF	347	MS	12/7/07
PD04-103	5/10/04	San Carlos Senior Apts	274-14-142	NW/c W. San Carlos & N. Willard	Central	MF	95	EM	8/25/04
PD07-025	3/26/07	Race Street	264-09-064	Race Street and Auzerias Avenue	Central	MF	386	RR	8/6/07
PD07-033	4/13/07	The Verdant/Latitude Apts	097-07-086	NW/c Zanker & Tasman	North	MF	704	JB	11/30/07
PD07-036	4/13/07	Enzo Apts	097-07-031	W/s Baypointe, 370' nly Tasman	North	MF	183	JB	11/30/07
PD07-088	10/9/07	Morrison Park Apts	261-01-054	SW/c Cinnabar & Stockton	Central	MF	250	LM	8/1/08
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	MF	371	RM	10/10/08
PD08-023	3/11/08	121 Tasman Apts	097-07-072	NE/c Baypointe & Tasman	North	MF	174	JB	8/1/08
PD08-027 / AD12-1006	4/4/08	Berryessa Crossing (Phase 1)	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	SF	242	LX	12/15/10
PD08-056	8/29/08	Epic Apts	097-15-026	SE/c River Oaks & Seely	North	MF	769	ES	1/23/09
PD08-071	12/17/08	Santana Row (Levare)	277-40-011	NW/c Olin & Hatton	West Valley	MF	118	SZ	4/23/10
PD09-001	1/20/09	Brookwood Terrace Apts	472-05-075	S/s E. San Antonio, opp. S. 28th	Central	MF	84	SZ	6/15/09
PD09-006	2/27/09	Meridian Mixed Use	277-20-006	SW/c W. San Carlos & Meridian	Central	MF	218	ES	6/8/09
PD09-030	10/2/09	Westmount Homes	249-09-009	SE/c E. Mission & N. 10th	Central	SF	60	SZ	11/30/09
PD09-033	10/21/09	Ford Apts	678-53-004	N/s Ford, 550' ely Monterey	Edenvale	MF	95	LX	7/16/10
PD10-024	11/2/10	Brookside Homes	575-02-027	W/s Guadalupe Mines, 2000' sly Camden	Almaden	SF	89	LX	9/16/11
PD10-026	11/5/10	Celadon Townhomes (Phase 2)	254-06-037	SW/c N. Capitol & Mabury	Alum Rock	MF	77	JN	6/10/11
PD11-003	1/21/11	Cottages at Mirassou	659-57-010	SW/c Ruby & Aborn	Evergreen	SF/MF	104	LX	7/29/11
PD11-008	3/7/11	Westbury Homes	464-22-030	N/s Blossom Hill, 250' ely Cahalan	Edenvale	SF	86	LX	9/7/11
PD11-009	3/9/11	Vicino Townhomes	277-38-006	W/s S. Monroe, 450' nly Hwy 280	West Valley	SF	104	LX	9/30/11
PD11-023	7/21/11	Centered on Capitol Townhomes	589-19-063	NE/c N. Capitol & Sierra	Berryessa	MF	94	LX	11/18/11
PD11-025	3/11/11	Rosemary Family/Senior Apts	235-05-012	SE/c N. 1st & Rosemary	North	MF	290	LX	8/26/11
PD11-026	7/28/11	The Meridian at Willow Glen	447-05-012	NE/c Hillsdale & Yucca	Willow Glen	SF	51	ME	11/18/11
PD11-031	9/8/11	Domain Apts	097-52-028	W/s N. 1st, both sides Vista Montana	North	MF	444	JH	10/14/11
PD12-039 / PD14-010	10/11/12	South Village (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	845	JB	12/20/12
PDA04-071-01	9/29/10	Mayfair Court Apts	481-18-013	W/s McCreery, 230' sly Alum Rock	Alum Rock	MF	93	JN	3/15/11
PDA05-066-01	11/3/11	Santana Row (Misora)	277-46-001	SE/c Winchester & Stevens Creek	West Valley	MF	220	LX	2/3/12
PDA07-006-03	12/12/08	Crescent Village Apts	097-33-113	SE/c Zanker & River Oaks	North	MF	1,750	MD	1/15/09
PDA07-013-01	3/26/12	Parc 22 Townhomes	472-01-021	S/s William, 350' wly McLaughlin	Central	SF	67	LX	7/9/12
PDA08-039-01	7/7/09	University Villas Apts	230-14-026	N/s Campbell, 250' ely El Camino Real	West Valley	MF	138	LX	4/26/10
PDA08-036-01	11/4/08	River Oaks Apts (West)	097-33-036	NE/c Zanker & River Oaks	North	MF	293	MD	12/19/08
H13-021	5/28/13	The Pierce Apts	264-32-087	SW/c S. Market & Pierce	Central	MF	234	RB	11/1/13
PD07-090	10/23/07	Riverview Apts	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	MF	1,579	JB	4/4/08
PD11-030 / PD07-091	9/8/11	Tasman Apts	097-52-013	NW/c Vista Montana & W. Tasman	North	MF	554	JH	10/14/11
PD12-002	1/17/12	Anton La Moraga Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	275	JB	5/4/12

Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/08

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PD12-007	2/16/12	River Oaks Apts (East)	097-33-102	N/s River Oaks, 200' ely Research	North	MF	438	LX	5/25/12
PD13-048	12/11/13	Century Center Mixed Use	230-29-022	SW/c N. 1st & Century Center	North	MF	378	RB	6/4/14
PDA04-076-02	12/16/11	Ajisai Gardens Apts	249-37-006	SE/c E. Taylor & N. 7th	Central	MF	103	LX	6/1/12
PDA11-007-02	8/8/12	Orchard Park	237-03-070	SW/c E. Brokaw & Oakland	Berryessa	SF	240	LX	11/20/12
Total							**12,642**		

Projects Under Construction

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
H09-004	2/11/09	Donner Lofts	467-20-018	SE/c E. St. John & N. 4th	Central	MF	156	SZ	10/9/09
H12-022	1/9/13	One South Market Apts	259-40-093	SW/c Market & Santa Clara	Central	MF	312	SD	3/1/13
H13-023	6/7/13	San Jose Student Apts	467-57-080	E/s N. 6th, 100' nly Santa Clara	Central	MF	119	KT	11/22/13
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	MF	256	SM	3/21/08
PD08-015	2/11/08	Japantown Senior Apts	249-39-011	W/s N. 6th, 200' sly E. Taylor	Central	MF	85	SZ	5/7/10
PD11-011	3/14/11	Metropolitan Apts	477-23-021	E/s Monterey, 700' nly Tully	South	MF	102	LX	7/15/11
PD12-008	3/1/12	Murano at Montecito Vista	455-09-060	W/s Monterey, 300' sly Umbarger	South	SF	100	JR	6/7/13
PD12-028	6/26/12	Cottle Station Mixed Use (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	234	JB	11/19/12
PD12-036	8/14/12	North Tenth Street Apts	249-08-004	W/s N. 10th, bet Vestal & E. Mission	Central	MF	166	JR	2/8/13
PD12-040	9/14/12	Orvieto Family/Senior Apts[1]	455-09-064	W/s Monterey, 300' sly Umbarger	South	MF	198	LX	1/11/13
PD13-023	6/25/13	Newbury Park Mixed Use	254-04-076	NW/c King & Dobbin	Alum Rock	MF	230	EL	1/2/13
PDA08-029-01	9/13/12	Virginia Terrace Apts	472-18-063	E. Virgina, Martha St, S 5th Street and S. 6th	Central	MF	238	RM	1/14/09
PDA12-035-01	3/18/13	Ascent Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	650	JB	5/3/13
H13-041	10/31/13	Silvery Towers Apts	259-32-004	SW/c W. St. James & N. San Pedro	Central	MF	643	KT	2/26/14
PD09-039	11/23/09	Edwards Mixed Use	264-37-060	SW/c Edwards & S. 1st	Central	MF	50	SZ	7/2/10
PD13-044	10/25/13	Lexington Luxury Apt	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	543	PK	3/12/14
PD14-012	2/28/14	Fairfield at West San Carlos	264-15-062	SE/c W San Carlos & Sunol	Central	MF	315	EL	10/28/14
PD14-029	6/23/14	Onyx	254-04-080	Nly/s Dobbin, 800' ely N King	Alum Rock	MF	131	ES	1/21/15
PD14-031	6/27/14	Balbach Condos	264-30-067	S/s Balbach, 100' ely Almaden	Central	MF	101	RB	12/27/14
PD15-003	1/27/15	787 Modera The Alameda	261-01-003	N/s The Alameda, 400' wly Stockton	Central	MF	168	JT	6/23/15
PDA14-035-01	8/21/14	Communication Hill (Phase 1)	455-28-017	Comm Hill & CalTrain Railway	South	SF	314	MD	3/18/15
PD14-022	4/17/14	505 Lincoln	264-09-063	W/s Lincoln 500' sly Auzerais	Central	MF	190	LS	11/5/14
H14-010	2/28/14	Marshall Square	467-21-018	SE/c 1st & E St. John	Central	MF	190	RB	2/25/15
Total							**5,491**		

Approved Projects (Construction Not Yet Commenced)

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
CP11-034	5/10/11	North San Pedro Apts	259-23-016	NE/c Hwy 87 & Bassett	Central	MF	135	LX	12/14/11
H12-020	1/16/13	San Pedro Square	259-32-044	SE/c Bassett & Terraine	Central	MF	406	BR	2/24/14

Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/08

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
H14-023-01	6/9/14	Post & San Pedro Tower	259-40-088	NW/c San Pedro & Post	Central	MF	202	EL	11/9/15
PD12-009	3/1/12	Verona at Montecito Vista	455-09-062	W/s Monterey, 300' sly Umbarger	South	MF	277	SD	11/30/12
PD13-027	7/1/13	Vicenza at Montecito Vista	455-09-062	W/s Monterey, 300' sly Umbarger	South	MF	162	AA	11/22/13
PDC13-009	3/15/13	Communication Hill*	455-09-040	Hill bet Hwy 87 & Monterey, nly Hillsdale	South	SF/MF	590	MD	10/21/14
H14-009	2/18/14	Parkview Tower	467-01-008	NE/c 1st & St James	Central	MF	220	EL	5/13/15
H14-034	10/2/14	First and Reed	472-26-030	N/s Reed, 167' ely 1st	Central	MF	105	EL	10/7/15
H14-037	11/5/14	NSP3 Tower	259-24-008	Block W/ Terraine Street btwen Basset & Julian	Central	MF	313	ES	8/5/15
H15-007	1/23/15	Modera	259-35-042	W/s N San Pedro, 300' nly Santa Clara	Central	MF	204	ES	5/20/15
PD12-013	3/29/12	Ohlone Mixed Use (Phase 1)	264-14-131	SW/c W. San Carlos & Sunol	Central	MF	263	LX	12/16/15
PD14-044	9/3/14	King & Dobbin Transit Vilage Lot E	254-04-079	N/s Dobbin, 600' ely N King	Alum Rock	MF	67	ES	7/29/15
PD14-051	10/30/14	777 Park	261-36-062	NE/C Laurel Grove & Park	Central	MF	182	LS	3/18/15
PD14-054	11/12/14	King & Dobbin Transit Vilage Lot H	254-55-010	N/s Dobbin, 718' ely King	Alum Rock	SF	105	ES	7/29/15
PD15-004	2/2/15	Hanover Cannery	249-09-001	NW/c N 10th & E Taylor	Central	MF	403	JP	12/15/15
PD15-013	4/3/15	Arcadia/Evergreen Part 1	670-29-002	S/s Quimby, 1200' wly of Capitol Expway	Evergreen	SF	250	LS	11/30/15
PD15-014	4/16/15	1807 Almaden Rd	455-21-050	W/s Almaden, 660' Sly Willow Glen	South	MF	96	ES	10/7/15
PD15-035	7/9/15	OHLONE BLOCK C	264-14-024	NW/c Auzerais & Sunol	Central	MF	268	JT	12/16/15
PD15-036	7/9/15	OHLONE BLOCK B	264-14-024	W/s Sunol, 340' SW/c W San Carlos & Sunol	Central	MF	253	JT	12/16/15
PD14-055	1/13/15	Lee Ave Apartments	284-32-014	SE/c Southwest & Leigh	Willow Glen	MF	64	JP	3/18/15
PDA07-094-01	1/13/15	2nd Street Studio	477-01-082	SE/c S 2nd Street & Keyes	Central	MF	135	JP	3/4/15
Total							**4,700**		

Projects Pending City Approval

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
H15-030	6/10/15	201 Delmas	259-46-040	S/c Park Ave, btwen Sonoma & Delmas	Central	MF	117	TT	---
H15-032	6/25/15	1 N 1st Street	259-34-015	NW/c 1st & E Santa Clara	Central	MF	72	LS	---
H15-046	9/25/15	363 Delmas Avenue	264-26-006	Wly/s Delmas, 290' nly Auzerias	Central	MF	120	JP	---
H15-047	9/28/15	Gateway Tower	264-30-089	NE/c S Market & E William	Central	MF	308	TT	---
PD15-042	9/11/15	Montgomery 7	259-47-068	NE/c Int of S Montgomery and W San Carlos	Central	MF	54	JT	---
PD15-044	9/11/15	Sparta	467-16-076	Nely/c of E. Santa Clara & N 11th	Central	MF	86	LH	---
PD15-047	9/29/15	Race St Housing	261-42-007	Btwen Race & Grand, 300' sly of Park	Central	MF	80	RB	---
PD15-055	11/4/15	Japantown Corp. Yard	249-39-039	Bounded by N 6th, E Taylor, 7th, Jackson	Central	MF	491	LS	---
PD15-061	12/4/15	Diridon TOD	259-38-036	SW/c of W. Santa Clara & Delmas	Central	MF	325	JT	---
PD15-022	5/19/15	777 W San Carlos	264-15-024	S/s W San Carlos, 500' ely Sunol	Central	MF	95	DF	---
PD15-023	5/19/15	266 Sunol Street	261-39-045	E/s Sunol, 120' N W San Carlos	Central	MF	104	DF	---
PDA14-035-03	10/2/15	Communication Hill (Phase 2)	455-28-017	Junction Communication Hill and Casselino	South	SF/MF	648	ES	---
H15-055	11/17/15	6th Street Project	467-19-059	SW/c of N 6th & St. John	Central	MF	126	LS	---
H15-062	12/22/15	SJSC Towers	467-20-086	Nwly/c E Santa Clara & N 5th	Central	MF	350	TT	---

Major Residential Development Activity
Projects of 50+ Dwelling Units, Submitted Since 1/1/08

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PD15-066	12/21/15	Santana Row Lot 12	277-40-017	NW/c of Hatton & Olsen	West Valley	MF	349	JT	---
PD15-068	12/22/15	Santana Row Lot 17	277-38-003	NE/c of Dudley and Tisch	West Valley	MF	90	JT	---
PD15-067	12/22/15	The Reserve	299-26-059	NW/c of Winchester & Williams	West valley	MF	641	LH	---
PD16-001	1/15/16	Scotia Apartments	455-21-043	W/s of Almaden, 410' s of Willow Glen Wy	South	MF	68	PK	---
PD16-002	1/21/16	Berryessa Flea Market (KB)	241-04-011	N/s Berryessa Road, W of Railroad Tracks	Berryessa	SF	168	JT	---
PDA12-031-01	11/13/15	Berryessa Flea market (Apts)	241-04-011	N/s Berryessa Road, W of Railroad Tracks	Berryessa	MF	545	JT	---
Total							**4,837**		
GRAND TOTAL							**27,670**		

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

Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/08

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
Projects Completed									
CP08-057	6/26/08	Brokaw Commons	237-03-074	NW/c Oakland & Brokaw	Berryessa	102,000		ES	10/22/08
CP08-071	8/29/08	Hyatt House	097-03-138	SE/c N. 1st & Hwy 237	North	116,000	160	CB	12/10/08
CP10-059	11/9/10	Courtyard Marriott @ First	097-14-108	SE/c N. 1st & Hwy 237	North	99,000	157	JN	4/20/11
H13-008	2/20/13	Orchard Supply Hardware	264-15-028	SW/c W. San Carlos & Royal	Central	49,000		RB	5/31/13
PD07-033	4/13/07	The Verdant/Latitude Apts	097-07-086	NW/c Zanker & Tasman	North	25,000		JB	11/30/07
PD07-049	12/28/11	Coleman Landings	230-46-068	NW/c Coleman & Newhall	North	245,000		SD	2/3/12
PD07-055	6/6/07	SBIA Evergreen Center/Mosque	652-13-001	E/s Ruby, 250' nly Murillo	Alum Rock	28,000		JB	3/21/08
PD08-054	8/12/08	Samaritan Medical Center	421-37-012	NE/c Samaritan & S. Bascom	Cambrian/Pioneer	75,000		ES	3/24/09
PD09-018	5/7/09	Lincoln Office/Retail	429-06-070	SE/c Lincoln & Willow	Willow Glen	41,000		SZ	5/21/10
PD09-021	6/11/09	Bellarmine (Academic Building)	261-11-005	NE/c Elm & Emory	Central	55,000		SD	11/13/09
PD09-040	12/2/09	Valley Christian Schools	684-05-019	Ely term. Skyway	Edenvale	50,000		JC	8/25/10
PD10-011	6/15/10	Bellarmine (Life Center/Gym)	261-11-005	NE/c Elm & Emory	Central	40,000		JN	1/14/11
PD10-025	11/5/10	M8trix Casino/Hotel (Phase 1)	230-29-065	SE/c Airport & Old Bayshore	North	89,000		JH	3/18/11
PD10-027	11/22/10	Chinmaya Mission	612-53-046	NE/c Clayton & Hickerson	Alum Rock	26,000		JC	3/21/11
PD11-002	1/20/11	Earthquakes Soccer Stadium	230-46-055	SW/c Coleman & Newhall	North	219,000		LX	2/22/12
PD11-013	5/5/11	Foxworthy Retail	451-06-066	NW/c Almaden & Hillsdale	Willow Glen	25,000		JN	7/15/11
PD11-027	9/2/11	Sun Garden Grocery	477-07-018	E/s Monterey, 300' sly E. Alma	Central	51,000		JC	11/2/11
PD12-015	4/13/12	Village Oaks (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	308,000		JB	9/27/12
PD12-017	4/27/12	Whole Foods Market	261-01-098	NW/c The Alameda & Stockton	Central	33,000		JB	2/26/13
CP13-059	08/08/13	Villa Sport	245-05-017	Betwn N Capitol & Hwy 680, 300' nly Berryesa	Berryessa	88,000		KT	5/7/14
H14-011	3/7/14	Homewood Suites	015-39-053	NW/c Hwy 237 & N 1st	Alviso	106,000	145	RB	9/24/14
H14-029	8/14/14	2890 North 1st Street Office	101-30-006	Bound N 1st, Daggett, Zanker & Plumeria	North	42,000		RB	12/10/14
PD07-090	10/23/07	Riverview Mixed Use	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	45,000		JB	4/4/08
PD12-048	12/20/12	Aloft Hotel	015-45-026	NW/c Hwy 237 & Gold	Alviso	82,000	175	SD	4/12/13
PD13-015	4/19/13	Sun Garden Retail Center	477-07-013	E/s Monterey, 300' sly E. Alma	Central	206,000		JB	5/17/13
Total						**2,245,000**	**637**		
Projects Under Construction									
H13-039	10/4/13	San José Airport Terminals	230-03-101	Mineta Airport	North	278,500		PK	1/17/14
HA13-013-01	12/6/13	AC Hotel	259-39-111	SE/c W. Santa Clara & Hwy 87	Central	128,000	210	RB	5/19/14
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	30,000		SM	3/21/08
PD12-016	6/23/08	Residence Inn/SpringHill Suites	230-29-109	SW/c N. 1st & Skyport	North	216,000	321	JD	2/10/09
PD09-016	4/23/09	Regional Medical Center (Phase 2A)	481-05-021	SW/c McKee & N. Jackson	Alum Rock	161,000		SD	11/4/09
PD11-024	7/20/11	Almaden Ranch / Bass Pro	458-17-018	SE/c Almaden & Chynoweth	Cambrian/Pioneer	377,000		LX	5/19/12
H14-006	1/22/14	Hyatt Place	101-05-002	Sly term. Karina	North	206,000	329	EL	5/7/14

Major Commercial Development Activity
Projects of 25,000+ Square Feet, Submitted Since 1/1/08

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
HA06-027-02	6/10/13	Valley Fair Shopping Center	274-43-035	NW/c Hwy 17 & Stevens Creek	West Valley	525,000		RB	10/30/13
PD13-049	12/13/13	Bay 101 Casino/Hotel	235-01-020	NE/c N 1st & Matrix	North	245,000	174	RB	9/2/15
PD15-008	2/24/15	1040 E Brokaw Road	237-03-080	SW/c E Brokaw & Old Oakland	Berryessa	145,000		ES	6/24/15
SP14-032	7/24/14	Capitol Toyota	459-05-019	NE/c Capitol Expy & Pearl	South	261,286		LS	1/28/15
Total						**2,572,786**	**1,034**		

Approved Projects (Construction Not Yet Commenced)

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
CP13-081	11/05/13	Oakmont of San José	282-06-023	W/s Thorton, 260' nly Maywood	Willow Glen	60,000		EL	2/26/14
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	30,000		RM	10/10/08
PD08-069	11/26/08	Berryessa Crossing Retail (North)	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	119,000		PK	11/6/13
PD14-035	3/15/13	Communications Hill	455-09-040	Hill bet Hwy 87 & Monterey, nly Hillsdale	South	68,000		BR	11/21/14
PD15-013	4/3/15	Evergreen Square	670-29-020	W/s Capitol, 1500' sly Quimby	Evergreen	310,000		LS	11/30/15
PD15-002	1/27/15	iStar Costco	706-08-023	W/s Greak Oak 1000' nly Hwy 85	Edenvale	148,000		RB	7/15/15
PD15-046	9/26/13	Skyport Plaza Hotel/Office	230-29-117	SE/c Skyport & Hwy 87	North	350,000	400	RB	9/23/14
Total						**1,085,000**	**400**		

Projects Pending City Approval

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
H13-048	12/16/13	Hampton Inn/Holiday Inn	237-17-067	E/s N. 1st, opp. Karina	North	173,000	284	PK	---
H15-014	3/30/15	Tropicana Shopping Center	486-10-091	SW/c Story & S King	Alum Rock	31,744		RB	---
H15-021	5/11/15	Reed Hotel	472-26-070	SW/c S 2nd & E Reed	Central	101,688	76	TT	---
H15-023	5/4/15	Holiday Inn	497-38-013	600' NW/c Monterey & Umbarger	South	48,100	81	JT	---
H15-053	11/5/15	Satelite Health Care	481-06-037	N/s Alexian Dr, 310' ely José Figueres	Alum Rock	30,000		TT	---
CP15-078	11/16/15	2500 Senter Road	497-41-098	Ely Side of Senter, 560' sly Tully	South	98,575		JP	---
H15-059	12/4/15	Scandinavia	359-34-006	SW/c of S. De Anza & Rollingdell	West Valley	39,410		DF	---
Total						**522,517**	**441**		
GRAND TOTAL						**6,425,303**	**2,512**		

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

Major Industrial Development Activity
Projects of 75,000+ Square Feet, Submitted Since 1/1/08

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
Projects Completed								
H09-002	1/14/09	Brocade (Phase 1)	097-03-139	SE/c N. 1st & Hwy 237	North	580,000	CB	10/9/09
SP08-046	8/14/08	Equinix (Phase 1)	706-09-102	NW/c Great Oaks & Hwy 85	Edenvale	125,000	SD	10/9/09
SP09-057	9/16/09	Zero Waste Facility	015-38-005	N/s Los Esteros, term Grand	Alviso	283,000	RB	12/22/11
SP11-046	11/29/11	Public Storage	477-22-028	SW/c Tully & Old Tully	South	115,000	JB	3/29/12
H09-002	1/14/09	Brocade (Phase 2)	097-03-139	SE/c N. 1st & Hwy 237	North	420,000	CB	10/9/09
H12-008	5/17/12	101 Tech	101-03-007	Wly term. Atmel, 200' nly Hwy 101	North	666,000	SD	10/22/12
H13-001	1/3/13	Samsung Semiconductor	097-53-026	NW/c N. 1st & Tasman	North	680,000	SD	3/25/13
H14-008	2/14/14	Self Storage	235-16-001	SE/c N 10th Street & Horning	Central	84,000	AA	6/25/14
H14-029	8/14/14	2890 North 1st Street Office	101-30-006	Bound N 1st, Daggett, Zanker & Plumeria	North	42,000	RB	12/10/14
PD07-081	9/18/07	Legacy on 101 Office	101-02-015	W/s Orchard, 750' nly Charcot	North	398,000	JB	12/21/07
PD13-012	3/20/13	237 At First Street	015-39-006	NW/c N. 1st & Hwy 237	Alviso	615,000	RB	12/4/13
PD13-039	9/16/13	Trammel Crow (R&D/ Office Buildings)	015-44-011	NW/c Nortech & Disk	Alviso	415,000	RB	4/23/14
PD14-005	1/31/14	HGST Great Oaks Campus	706-07-020	Bound Cottle, Monterey, Hwy 85 & Manassas	Edenvale	335,000	RB	6/4/14
PD14-007	2/14/14	Trammel Crow (Manufacture Buildings)	015-44-011	NW/c Nortech & Disk	Alviso	563,760	RB	6/17/14
Total						**5,321,760**		
Projects Under Construction								
H13-024	6/17/13	A-1 Self Storage	477-49-026	SW/c Phelan & Senter	South	107,000	RB	10/30/13
H14-020	5/20/14	SuperMicro (Phase 1)	237-05-036	SW/c Ridder Park & Schallenberger	Berryessa	182,000	RB	9/13/2014
PD12-014	4/4/12	Splunk at Santana Row	277-40-052	SE/c Winchester & Olsen	West Valley	230,000	LX	12/13/12
Total						**519,000**		
Approved Projects (Construction Not Yet Commenced)								
H14-027	7/2/14	Silicon Valley Industrial Center	678-08-051	W/s Piercy, 2070' nly Silicon Valley	Edenvale	243,000	RB	12/17/14
H15-005	1/9/15	Storage Pro	254-02-065	W/c N King & Plumas	Alum Rock	101,625	PK	9/16/15
H15-010	2/12/15	SAF Keep Storage	237-08-084	SE terminus of Junction Ct	North	120,432	DF	12/9/15
H15-037	8/25/15	Boston Properties Innovation Place	097-33-116	NE/c Zanker and Montague	North	536,949	RB	2/2/15
HA13-040-01	4/23/15	Peery Arrillaga	237-16-071	SE/c Brokaw and N 1st	North	117,440	RB	12/16/15
PDC13-050	11/13/13	Santana Row (balance)	277-40-015	SE/c Winchester & Stevens Creek	West Valley	409,000	KT	11/15/15
H15-012	2/17/15	SuperMicro (Phase 2)	237-05-036	Swly/C Ridder Park & Schallenberger	Berryessa	750,000	RB	12/16/15
H15-026	5/29/15	1850 Stone Avenue	455-23-108	E/s Stone, 650' nly Cimino	South	102,000	RS	1/27/16

Major Industrial Development Activity
Projects of 75,000+ Square Feet, Submitted Since 1/1/08

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
PD12-019	7/19/12	Coleman Highline Office	230-46-062	NW/c Coleman & Newhall	North	683,000	JB	6/10/13
Total						**3,063,446**		

Projects Pending City Approval

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
PD14-013	3/4/14	Samaritian Court Medical Office	421-38-007	S/s terminum Samaritan	Cambrian/Pioneer	69,000	LS	---
H15-036	8/12/15	2701 Orchard Parkway	101-18-001	Wly/c Orchard and W Plumeria	North	99,000	LS	---
PD15-031	7/1/15	Equinix	706-09-117	W/s Greak Oak, 1000' nwly of HW 85	Edenvale	386,000	RB	---
PD15-046	9/18/15	Skyport Kaiser	230-29-115	SW/c Technology and Skyport	North	153,112	LS	---
PD15-053	10/29/15	America Center	015-45-047	NW/c of HW 237 & Gold	Alviso	192,350	LS	---
SP15-031	7/1/15	Equinix (iStar)	706-02-053	'/s Via Del Oro btw San Ignacio and Great Oal	Edenvale	579,000	RB	---
PD15-061	12/4/15	Diridon TOD (Office)	259-38-036	SW/c of W. Santa Clara & Delmas	Central	1,040,000	JT	---
H15-058	11/23/15	Senter/Alma Ministorage	477-38-014	Senter Btwn E Alma & Phelan	Central/South	105,693	JD	---
H15-062	12/22/15	SJSC Towers	467-20-086	NW/c of E Santa Clara & N. 5th	Central	380,000	TT	---
PD15-062	12/9/15	Bay 101 Casino & Mixed Use	235-01-020	SE/c N. 1st & Matrix	North	242,064	RB	---
PD15-063	12/11/15	Oakland Rd Storage	237-03-064	W/s of Oaklad, 235' Nwly of McKay	Berryessa	74,640	JP	---
PDA05-095-02	12/21/15	5855 Silver Creek valley	678-07-040	SW/c of Silver Creek Rd & Silver Creek Pl	Edenvale	95,000	ES	---
H15-061	12/18/15	Panattoni Distribution Center	708-25-005	SW/c of Blanchard Road & Monterey	Coyote	517,000	RM	---
Total						**3,932,859**		

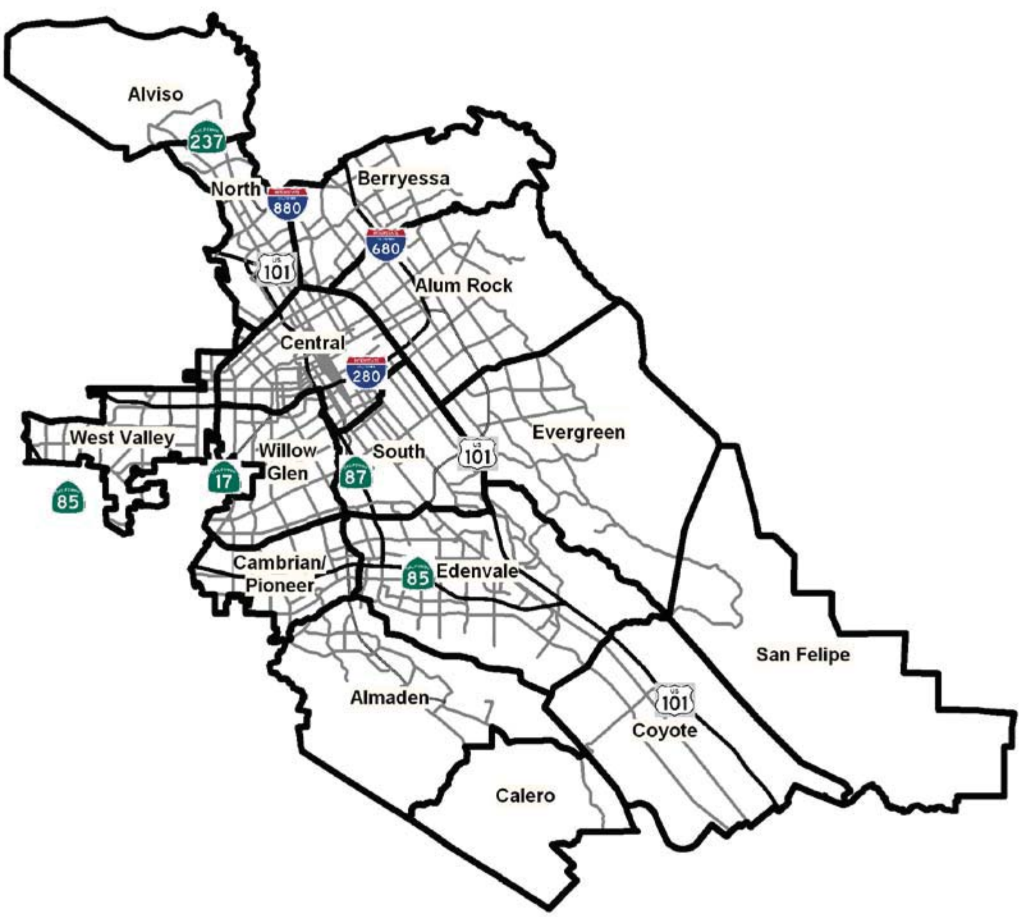
GRAND TOTAL **12,837,065**

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

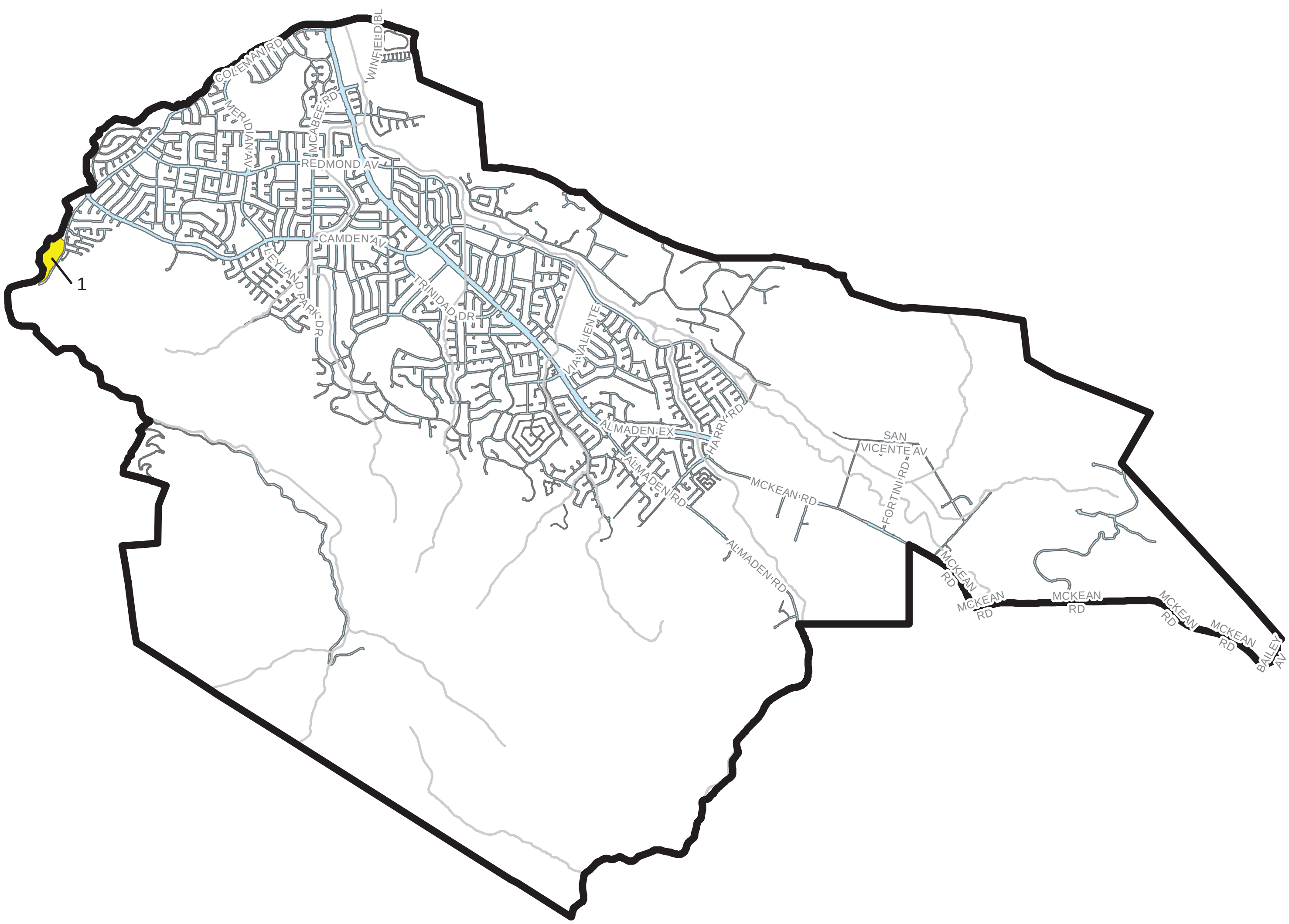
VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

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

Figure 1: San Jose Planning Areas



Almaden Planning Area
Major Development Activity

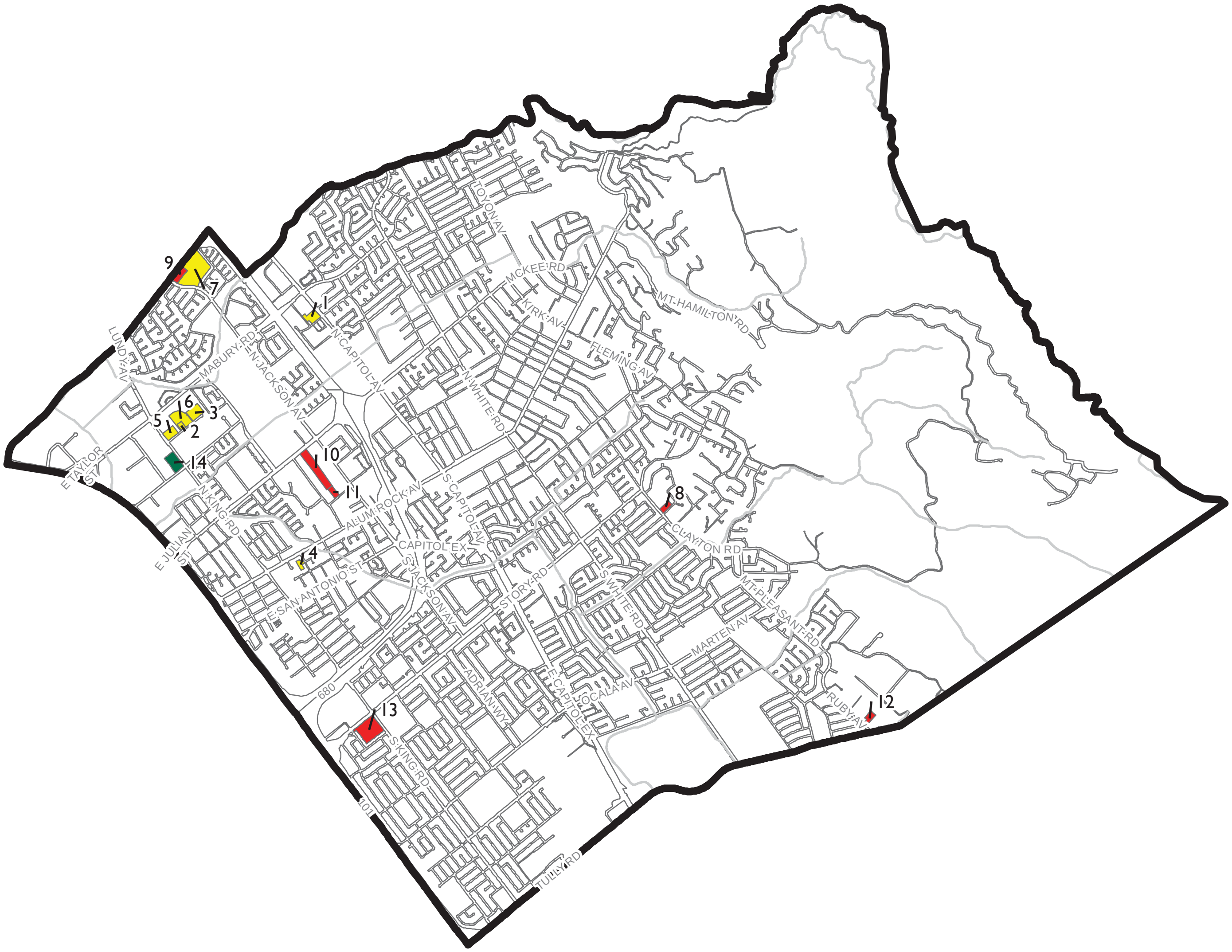


Residential Projects

1 Brooksides Home

Total Dwelling Units = 89

Alum Rock Planning Area
Major Development Activity



Residential Projects

1 Celadon Townhomes (Phase 2)
2 King & Dobbin Transit village Lot E
3 King & Dobbin Transit Village Lot H
4 Mayfair Court Apts
5 Newbury Park Mixed Use
6 Onyx
7 Pepper Lane Mixed Use

Total Dwelling Units = 1,074

Commercial Projects

8 Chinmaya Mission
9 Pepper Lane Mixed Use
10 Regional Medical Center (Phase 2A)
11 Satelite Health Care
12 SBIA Evergreen Center/Mosque
13 Tropicana Shopping Center

Total Commercial Sq. Feet = 306,744

Industrial Projects

14 Storage Pro

Total Industrial Sq. Feet = 101,625

Alviso Planning Area
Major Development Activity

Commercial Projects

1 Aloft Hotel
2 Homewood Suites Hotel

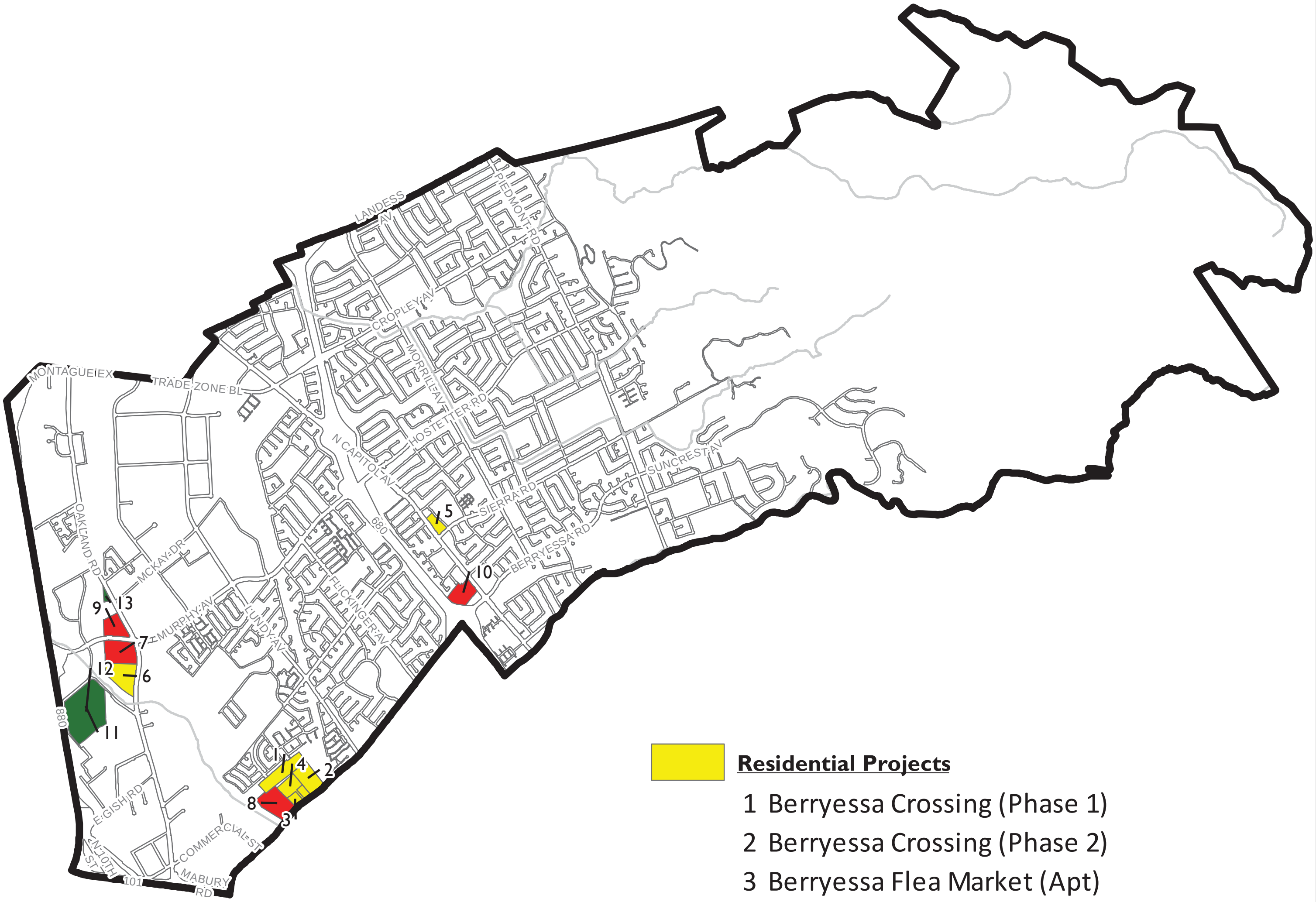
Total Commercial Sq. Feet = 188,000

Industrial Projects

3 237 At First Street
4 America Center
5 Trammel Crow (Manufacture Building)
6 Trammel Crow (R&D/Office)
7 Zero Waste Facility

Total Industrial Sq. Feet= 2,069,110

Berryessa Planning Area
Major Development Activity



Residential Projects

1 Berryessa Crossing (Phase 1)
2 Berryessa Crossing (Phase 2)
3 Berryessa Flea Market (Apt)
4 Berryessa Flea Market (KB)
5 Centered on Capitol Townhomes
6 Orchard Park

Total Dwelling Units = 1,783

Commercial Projects

7 1040 E. Brokaw Road
8 Berryessa Crossing Retail (North)
9 Brokaw Commons
10 Villa Sport

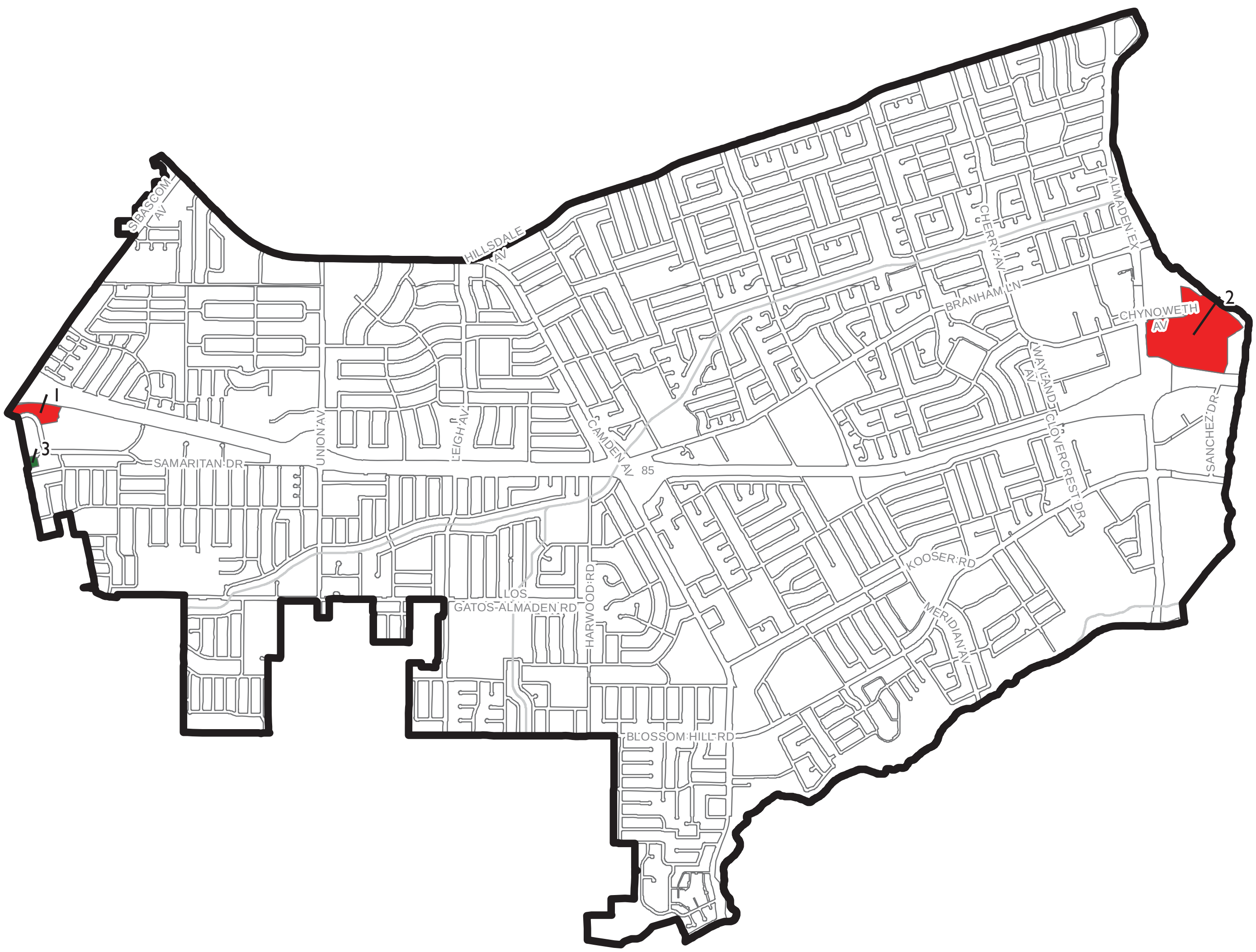
Total Commercial Sq. Feet = 454,000

Industrial Projects

11 SuperMicro (Phase 1)
12 SuperMicro (Phase 2)
13 Oakland Rd Storage

Total Industrial Sq. Feet = 1,006,640

Cambrian/Pioneer Planning Area
Major Development Activity



Commercial Projects

1 Samaritan Medical Center

2 Almaden Ranch / Bass Pro

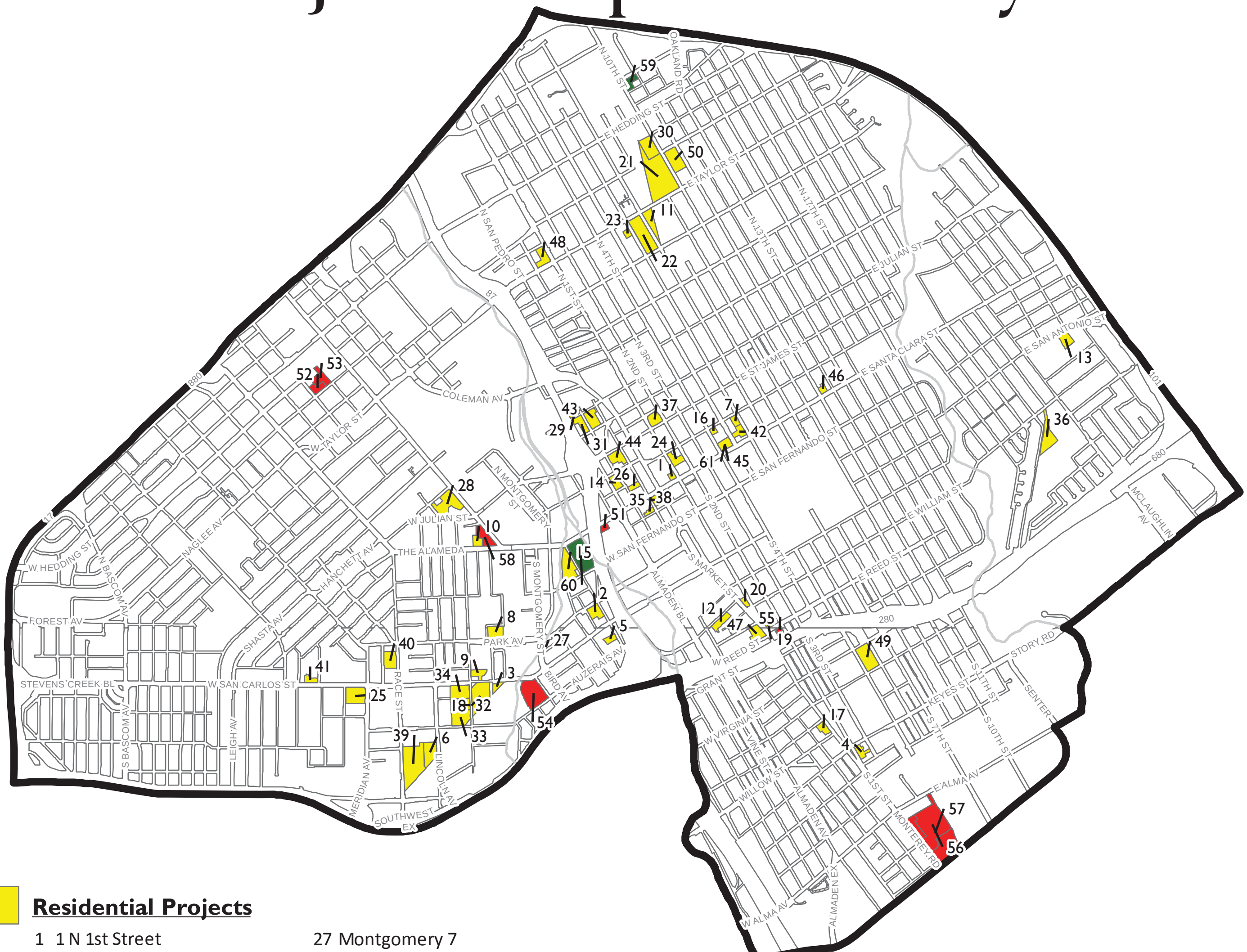
Total Commercial Sq. Feet = 452,000

Industrial Projects

3 Samaritan Court Medical Office

Total Industrial Sq. Feet = 69,000

Central Planning Area
Major Development Activity



Residential Projects

1 1 N 1st Street
2 201 Delmas
3 266 Sunol Street
4 2nd Street Studio
5 363 Delmas Avenue
6 505 Lincoln Apts
7 6th Street Project
8 777 Park
9 777 W San Carlos
10 787 Modera The Alameda
11 Ajisai Gardens Apts
12 Balbach Condos
13 Brookwood Terrace Apts
14 Centerra Apts
15 Diridon TOD
16 Donner Lofts
17 Edwards Mixed Use
18 Fairfield at West San Carlos
19 First and Reed
20 Gateway Tower
21 Hanover Cannery
22 Japantown Corp Yard
23 Japantown Senior Apts
24 Marshall Squares
25 Meridan Mixed Use
26 Modera
27 Montgomery 7
28 Morrison Park Apts
29 North San Pedro Apts
30 North Tenth Street Apts
31 NSP3 Tower
32 OHlone Block B
33 Ohlone Block C
34 Ohlone Mixed Use (Phase 1)
35 One South Market Apts
36 Parc 22 Townhomes
37 Park View Towers
38 Post & San Pedro Tower
39 Race Street
40 Race Street Terrace
41 San Carlos Senior Apts
42 San Jose Student Apts
43 San Pedro Square
44 Silvery Towers Apts
45 SJSC Towers
46 Sparta
47 The Pierce Apts
48 Vendome Place
49 Virginia Terrace Apts
50 Westmount Homes

Total Dwelling Units = 10,429

Commercial Projects

51 AC Hotel
52 Bellarmine (Academic Building)
53 Bellarmine (Life Center/Gym)
54 Orchard Supply Hardware
55 Reed Hotel
56 Sun Garden Grocery
57 Sun Garden Retail Center
58 Whole Foods Market

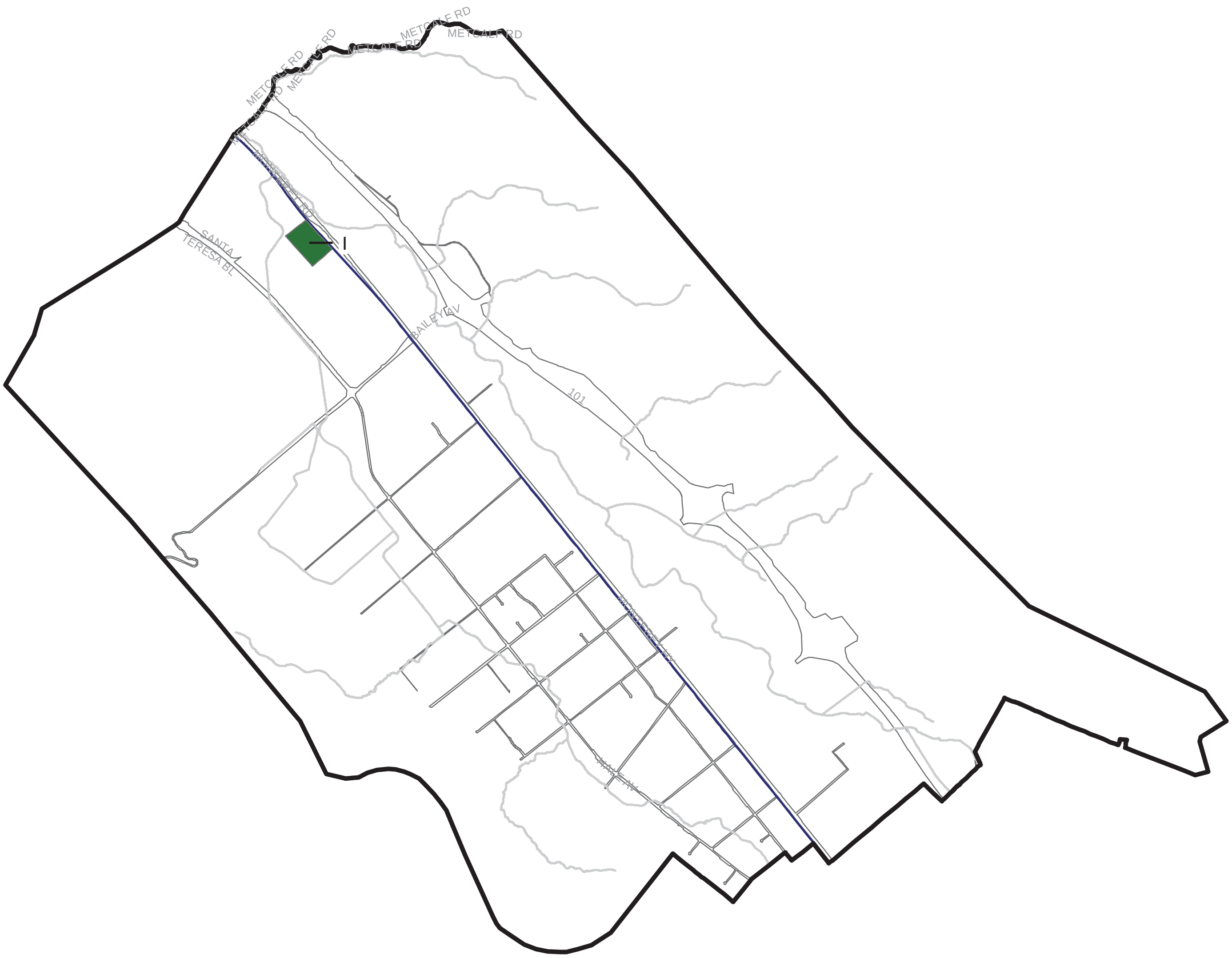
Total Commercial Sq. Feet = 663,688

Industrial Projects

59 A-1 Self Storage
60 Diridon TOD (Office)
61 SJSC Towers

Total Industrial Sq. Feet = 1,504,000

Coyote Planning Area
Major Development Activity

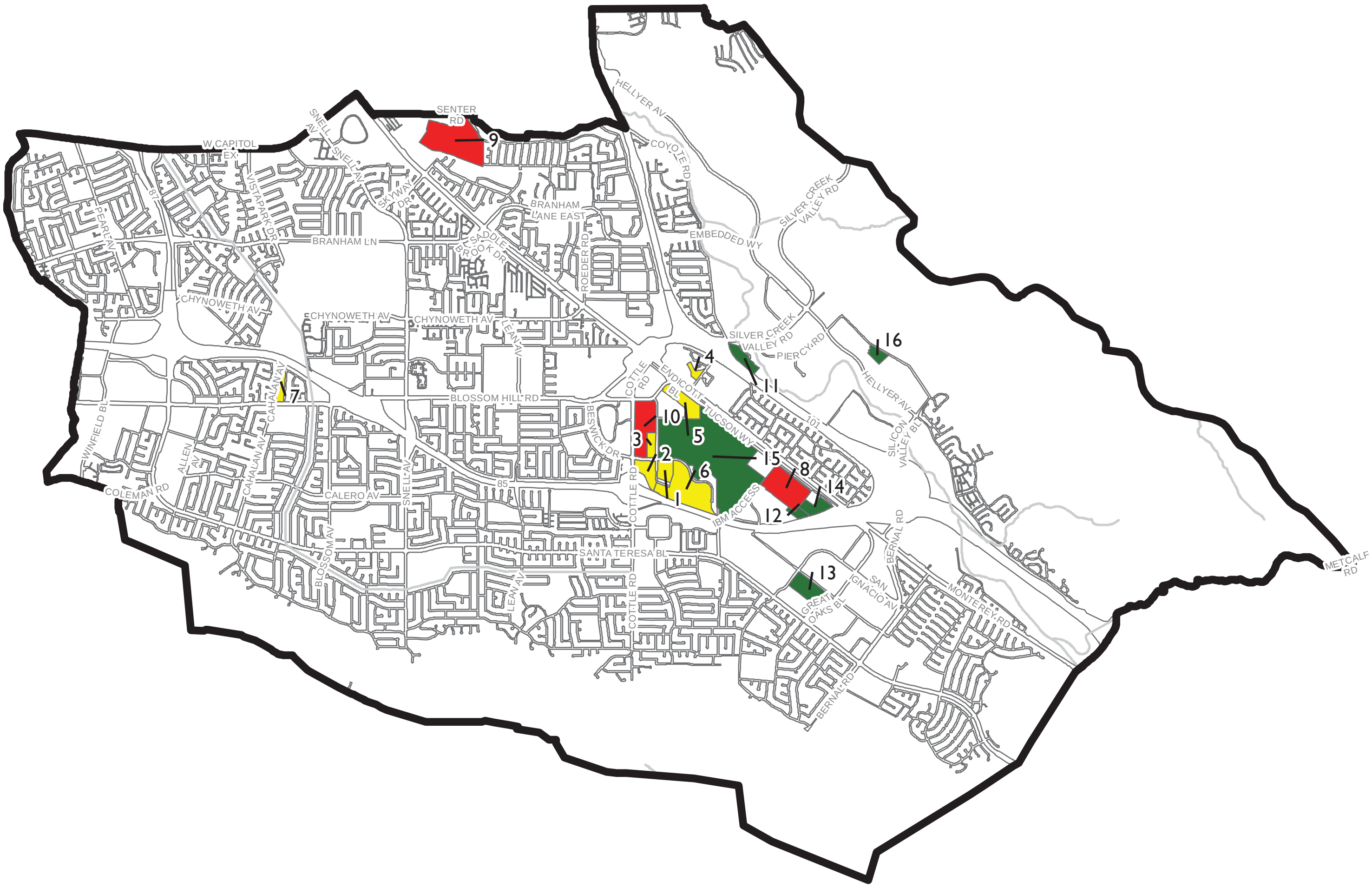


Industrial Projects

1 Panattoni Distribution Center

Total Industrial Sq. Feet = 517,000

Edenvale Planning Area
Major Development Activity



Residential Projects

1 Anton La Moraga Apts (Hitachi)
2 Ascent Apts (Hitachi)
3 Cottle Station Mixed Use (Hitachi)
4 Ford Apts
5 Lexington Luxury Apt
6 South Village (Hitachi)
7 Westbury Homes

Total Dwelling Units = 2,728

Commercial Projects

8 iStar Costco
9 Valley Christian Schools
10 Village Oaks (Hitachi)

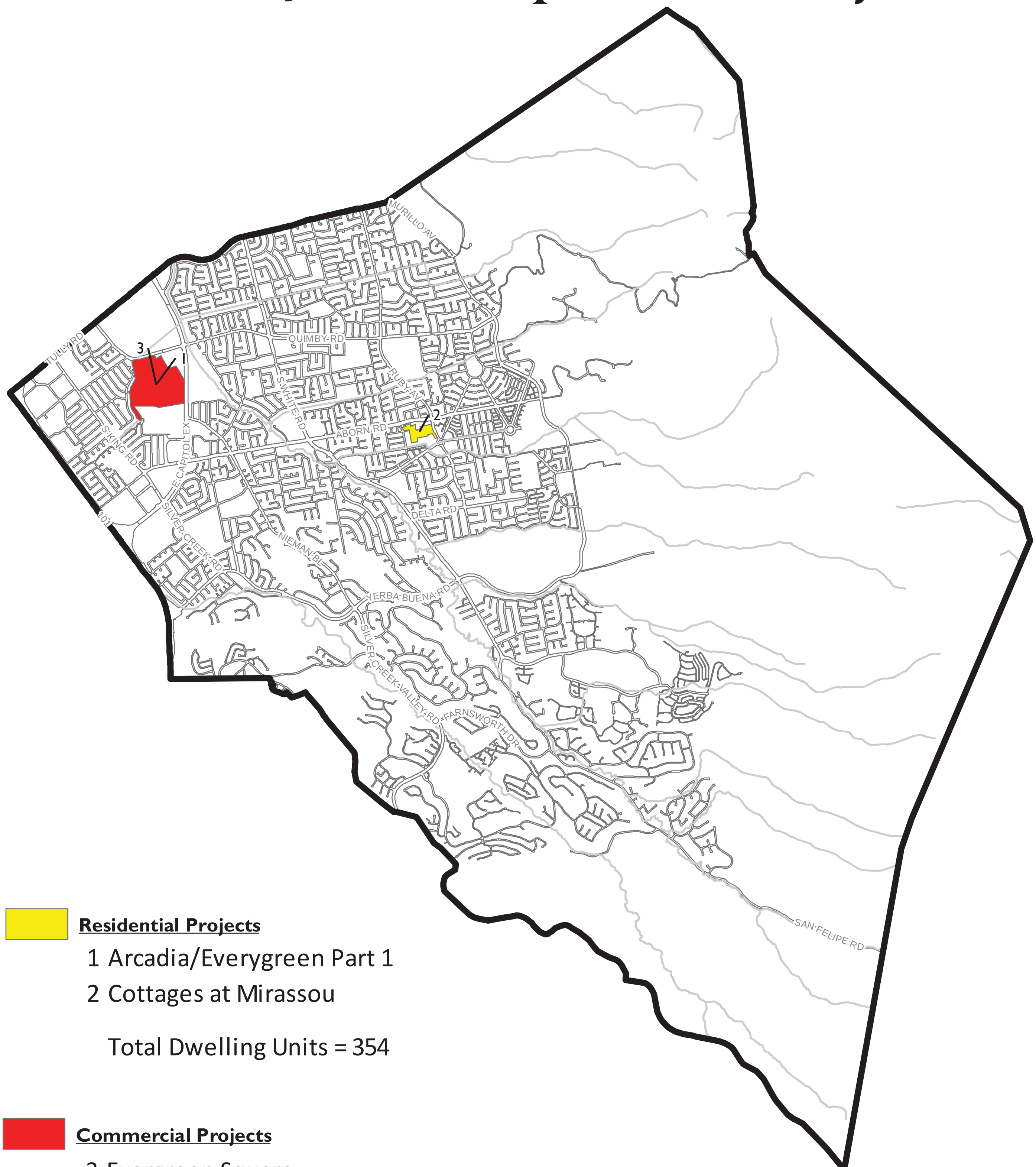
Total Commercial Sq. Feet = 506,000

Industrial Projects

11 5855 Silver Creek Valley
12 Equinix
13 Equinix (iStar)
14 Equinix (Phase 1)
15 HGST Greak Oaks Campus
16 Silicon Valley Industrial Center

Total Industrial Sq. Feet = 1,763,000

Evergreen Planning Area
Major Development Activity



Residential Projects

1 Arcadia/Everygreen Part 1

2 Cottages at Mirassou

Total Dwelling Units = 354

Commercial Projects

3 Evergreen Square

Total Commercial Sq. Feet = 310,000

North Planning Area
Major Development Activity

Residential Projects

1 121 Tasman Apts
2 Century Center Mixed Use
3 Crescent Village Apts
4 Domain Apts
5 Enzo Apts
6 Epic Apts
7 River Oaks Apts (East)
8 River Oaks Apts (West)
9 Riverview Apts
10 Rosemary Family/Senior Apts
11 Tasman Apts
12 The Verdant/Latitude Apts

Total Dwelling Units = 7,556

Commercial Projects

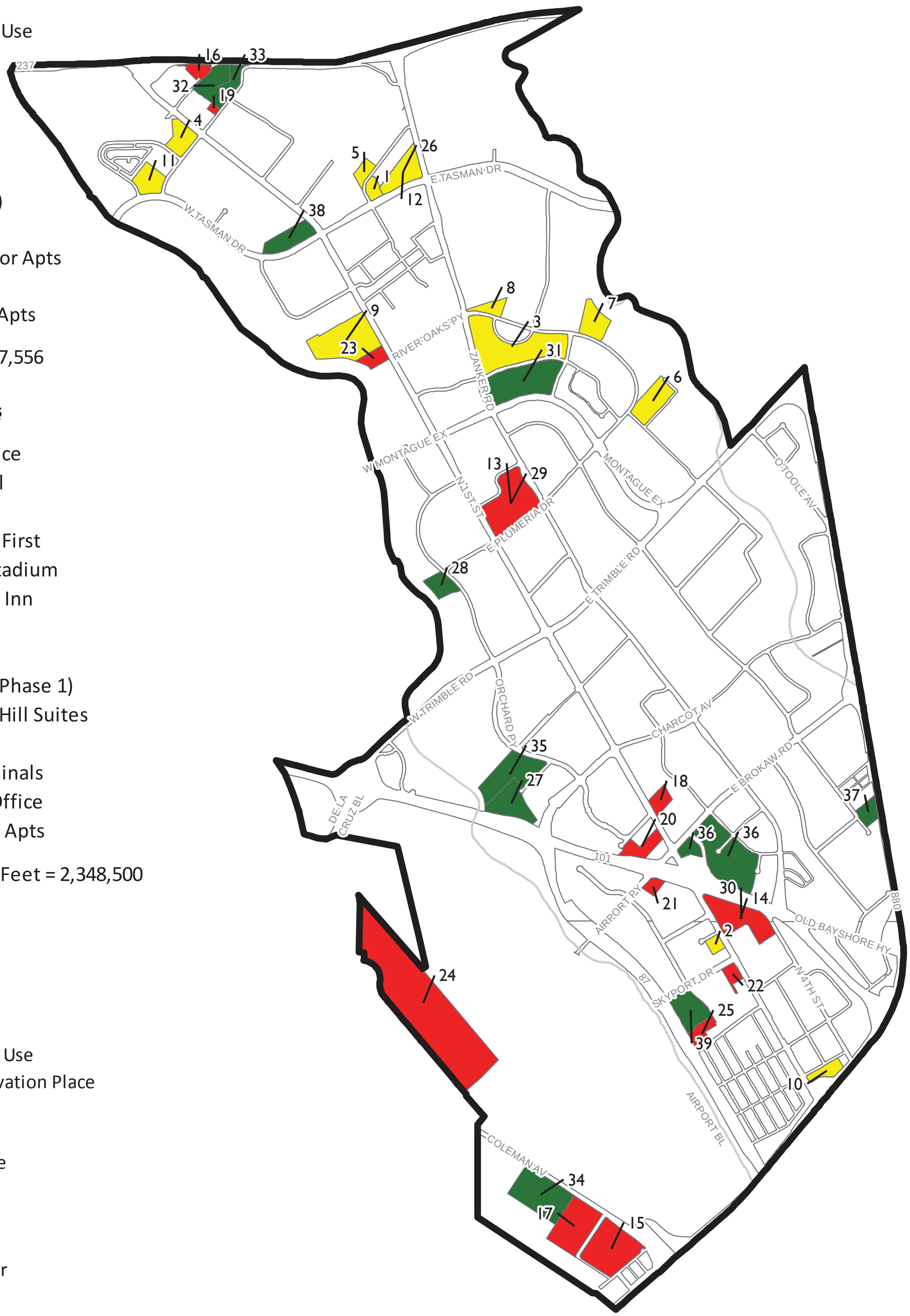
13 2890 N. 1st Street Office
14 Bay 101 Casino / Hotel
15 Coleman Landings
16 Courtyard Marriott @ First
17 Earthquakes Soccer Stadium
18 Hampton Inn/Holiday Inn
19 Hyatt House
20 Hyatt Place
21 M8trix Casino/Hotel (Phase 1)
22 Residence Inn/SpringHill Suites
23 Riverview Mixed Use
24 San Jose Airport Terminals
25 Skyport Plaza Hotel/Office
26 The Verdant/Latitude Apts

Total Commercial Sq. Feet = 2,348,500

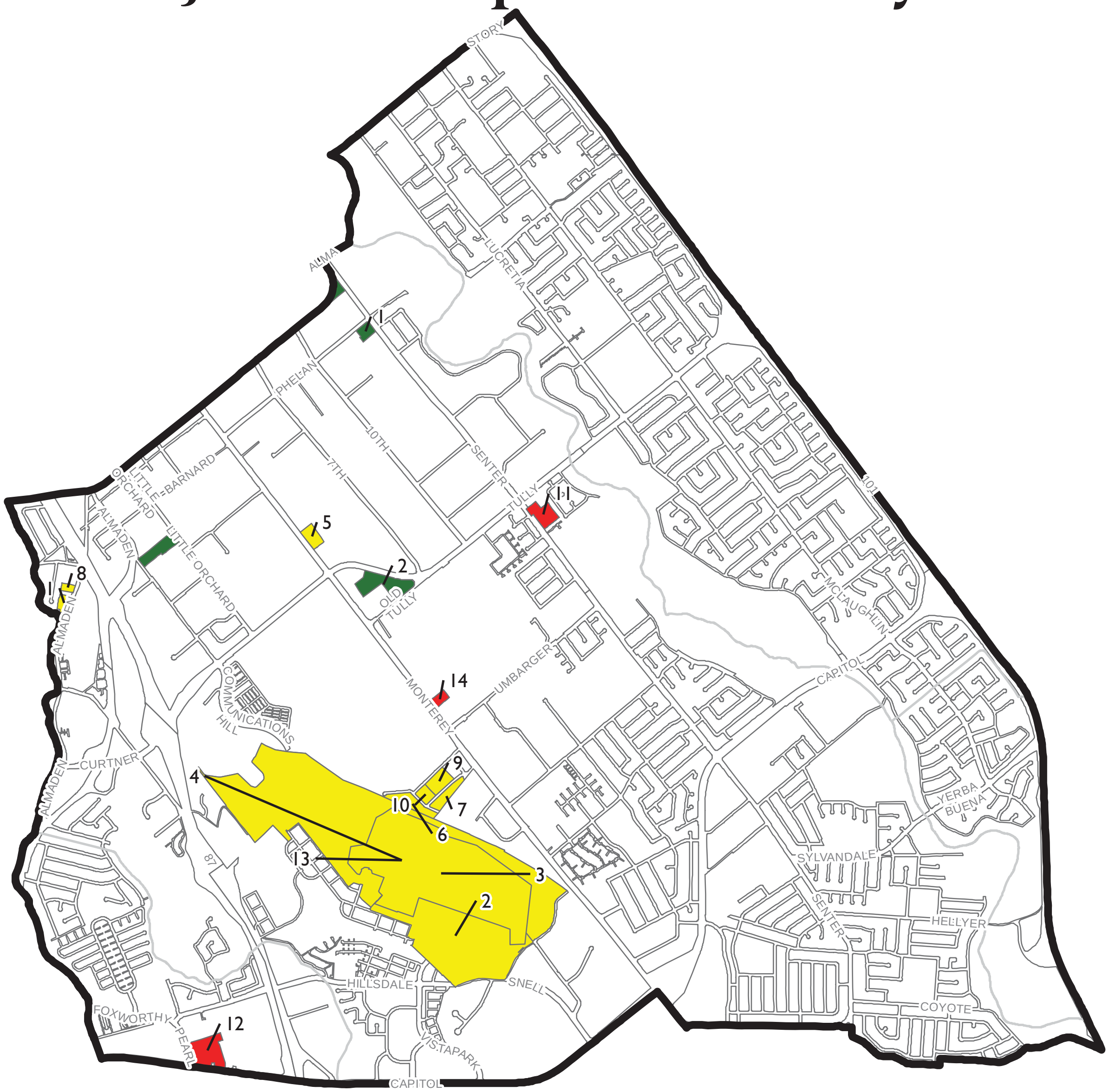
Industrial Projects

27 101 Tech
28 2701 Orchard Parkway
29 2890 North 1st Street
30 Bay 101 Casino & Mixed Use
31 Boston Properties Innovation Place
32 Brocade (Phase 1)
33 Brocade (Phase 2)
34 Coleman Highline Office
35 Legacy on 101 Office
36 Peery Arrillaga
37 SAF Keep Storage
38 Samsung Semiconductor
39 Skyport Kaiser

Total Industrial Sq. Feet = 4,737,997



South Planning Area
Major Development Activity



Residential Projects

1 18007 Almaden Apts
2 Communication Hill (Phase 1)
3 Communication Hill (Phase 2)
4 Communications Hill (Balance)
5 Metropolitan Apts
6 Murano at Montecito Vista
7 Orvieto Family/Senior Apts
8 Scotia Apartments
9 Verona at Montecito Vista
10 Vicenza at Montecito Vista

Total Dwelling Units = 2,555

Commercial Projects

11 2500 Senter Road
12 Capitol Toyota
13 Communications Hill
14 Holiday Inn

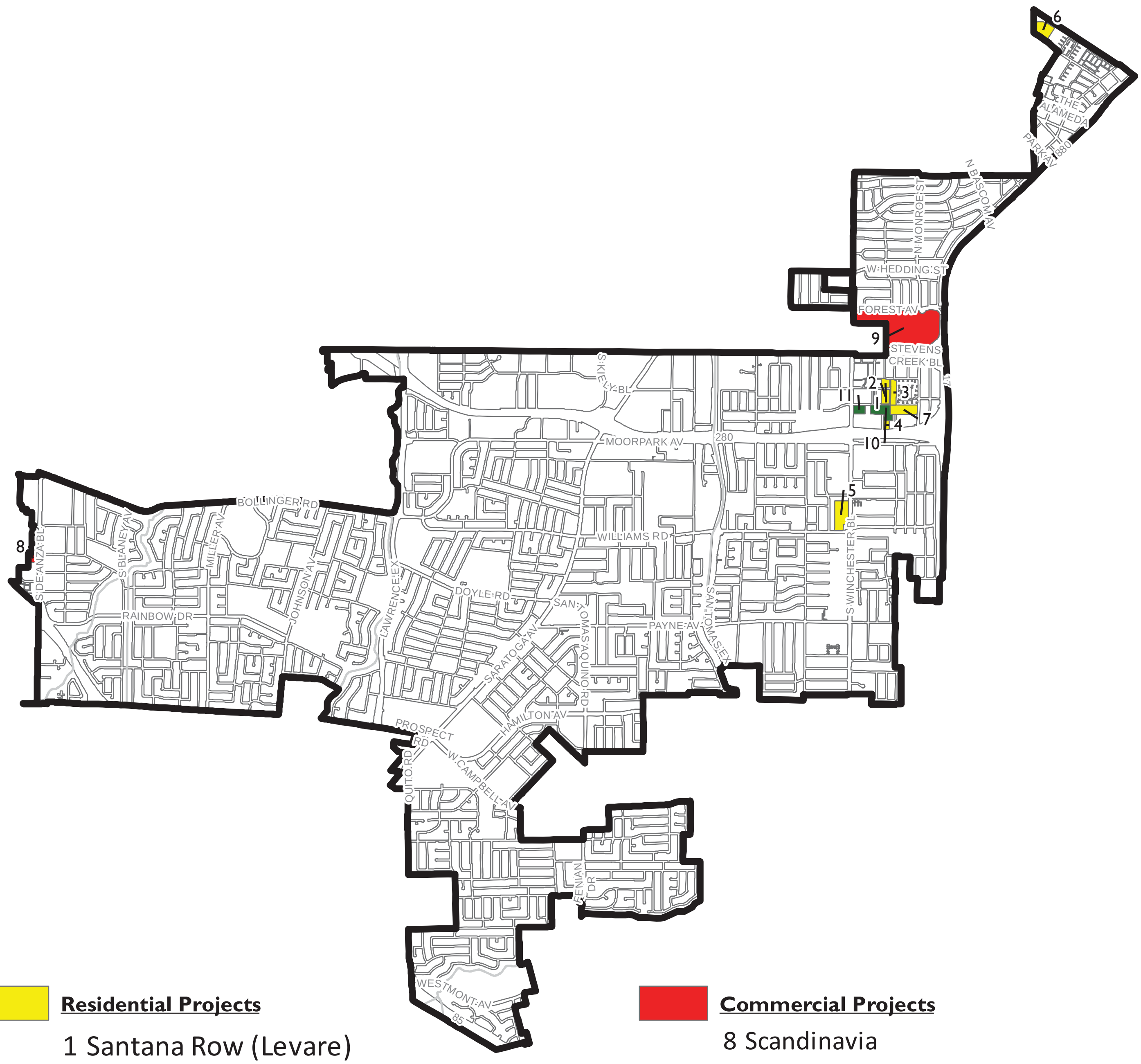
Total Commercial Sq. Feet = 475,961

Industrial Projects

15 1850 Stone Avenue (Storage)
16 A-1 Self Storage
17 Public Storage
18 Senter/Alma Ministorage

Total Industrial Sq. Feet = 429,693

West Valley Planning Area
Major Development Activity



Residential Projects

1 Santana Row (Levare)
2 Santana Row (Misora)
3 Santana Row Lot 12
4 Santana Row Lot 17
5 The Reserve
6 University Villas Apts
7 Vicino Townhomes

Total Dwelling Units = 1,660

Commercial Projects

8 Scandinavia
9 Valley Fair Shopping Center

Total Commercial Sq. Feet = 564,410

Industrial Projects

10 Santana Row (balance)
11 Splunk at Santana Row

Total Industrial Sq. Feet = 639,000

Willow Glen Planning Area
Major Development Activity

Residential Projects

1 Fruitdale Station (Phase 2)

2 Lee Ave Apartments

3 The Meridian at Willow Glen

Total Dwelling Units = 371

Commercial Projects

4 Foxworthy Retail

5 Fruitdale Station (Phase 2)

6 Lincoln Office/Retail

7 Oakmont of San Jose

Total Commercial Sq. Feet = 156,000

VII. APPENDIX: SOURCES

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

<u>Data Collection and Analysis</u>

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

Planning staff conducted and/or participated in a series of interviews/discussions with people with a variety of perspectives, including City staff processing development applications, developers or their representatives, and others working in the development industry or related fields, such as the City's Housing Department and Office of Economic Development. These discussions surfaced important information on specific development projects as well as provided a forum for review of the economic assumptions underlying the report's five-year forecast.

<u>Review of Publications</u>

Planning staff consulted several publications that made an important contribution 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 *2016 Index of Silicon Valley*, the Association of Bay Area Government's *Regional Housing Need Plan (2014-2022)*, the U.S. Census Bureau's *Census 2010* and *American Community Survey*, Marcus & Millichap's *Market Research Reports*, and Urban Land Institute's 2016 Emerging Trends in Real Estate.