

GENERAL FUND REVENUE ESTIMATES

OVERVIEW

For 2017-2018, General Fund revenue estimates (excluding fund balance) total \$1.06 billion, representing an 8.3% increase from the 2016-2017 Adopted Budget level. When Fund Balance-Carryover is included, General Fund resources total \$1.28 billion, which is 4.1% above the prior year.

Estimates for the 2017-2018 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated as part of the 2018-2022 Five-Year Forecast prepared in February 2017. These estimates have been reviewed continually since the Forecast document was released and have been revised, as appropriate, in this Adopted Budget based on more recent information. Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2016-2017, an estimate for the increase or decrease in activity, and receipts anticipated for 2017-2018. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The 2017-2018 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2015-2016 Actuals	2 2016-2017 Adopted	3 2017-2018 Forecast	4 2017-2018 Adopted	2 to 4 % Change	% of Total
Property Tax	\$ 263,299,078	\$ 271,737,000	\$ 288,990,000	\$ 288,990,000	6.3%	22.6%
Sales Tax	201,797,183	224,695,553	228,000,000	228,000,000	1.5%	17.9%
Transient Occupancy Tax	16,564,848	16,952,000	18,720,000	18,720,000	10.4%	1.5%
Franchise Fees	48,948,942	48,916,811	50,670,000	50,813,083	3.9%	4.0%
Utility Taxes	93,397,073	95,749,500	101,320,000	101,320,000	5.8%	7.9%
Telephone Tax	20,077,343	21,614,000	20,000,000	20,000,000	(7.5%)	1.6%
Business Taxes	50,864,355	48,800,000	63,300,000	63,300,000	29.7%	5.0%
Licenses and Permits	53,765,907	51,572,553	53,316,113	59,778,354	15.9%	4.7%
Fines, Forfeitures and Penalties	16,090,283	14,910,600	15,257,000	15,336,284	2.9%	1.2%
Rev. from Money and Property	5,100,705	3,863,935	5,640,000	5,640,000	46.0%	0.4%
Rev. from Local Agencies	17,143,120	24,811,281	23,651,000	26,040,025	5.0%	2.0%
Rev. from State Government	12,174,306	11,328,516	10,835,000	12,962,140	14.4%	1.0%
Rev. from Federal Government	10,599,204	4,161,294	1,358,334	2,791,670	(32.9%)	0.2%
Fees, Rates, and Charges	47,057,929	41,731,974	42,515,270	48,498,645	16.2%	3.8%
Other Revenue	123,547,615	17,752,381	14,410,648	28,829,148	62.4%	2.3%
Transfers and Reimbursements	75,438,675	79,337,731	86,058,560	88,428,909	11.5%	6.9%
Subtotal	\$ 1,055,866,566	\$ 977,935,129	\$ 1,024,041,925	\$ 1,059,448,258	8.3%	83.0%
Fund Balance-Carryover (1)	265,855,266	248,958,239	68,587,224	217,204,397	(12.8%)	17.0%
Total General Fund Sources	\$ 1,321,721,832	\$ 1,226,893,368	\$ 1,092,629,149	\$ 1,276,652,655	4.1%	100.0%

(1) The Fund Balance figure does not include the Reserve for Encumbrances.

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Economic Performance

The 2017-2018 revenue estimates were built on the assumption of slowing, but still positive growth, which will have a modest positive impact on the City's economic performance.

The following is a discussion of both the national and local economic outlooks used to develop the 2017-2018 revenue estimates. 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 the General Fund revenue estimates. 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. A more detailed discussion on forecasted economic conditions can be found in the 2018-2022 Five-Year General Fund Forecast (<http://www.sanjoseca.gov/index.aspx?nid=5478>) developed in February 2017.

National 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 2016 UCLA Anderson Business School Forecast, continued job growth and wage increases will power consumption in 2017.

Higher wages along with a continued rebound in oil prices and continued high housing costs will result in the inflation rate growing from 2% to 3%. A modest rate of inflation is a key driver for business and consumer demand and for future property and sales taxes. The Consumer Price Index (CPI) increased 0.3% in December 2016 (seasonally adjusted) and increased 2.1% over the last 12 months (before seasonal adjustment).¹ In addition, to keep inflation rates at target levels, it is anticipated the Federal Reserve will raise interest rates several times over the next year, thereby reducing monetary policy support and allowing consumer spending to drive the economy.

The UCLA Forecast also projects a further decrease to the unemployment rate, from 4.8% to 4.5%, and, as the labor market tightens, wages continue to grow. In addition, due to OPEC agreed production limitations, oil prices are anticipated to grow in 2017 to approximately \$52-\$53 per barrel, which is similar to prices experienced in 2015. Further, even though interest rates are increasing, housing and automobile sales continue to grow due to the increased wages.

It is important to note that the recent Federal Government administration change will likely have significant impacts on the national economy. Over the next year, it is anticipated that new fiscal policies will be created and existing monetary strategies will be altered. These changes will very likely impact the national economy, but the effects are not yet known.

¹ U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index Detailed Report, December 2016

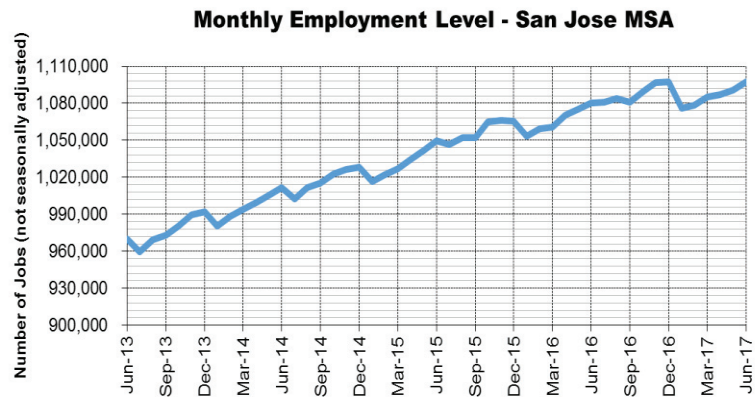
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Economic Performance

City of San José Outlook

The majority of economic indicators continue to show improvement from the same period a year ago. The June 2017 employment level in the San José, Sunnyvale, Santa Clara Metropolitan Statistical Area (MSA) of 1.097 million was 1.6% above the June 2016 level of 1.080 million.



Unemployment Rate (Unadjusted)		
	June 2016	June 2017
San Jose Metropolitan Statistical Area*	4.0%	3.6%
State of California	5.6%	4.9%
United States	5.1%	4.5%
* San Benito and Santa Clara Counties Source: California Employment Development Department.		

The unemployment rate in the San José metropolitan area continued to improve in 2016-2017, dropping from 4.0% in June 2016 to 3.6% in June 2017. These rates remain well below the double digit levels that had been experienced during the Great Recession. The June 2017 unemployment rate in this region was well below the unadjusted rate for the State (4.9%) and the nation (4.5%).

Construction activity was especially strong in 2016-2017 at \$1.9 billion, exceeding the peak of \$1.7 billion experienced in 2013-2014. In 2017-2018, construction activity valuation is anticipated to be lower than the prior year.

The number of new residential dwelling units permits issued in 2016-2017 (2,712) was above the prior year level of 1,692 by 60.3%. Construction activity for residential and commercial categories was higher compared to the prior year while the industrial category was lower than the prior year. Private construction activity is a driver for several development related taxes and fees and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

Private Sector Construction Activity (Valuation in \$ Millions)			
	2015-2016	2016-2017	% Change
Residential	\$ 440.9	\$ 599.1	35.9%
Commercial	\$ 474.0	\$ 702.6	48.3%
Industrial	\$ 594.7	\$ 574.5	(3.4%)
Total	\$ 1,509.6	\$ 1,876.2	24.3%

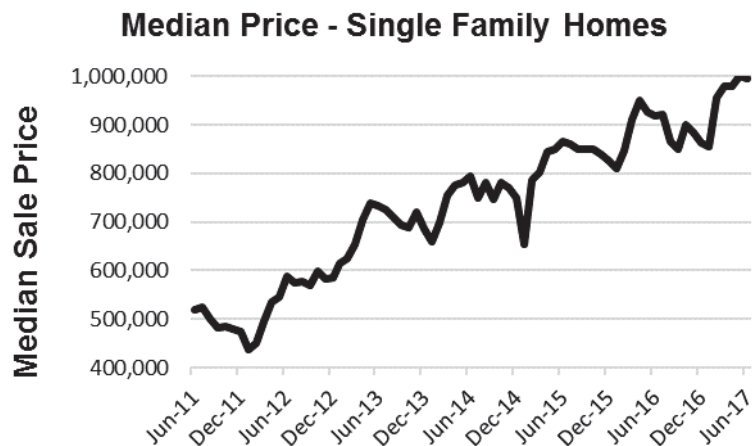
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Economic Performance

City of San José Outlook

The housing market continued to experience growth in home prices, however the number of sales declined in 2016-2017 compared to prior year levels. The median price for single family homes increased in value, with a median home price in June 2017 of \$996,000, up 8.3% from the June 2016 price of \$920,000. The May and June 2017 median home prices of \$1.0 million and \$996,000, respectively, represent the highest home prices recorded for San José. However, the number of property transfers in 2016-2017 was 7,883, which represents a 4.1% decrease from the number of sales that occurred during the prior year. The amount of inventory available in the real estate market has been steadily decreasing, with the number of new listings for single-family and multi-family dwellings totaling 878 in June 2017, a 9.2% drop from 967 in June 2016. Finally, the amount of time it is taking to sell these homes has remained fairly consistent with the average days-on-market for single-family and multi-family dwellings in 2016-2017 totaling 26 days, compared to 24 days during the previous year.



Slow, but positive economic growth is expected in 2017-2018. Due to this outlook, the economically sensitive revenues, such as Sales Tax and Property Tax receipts, are expected to experience modest growth.

Non-Economically Sensitive Revenue Drivers

The economic conditions discussed above are the primary drivers for the economically sensitive revenues, with the most significant impacts in the Sales Tax and Property Tax categories. However, performance in other areas is primarily driven by other factors. For example, the Utility Tax and Franchise Fees categories are more heavily impacted by utility rate changes, energy prices, and consumption levels. 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 moderate growth, 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.

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Revised General Fund Forecast

Between the issuance of the Five-Year Forecast in February 2017 and the adoption of the budget in June 2017, staff continued to review and update the estimated revenue collections for 2017-2018. Based on this analysis, several of the revenue estimates presented in the February Forecast were revised in this budget to reflect more recent information. The net result of these revisions is an upward adjustment of \$1.3 million to the Forecast from \$1.091 billion to \$1.093 billion.

Following is a summary table and descriptions of the changes incorporated into the Revised Forecast that was used as the starting point in preparing the 2017-2018 Adopted Budget.

2017-2018 Revised Forecast Changes

<u>Category</u>	<u>\$ Change</u>
Licenses and Permits	\$ 849,685
Fines, Forfeitures, and Penalties	515,000
Revenue from the State	425,000
Use of Money/Property	400,000
Transfers and Reimbursements	501,953
Business Taxes	300,000
Franchise Fees	50,000
Other Revenue	40,000
Fees, Rates, and Charges	(210,000)
Property Tax	(725,000)
Beginning Fund Balance	(854,296)
Total	\$ 1,292,342

A brief discussion of these changes follows.

Licenses and Permits

- An increase of \$789,000 to the Fire Permits revenue estimate, including an increase to the Fire Development fees (\$589,000) and the Non-Development fees (\$200,000) based on collection trends experienced in 2016-2017.
- An increase of \$61,000 to Other Licenses and Permits based on collection trends experienced in 2016-2017.

GENERAL FUND REVENUE ESTIMATES

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Revised General Fund Forecast

Fines, Forfeitures, and Penalties

- An increase to several fines and forfeitures revenues, including \$200,000 to Parking Fines (\$11.0 million to \$11.2 million), \$75,000 to Citation Fines (\$175,000 to \$250,000), and \$30,000 to Animal Services Field Citations (\$90,000 to \$120,000), based on collection trends experienced in 2016-2017.
- An increase of \$200,000 to Business Tax Penalties (\$1.0 million to \$1.2 million) and \$10,000 to Fire Safety Delinquency Penalties (\$120,000 to \$130,000), based on collection trends experienced in 2016-2017.

Revenue from the State

- An increase of \$425,000 to reflect Other State Revenue funding that was unaccounted for in the 2017-2018 Forecast due to a calculation error.

Use of Money/Property

- An increase of \$200,000 to the interest earnings estimate (\$2.0 million to \$2.2 million) based on collection trends experienced in 2016-2017, coupled with higher interest rate assumptions in 2017-2018.
- An increase of \$200,000 to the Subrogation Recovery estimate (\$300,000 to \$500,000) based on 2016-2017 collection trends as well as historical performance in this category.

Transfers and Reimbursements

- A net increase of \$185,000 to reflect updated overhead reimbursements from capital funds and operating funds based on the final 2017-2018 base budget and final 2017-2018 overhead rates as approved by the Finance Department.
- A net increase of \$312,000 to the Transfers category to reflect an increase in the reimbursement from Airport funds for services provided by the Police and Fire Department and an increase of \$5,000 to the reimbursement from the Maintenance Assessment District Funds.

Business Taxes

- An increase of \$300,000 to the estimate for the Marijuana Tax (\$9.05 million to \$9.35 million) based on 2016-2017 collection trends.

Franchise Fees

- An increase of \$50,000 adjusts the City Generated Tow revenue (from \$950,000 to \$1.0 million) based on 2016-2017 collection trends.

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Revised General Fund Forecast

Other Revenue

- An increase of \$140,000 to reflect an increase in projected incentive payments from the City's banking services vendor (\$100,000), procurement credit card (P-card) vendor (\$25,000) and office supplies vendor (\$15,000).
- A decrease of \$100,000 eliminates the revenue estimate from the sale of surplus vehicles due to City Council direction to donate these vehicles to Coyote Creek Flood victims.

Fees, Rates, and Charges

- A decrease of \$155,000 to the Parks, Recreation and Neighborhood Services Departmental Charges estimate (from \$20.62 million to \$20.46 million) aligns revenues with estimated base activity levels. This reflects a revised reconciliation of the Happy Hollow Park and Zoo.
- A decrease of \$55,000 to the Library Departmental Charges to reflect the anticipated 2017-2018 collection and activity levels.

Property Tax

- A decrease of \$725,000 to the Unsecured Property Tax estimate (\$14.5 million to \$13.8 million) to reflect lower than anticipated collections in 2016-2017. This resulted in a lower base starting point for 2017-2018 anticipated growth of 3%.

Beginning Fund Balance

- A decrease of \$854,000 to Beginning Fund Balance estimate reflects a lower carryover amount of the Development Fee Program Reserves (Fire: reduction of \$530,000; Public Works: reduction of \$187,000; Planning: reduction of \$135,000; Building: reduction of \$2,000) necessary to bridge the gap between 2017-2018 base revenues and expenditures. The Development Fee Programs are assumed to be 100% cost recovery.

Changes from Forecast to Adopted Budget

From the Revised Forecast of \$1.093 billion, a net increase of \$184.0 million to the General Fund revenue estimates was approved, bringing the 2017-2018 Adopted Budget revenue estimate to \$1.277 billion. The components of this increase include an increase to the estimate for 2016-2017 Ending Fund Balance/2017-2018 Beginning Fund Balance (\$148.6 million) and an increase to various revenue categories (\$35.4 million). These changes are summarized in the following table:

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Changes from Forecast to Adopted Budget

2017-2018 Adopted Budget Changes

Category	\$ Change
Beginning Fund Balance	\$148,617,173
Other Revenue	14,418,500
Licenses and Permits	6,462,241
Fees, Rates, and Charges	5,983,375
Transfers and Reimbursements	2,370,349
Revenue from Local Agencies	2,389,025
Revenue from the State of California	2,127,140
Revenue from the Federal Government	1,433,336
Franchise Fees	143,083
Fines, Forfeitures, and Penalties	79,284
Total	\$ 184,023,506

Beginning Fund Balance

- An increase of \$148.6 million from the Revised Forecast is included, bringing the estimated 2017-2018 Beginning Fund Balance from \$68.6 million to \$217.2 million. This increase includes the following:
 - Rebudget of 2016-2017 funds for expenditure-related items and unexpended reserves in the amount of \$143.2 million, including \$137.96 million that was brought forward to the City Council in June 2017 after the release of the Proposed Budget. The remaining \$5.3 million was incorporated into the Proposed Budget and included the following: Homeless Rapid Rehousing/Tiny Homes (\$2.3 million), Fire Station 37 Reserve (\$960,000), Technology Equipment Replacement to Converged or Hyper-Converged Infrastructure (\$610,000), Urban Area Security Initiative Grant – Police 2016/Dispatch Consoles (\$570,000), San José Environmental Sustainability Plan Implementation Staffing (\$306,030), Talent Recruitment Initiative (\$200,000), Historic Preservation (\$100,000), Mayor’s Gang Prevention Task Force Clean Slate Program (\$100,000), Human Resources Non-Personal/Equipment – Workers’ Compensation Claims contract (\$90,000), and Aquatics Program (\$25,000).
 - Liquidation of various reserves totaling \$3.8 million, including the Cultural Facilities Capital Maintenance Reserve (\$1.975 million), 2017-2018 Future Deficit Reserve (\$1.4 million), and General Plan Update Reserve (\$375,000).
 - Additional anticipated fund balance of \$1.6 million generated from personal services savings that are projected in the Police Department due to vacancy savings.

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Changes from Forecast to Adopted Budget

Other Revenue

- A one-time increase of \$12.9 million due to the Successor Agency to the Redevelopment Agency prevailing in litigation against Santa Clara County (County) regarding the withholding of the PERS and Water District levies by the County. As a result, the litigation should allow for some repayment of City funds advanced to pay for certain Successor Agency enforceable obligations. The Adopted Budget includes the full funding of \$12.9 million as revenue to the General Fund, however, \$6.3 million is eligible to be returned to the General Purpose Parking Fund.
- An increase of \$1.1 million reflects the rebudget of grant revenues from 2016-2017 to 2017-2018 for the following: East Side Union High School District Community Wireless Network Project (\$800,000); Energy and Utility Conservation Measures Program (\$150,000); Silicon Valley Foundation Strengthening Community Relations Project (\$68,500); Foundation Grant – encores4youth Initiative (\$50,000); Creative Industry Incentive Fund (\$30,000); and Neighborhood Gateway Galleries (\$25,000).
- A one-time increase of \$270,000 to reflect Mayoral Fellows grant revenue from the following: Service Year and Knight Foundation (\$200,000); Harvard Business School (\$45,000); and Cities of Service (\$25,000).
- A one-time increase of \$100,000 to reflect the following grants: the Institute for Market Transformation and the National Resources Defense Council for zero net energy programs (\$50,000); National Recreation and Park Association for the Healthy Out-of-School Time Program (\$25,000), and the National Endowment for the Arts for the Neighborhood Gateway Galleries (\$25,000).
- A one-time increase of \$25,000 to reflect grant revenue to support Viva CalleSJ, ¡Viva Parks!, and Plaza de Cesar Chavez placemaking events from the American Association of Retired Persons (AARP) (\$15,000), and Youth Connections Foundation (\$10,000).

Licenses and Permits

- An increase of \$4.0 million to the Building Development Fee Program fees (from \$28.5 million to \$32.5 million) to bring ongoing revenues and expenditures into closer alignment with less reliance on the Building Development Fee Program Reserve.
- An increase of \$1.1 million in the Fire Development Fee Program (from \$7.5 million to \$8.6 million) reflects fee changes included in the Adopted Budget to bring ongoing revenues and expenditures into closer alignment with less reliance on the Fire Development Fee Program Reserve.
- An increase of \$541,000 to adjust various Police Department permits to maintain cost recovery levels.
- A net increase of \$410,000 for other changes to licenses and permits, including building code enforcement and other Code Enforcement Fee programs (\$420,000) and temporary street closures (-\$10,000).

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Changes from Forecast to Adopted Budget

- An increase of \$364,000 in Fire non-development permits to support the addition of 1.0 Fire Prevention Inspector and maintain 100% cost recovery level.

Fees, Rates, and Charges

- An increase of \$4.5 million in the Planning Development Fee Program (\$3.2 million) and Public Works Development Fee Program (\$1.3 million) to bring ongoing revenues and expenditures into closer alignment with less reliance on the Development Fee Program Reserves.
- An increase of \$1.3 million to the Parks, Recreation and Neighborhood Services (PRNS) Department Charges aligns revenues with estimated activity levels. The increase primarily reflects a net increase of \$512,000 in the Fee Activity program revenues. Additional adjustments include: a \$571,000 increase in Happy Hollow Park and Zoo revenues due primarily to corporate rentals; a \$117,000 increase in Lake Cunningham Skate Park revenue, a \$91,000 increase in field reservations revenue; and a \$5,000 reduction to reflect service credits for PRNS special events permits as directed in the Mayor's March Budget Message for Fiscal Year 2017-2018.
- An increase of \$123,000 to the Transportation Department fees and charges to reflect various fee revisions.
- An increase of \$64,000 to the Police Department fees and charges to reflect various fee revisions and maintain cost recovery levels.

Transfers and Reimbursements

- As directed in the Mayor's March Budget Message for Fiscal Year 2017-2018, the Adopted Budget includes one-time transfers totaling \$668,513 from the General Purpose Parking Fund for the Residential Parking Pilot Program (\$118,513), Business Permit Process Improvement Bootcamp (\$200,000), Storefront Activation (\$250,000), and Downtown Ice Rink Improvements (\$100,000).
- Reduction of a transfer from the Community Facilities Revenue Fund that was included in the 2017-2018 Forecast to reimburse the General Fund for finance staffing to support the Hayes Mansion (\$117,715). When the Proposed Budget was developed it was assumed the Hayes Mansion would be sold and reimbursement would no longer be available. While the sale did not occur as anticipated as discussed in Manager's Budget Addendum #25, this position remains in the General Fund to provide support for the Hayes Mansion and other finance transactions.
- A net increase of \$1.7 million (\$1.3 million ongoing) in anticipated overhead reimbursements to reflect the impact of various budget actions in the 2017-2018 Budget that change the staffing levels funded by special funds and capital funds.

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Changes from Forecast to Adopted Budget

Revenue from Local Agencies

- A one-time increase of \$1.6 million to reflect the County's portion of the Senior Nutrition Program costs. This funding from the County of Santa Clara Department of Aging and Adult Services covers two-thirds of the total cost of the program and will be used to reimburse the City's vendor for the cost of the meals for seniors at all 13 senior nutrition sites from July 2017 to June 2018.
- A one-time increase of \$570,023 to reflect the following grant/reimbursement revenue: Santa Clara Valley Water District for the Homeless Response Team park rangers extension (\$175,000), Metropolitan Transportation Commission for urban village planning (\$150,000), Santa Clara County to support Viva CalleSJ, ¡Viva Parks!, and Plaza de Cesar Chavez placemaking events (\$125,000), and Santa Clara County District Attorney's Office for the California Office of Emergency Services County Victim Services Program (\$120,023).
- An increase of \$222,203 million reflects the rebudget of grant revenues from 2016-2017 to 2017-2018 to support the following: 2016 County Victim Services Program (\$142,203), Cultural Affairs Special Project (\$40,000), Partnerships to Improve Community Health (\$25,000), and BART Public Art Design (\$15,000).

Revenue from State of California

- An increase of \$1.3 million reflects the rebudget of grant revenues from 2016-2017 to 2017-2018 to support the following: Diridon Station Area Plan (\$400,000); City Law Enforcement Grant (\$291,358); California Gang Reduction, Intervention and Prevention (CALGRIP) (\$250,000); Internet Crimes Against Children (\$189,318); Selective Traffic Enforcement Program (\$129,549); and Pacific Library Partnership for Life Skills Academy (\$10,645).
- A one-time increase of \$528,000 to reflect grant funding from the Metropolitan Transportation Commission for urban village planning. The concept of urban villages was established in the Envision San José 2040 General Plan that was adopted in 2011. The policy intends to create a framework that directs sustainable job and housing growth within walkable and bike-friendly areas that have good access to transit and other infrastructure and facilities.
- A one-time increase of \$221,500 to reflect funding to support Viva CalleSJ, ¡Viva Parks!, and Plaza de Cesar Chavez placemaking events.
- A one-time increase of \$106,770 to reflect grant revenue to support the Selective Traffic Enforcement Program (\$75,000) and State Homeland Security Grant Program (\$31,770).

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Changes from Forecast to Adopted Budget

Revenue from Federal Government

- An increase of \$1.2 million reflects the rebudget of grant revenues from 2016-2017 to 2017-2018 to support the following: Urban Areas Security Initiative Grant – Police 2016 (\$733,382); Urban Area Security Initiative – Fire 2016 (\$261,676); National Forum Capacity – Building Grant OJJDP (\$75,000); 2013 Encourage Arrest Policies and Enforcement of Protection Orders Program (\$73,843); Internet Crimes Against Children 2016-2018 (\$37,500); and Metropolitan Planning Commission Planning (\$14,127).
- A one-time increase of \$207,808 to reflect grant funding to support Internet Crimes Against Children 2016-2018 (\$112,500) and Northern California Regional Intelligence Center SUASI – Police 2016 (\$95,308).

Franchise Fees

- An increase of \$143,000 reflects an increase in the Commercial Solid Waste (CSW) fees by 1.26% based on the change in the consumer price index (CPI). In October 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure started with a base of \$5.0 million per year for each of the 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 South District. The revised structure is subject to an annual increase based on the percentage change in the annual CPI rate during the prior two calendar years.

Fines, Forfeitures, and Penalties

- An increase of \$79,000 related to expansion of the Massage Parlor Permit and Regulation Program. With increased regulation, additional fine revenue is anticipated in 2017-2018.

GENERAL FUND REVENUE ESTIMATES

PROPERTY TAX	
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2015-2016 Actual	\$ 263,299,078
2016-2017 Adopted	\$ 271,737,000
2017-2018 Forecast*	\$ 288,990,000
2017-2018 Adopted	\$288,990,000
% of General Fund	22.6 %
% Change from 2016-2017 Adopted	6.3 %

* The 2017-2018 Forecast was decreased \$725,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

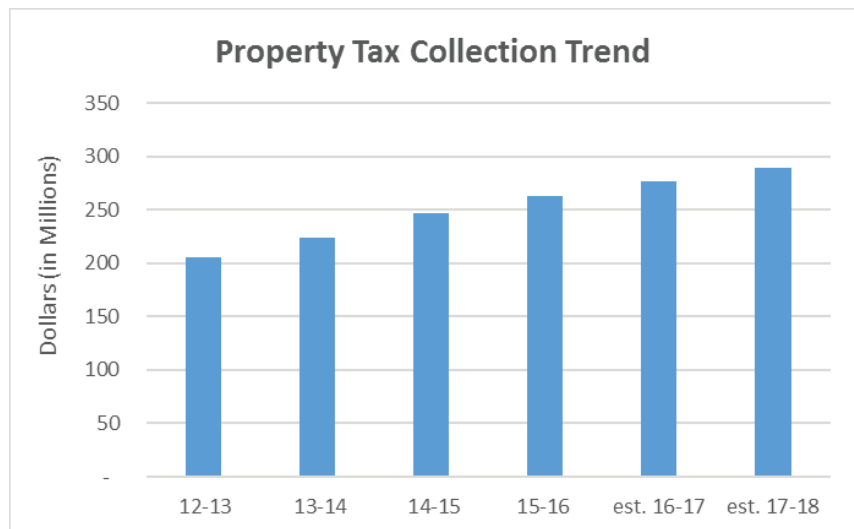
Revenue Estimates

Property Tax Category	2017-2018 Adopted Budget
Secured Property Tax	\$ 265,800,000
Unsecured Property Tax	13,800,000
SB 813 Property Tax	5,500,000
Aircraft Property Tax	2,890,000
Homeowner's Property Tax Relief Exemption	1,000,000
Total	\$ 288,990,000

Property Tax receipts of \$276.7 million are projected for 2016-2017, which represents 5.1% growth from the prior year. The 2016-2017 projection reflects continued growth, but at a slightly more moderate pace, as well as a 2.0% California Consumer Price Index (CCPI) increase assessed in the Secured Property Tax category.

Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the Educational Revenue Augmentation Fund (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 will be returned to the taxing entities that contributed to it.

In March 2017, a payment of \$4.4 million was distributed to the City of San José, which is 33.3% below the ERAF payment received in 2015-2016 of \$6.6 million; however, the 2016-2017 payment is significantly above the budgeted estimate of \$2.0 million. The higher 2016-2017 collection level was included in the development of the estimate for 2016-2017 Ending Fund Balance/2017-2018 Beginning Fund Balance. In 2017-2018, an ERAF



GENERAL FUND REVENUE ESTIMATES

PROPERTY TAX

Revenue Estimates

Payment of \$4.0 million is assumed as this revenue stream may vary from year to year and the higher levels received in the last few years may not be sustained.

In 2017-2018, Property Tax receipts are estimated at \$289.0 million, which reflects growth of 4.4% over the estimated 2016-2017 collections. Excluding the ERAF payments from 2016-2017 and 2017-2018, the adjusted growth in 2017-2018 is 4.7%. The 2017-2018 estimate reflects continued moderate growth as well as a 2.0% CCPI increase that will be assumed in the Secured Property Tax category.

Secured Property Tax

In 2016-2017, Secured Property Tax receipts are expected to total \$252.5 million, reflecting an increase of 5.4% from the 2015-2016 collection level. Excluding the impact of payments resulting from excess Educational Revenue Augmentation Fund (ERAF) funds, Secured Property Tax receipts are projected to increase 6.5% in 2016-2017. This reflects an increase in assessed value for 2016-2017, due to the California Consumer Price Index (CCPI) increase of 2%, increased valuation due to changes in 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 2016-2017 roll growth was driven primarily by changes in ownership (48.9%), new construction (20.3%), and change in the CCPI (8.7%).

In 2017-2018, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2017, are expected to increase by 5.3% to \$265.8 million. The Secured Property Tax receipts increase anticipated in 2017-2018 is driven by two factors: the change in the CCPI and the net change in residential and commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CCPI adjustment for the 2017-2018 tax roll is 2%; consistent with the prior year level.

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. Most of the 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 in calendar year 2016 will continue to be a positive factor driving growth in this category; the December 2016 median sales price of \$863,000 for single-family homes was 4.6% above the December 2015 level of \$825,000. The number of sales, however, has declined which will negatively impact growth. The total number of property transfers declined 5.8%, from 8,355 in calendar year 2015 to 7,869 in calendar year 2016.

GENERAL FUND REVENUE ESTIMATES

PROPERTY TAX

Revenue Estimates

Unsecured Property Tax

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, Unsecured Property Tax receipts are estimated at \$13.4 million in 2016-2017, which is slightly below the prior year level of \$13.6 million. Collections are expected to increase 3.0% in 2017-2018 to \$13.8 million based on the current economic conditions.

Other

It is estimated that an additional \$8.1 million will be received in 2017-2018 from the following: SB 813 Property Tax (\$5.5 million), Airplane Property Tax (\$2.9 million), and Homeowners Property Tax Relief (\$1.0 million).

GENERAL FUND REVENUE ESTIMATES

SALES TAX	
2015-2016 Actual	\$ 201,797,183
2016-2017 Adopted	\$ 224,695,553
2017-2018 Forecast	\$ 228,000,000
2017-2018 Adopted	\$ 228,000,000
% of General Fund	17.9%
% Change from 2016-2017 Adopted	1.5 %

Distribution of Sales Tax

As shown in the following table, the City receives 1.0% of the 9.25% Sales Tax collected for items sold in San José. In addition, the distribution percentage includes a 0.25% local transaction and use tax enacted by the City of San José effective October 1, 2016 (limited to 15 years). The City also receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected State-wide.

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

Revenue Estimates

Sales Tax receipts are estimated to generate \$211.9 million in 2016-2017, which includes revenue from the voter-approved local sales tax. This collection is 5.0% above the prior year level, but falls below the

Sales Tax Category	2017-2018 Adopted Budget
General Sales Tax	\$187,000,000
Local Sales Tax	35,000,000
Proposition 172 Sales Tax	6,000,000
Total	\$228,000,000

2016-2017 Adopted Budget due to lower than expected revenues in both the General Sales Tax and Local Sales Tax categories. In 2017-2018, Sales Tax receipts are projected to increase 7.6% to \$228.0 million, reflecting annual economic growth and the annualization of the Local Sales Tax.

GENERAL FUND REVENUE ESTIMATES

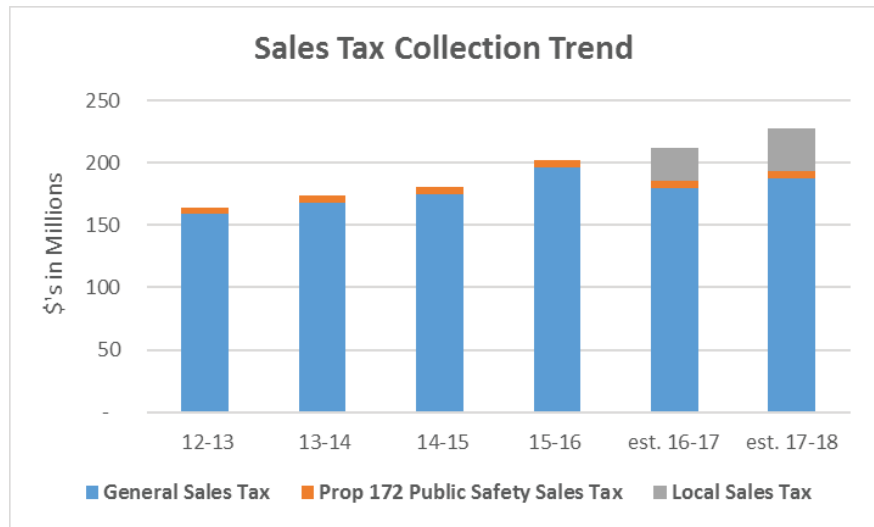
SALES TAX

Revenue Estimates

General Sales Tax

In 2016-2017 General Sales Tax receipts are estimated at \$180.0 million. This collection level is well below the 2016-2017 Adopted Budget estimate of \$188.8 million and the 2016-2017 collection level of \$196.0 million. Based on actual performance in 2016-2017, collections are not expected

to meet the budgeted estimate. The significant decline from 2015-2016 is due, in part, to a large one-time payment of approximately \$12 million received in 2015-2016 associated with the wind down of the Sales Tax “Triple Flip”.



The 2016-2017 revenue estimate of \$180.0 million was based on the first two quarters of actual data (received in December 2016 and March 2017) and estimates for the remaining two quarters. The first quarter of receipts, which represented activity for July through September 2016, was down 9.4% from the same quarter in the prior year. This large decline was primarily driven by a correction associated with jet fuel sales tax revenues that were allocated to San José in 2015-2016 in error and therefore reversed in the first quarter of 2016-2017. Factoring out the correction, receipts were down 3.8% from the same quarter in the prior year. The second quarter of receipts, which represented activity for October through December 2016, were down 3.1% from the same quarter in 2015-2016. The quarterly declines in General Sales Tax compared to the same quarters in the prior year have not occurred since 2009-2010 and are concerning given the general health of the local economy. Given the performance experienced in the first two quarters, no growth was projected for the remaining two quarters.

In 2017-2018, General Sales Tax receipts are estimated at \$187.0 million, which reflects growth of 3.9% from the 2016-2017 estimate of \$180.0 million. This reflected underlying quarterly growth of 3.0% as well as net upward adjustments of \$1.5 million to account for prior year accrual adjustments and to reverse a large one-time negative adjustment associated with the jet fuel correction that occurred in 2016-2017.

It is important to note that actual Sales Tax receipts in the last two quarters of 2016-2017 fell below expectations, with declines of 7.4% and 3.7% when compared to the same quarters in 2015-2016. Based on this performance, it is anticipated that a downward adjustment to the 2017-2018 adopted Sales Tax estimate will be brought forward during 2017-2018. To maintain the same growth assumption for 2017-2018 on the lower 2016-2017 actual base collection level, a reduction of approximately \$5 million would be necessary.

GENERAL FUND REVENUE ESTIMATES

SALES TAX

Revenue Estimates

The chart below outlines the various sectors of sales tax and the percentage of the total receipts received. As shown in the chart, several economic sectors contributed to the total Sales Tax receipts though nearly 75% was generated from General Retail, Transportation, and Business-to-Business categories.

Sales Tax Revenue Economic Performance

Economic Sector	% of Total Revenue
General Retail	24.6%
Transportation	23.5%
Business-to-Business	21.0%
Food Products	19.0%
Construction	11.1%
Miscellaneous	0.8%
Total	100.0%

Source: MuniServices, January 2017 – March 2017 quarter

Local Sales Tax

In June 2016, San José voters approved a ¼ cent local sales tax that is now estimated to generate \$26.0 million in 2016-2017 (October implementation) and \$35.0 million annually beginning in 2017-2018. These revenue estimates are based on actual collections for the first quarter of implementation (October through December 2016 activity). The annual revenue estimate of \$35.0 million for this category falls below the \$40.0 million estimate assumed when the ballot measure was brought forward.

Public Safety (Proposition 172) Sales Tax

Proposition 172 Sales Tax collections represents the one-half cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs. In 2017-2018, collections are projected at \$6.0 million, a slight increase from the \$5.9 million anticipated to be received in 2016-2017.

GENERAL FUND REVENUE ESTIMATES

TRANSIENT OCCUPANCY TAX	
2015-2016 Actual	\$ 16,564,848
2016-2017 Adopted	\$ 16,952,000
2017-2018 Forecast	\$ 18,720,000
2017-2018 Adopted	\$ 18,720,000
% of General Fund	1.5 %
% Change from 2016-2017 Adopted	10.4 %

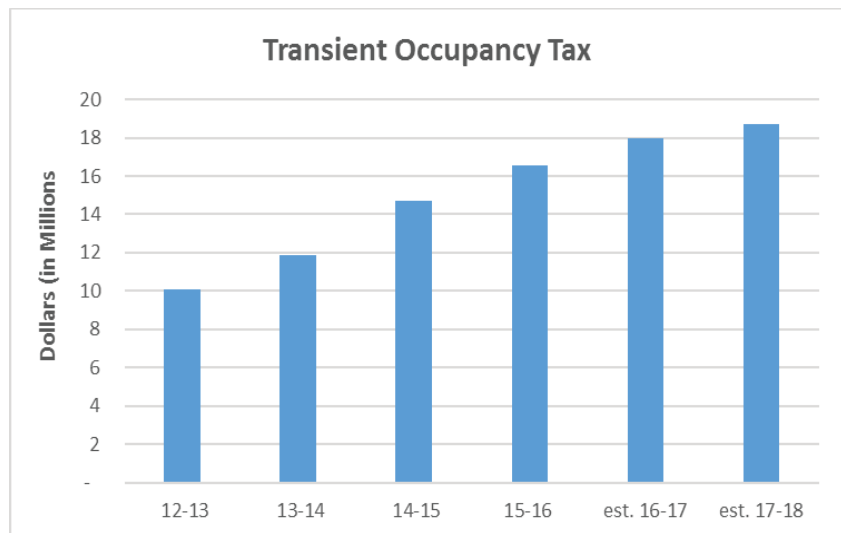
Distribution of Transient Occupancy Tax

The City of San José assesses a ten percent Transient Occupancy Tax (TOT) on the rental price for transient lodging. Of this ten percent, six percent is placed in the Transient Occupancy Tax Fund and four percent is deposited in the General Fund. This discussion addresses the portion of the Transient Occupancy Tax that is allocated to the General Fund.

The Mayor’s March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, directed the growth in General Fund Transient Occupancy Tax receipts over the 2013-2014 actual collection level be set aside in a General Fund Cultural Facilities Capital Maintenance Reserve. The 2017-2018 Adopted Budget includes actions to 1) discontinue this practice and eliminate the portion of the reserve that is supported by the growth in TOT in 2017-2018 (\$6.8 million); and 2) establish an ongoing allocation to the General Fund Cultural Facilities Capital Maintenance Reserve of \$450,000. This action does not impact the existing reserve of \$5.9 million, which is expected to increase by the end of 2016-2017 based on current year TOT receipts. The existing funding along with the ongoing allocation of \$450,000 is projected to address capital maintenance needs at the cultural facilities over the next four years. Beyond that period, the ongoing funding need will need to be re-evaluated.

Revenue Estimates

In 2016-2017, Transient Occupancy Tax (TOT) receipts in the General Fund were projected to reach \$18.0 million, which reflected an increase of 8.7% from the 2015-2016 collection level. Generally, the hotel industry continued to experience year-over-year growth in fiscal year 2016-2017, although the growth has begun to flatten out. In 2016-2017, the average daily room rate increased year over year by approximately 6.8% (from \$196.26 to \$209.70) as compared to a 12.8% increase in 2015-2016. The room occupancy rate remained essentially flat at 76.61% compared to 76.45% in the prior year; however, the average revenue-per-available room was up by 6.5%, from \$150.93 to \$160.70.



GENERAL FUND REVENUE ESTIMATES

TRANSIENT OCCUPANCY TAX

Revenue Estimates

In 2017-2018, TOT revenue is projected at \$18.7 million, reflecting growth of 4.0% from the 2016-2017 estimate based on information received from the City's consultant, Conventions, Sports and Leisure (CSL).

GENERAL FUND REVENUE ESTIMATES

FRANCHISE FEES	
2015-2016 Actual	\$ 48,948,942
2016-2017 Adopted	\$ 48,916,811
2017-2018 Forecast*	\$ 50,670,000
2017-2018 Adopted	\$50,813,083
% of General Fund	4.0 %
% Change from 2016-2017 Adopted	3.9 %

* The 2017-2018 Forecast was increased \$50,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Revenue Estimates

Franchise Category	2017-2018 Adopted Budget
Electric	\$ 21,726,000
Gas	5,400,000
Commercial Solid Waste	11,513,083
Cable Television	10,820,000
City Generated Tow	1,000,000
Great Oaks Water	294,000
Nitrogen Gas Pipeline Fees	60,000
Total	\$ 50,813,083

Overall, collections are projected at \$49.8 million in 2016-2017, an increase of 1.8% from prior year receipts of \$48.9 million. The projected increase in 2016-2017 is primarily due to higher collections in Gas, Electricity, and Cable receipts. In 2017-2018, Franchise Fees are expected to increase 2.0% to \$50.8 million, primarily due to growth in Gas (4.2%), Cable (2.0%), and Electricity (1.9%) categories.

Electricity, Gas, and Water Utility Services

Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in the calendar year (revenues in 2017-2018 are based on calendar year 2017). Projections in this category are typically based upon an examination of electricity and gas rate changes, industry actions, and actual collection patterns in the utility tax categories.

In the Electric Franchise Fee category, collections in 2016-2017 are expected to reach \$21.3 million, reflecting growth of 1.5% compared to actual receipts in 2015-2016. In 2017-2018, growth of 2.0% from 2016-2017 estimates is anticipated, bringing estimated receipts to \$21.7 million. This reflects rate increases in January 2017 (average system-wide 0.7%) and March 2017 (average system-wide 1.7%), allowing for a slight reduction in consumption.

GENERAL FUND REVENUE ESTIMATES

FRANCHISE FEES

Revenue Estimates

Electricity, Gas, and Water Utility Services (Cont'd.)

In the Gas Franchise Fee Category, the 2016-2017 estimated collections of \$5.1 million reflect a 3.4% increase from the \$5.0 million received in the prior year. In 2017-2018, Gas Franchise Fee collections are projected to increase by approximately 5% to \$5.4 million. These increases are due to higher rates and increased consumption, however, actual collections can fluctuate significantly due to consumption changes associated with the weather and future rate changes. Water Franchise Fees are expected to total \$280,000 in 2016-2017, a 13% increase from the 2015-2016 collection level of \$248,000. In 2017-2018, collections are anticipated to increase 5% to \$294,000.

Commercial Solid Waste

Commercial Solid Waste (CSW) Franchise Fee collections are estimated at \$11.4 million in 2016-2017, only slightly above the prior year collections, as the 2016-2017 CPI-based increase was only 0.12%. Collections reflect the revised methodology for assessing this fee that became effective July 1, 2012. On October 19, 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure is a base of \$5 million per year for each of two geographic collection districts plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and the South District. This revised structure is subject to an annual increase based on the percentage change in the CPI rate during the prior two calendar years. It should be noted that this increase is not automatic, and is subject to City Council approval each year. Therefore, the 2017-2018 Forecast estimate of \$11.4 million is consistent with the 2016-2017 estimate and does not automatically assume a CPI adjustment. Included in this document is a 1.26% CPI increase, which will generate an additional \$143,000 and is incorporated into the revenue estimate, bringing the budgeted estimate to \$11.5 million in 2017-2018. This 1.26% increase in the franchise fees is based on a percentage change in the annual CPI rate during the prior two calendar years.

Cable Television

The 2016-2017 Cable Television Franchise Fee estimate is \$10.6 million, which is 1.7% above the 2015-2016 actual collection level of \$10.4 million. In 2017-2018, estimated collections of \$10.8 million reflect projected modest growth of 2%.

City-Generated Towing, Nitrogen and Jet Fuel Pipelines

In the City-Generated Towing category, projected revenues of \$1.0 million in 2016-2017 and 2017-2018 are slightly above 2015-2016 collections of \$912,000. The Nitrogen Pipeline Franchise Fee is anticipated to generate \$60,000 in both 2016-2017 and 2017-2018.

GENERAL FUND REVENUE ESTIMATES

UTILITY TAX	
2015-2016 Actual	\$ 93,397,073
2016-2017 Adopted	\$ 95,749,500
2017-2018 Forecast	\$ 101,320,000
2017-2018 Adopted	\$ 101,320,000
% of General Fund	7.9 %
% Change from 2016-2017 Adopted	5.8 %

Revenue Estimates

Utility Tax Category	2017-2018 Adopted Budget
Electricity	\$ 46,800,000
Gas	10,070,000
Water	14,850,000
Telephone	29,600,000
Total	\$ 101,320,000

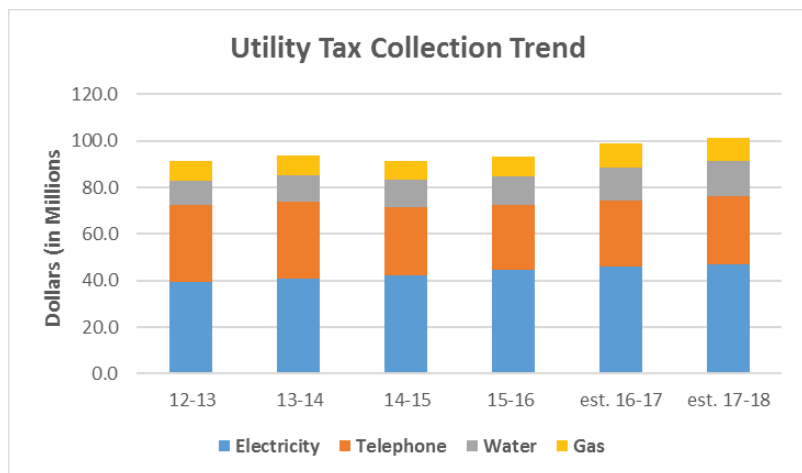
Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2016-2017 are anticipated to total \$99.4 million, representing an increase of 6.4% from the 2015-2016 collection level. In 2017-2018, Utility Tax collections are projected to increase approximately 1.9% to \$101.3 million.

Electricity Utility Tax

The Electricity Utility Tax is anticipated to generate \$45.9 million in 2016-2017, a 3.5% increase from prior year levels. This reflects actual collection patterns as well as rate increases in January 2017 (0.7% system-wide) and March 2017 (1.7% system-wide). In 2017-2018, revenues are estimated to increase an additional 2% to \$46.8 million, reflecting the annualization of rate increases in 2016-2017.

Gas Utility Tax

Gas Utility Taxes are projected at \$9.8 million in 2016-2017, a 10% increase from 2015-2016 levels based on actual collection patterns and estimates for increased rates and consumption. In 2017-2018, revenues are projected to increase by approximately 3% to \$10.1 million. The increase estimated in in the Gas Utility Tax is due to higher rates and increased consumption, however, actual collections can fluctuate significantly due to consumption changes associated with the weather and future rate changes.



GENERAL FUND REVENUE ESTIMATES

UTILITY TAXES

Revenue Estimates

Water Utility Tax

Water Utility Tax receipts of \$14.1 million are anticipated to be received in 2016-2017, an increase of approximately 15% from 2015-2016. In 2017-2018, receipts are projected to increase approximately 5% to \$14.9 million based on the continued rising wholesale price of water with an estimated July 2017 increase in price that corresponds to rate increases by the utility companies.

Telephone Utility Tax

In the Telephone Utility Tax category, revenues are collected on landlines, wireless, VoIP, and prepaid wireless services sold at retail locations. Receipts in 2016-2017 are projected at \$29.6 million, a 6.1% increase from 2015-2016. The higher collection levels in 2016-2017 are a result of increased receipts from prepaid wireless services sold at retail locations and VoIP receipts. In 2017-2018, revenues are projected to grow remain consistent with 2016-2017 collection levels.

Beginning January 1, 2016, AB 1717 (otherwise known as the Local Prepaid Mobile Telephone Services Collection Act) required 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. Receipts in 2015-2016 totaled \$398,000, which represented the initial implementation and the first six months of collection. In 2016-2017 receipts are tracking to exceed \$1.2 million, reflecting a full year of implementation. In 2017-2018, receipts are projected at the 2016-2017 levels.

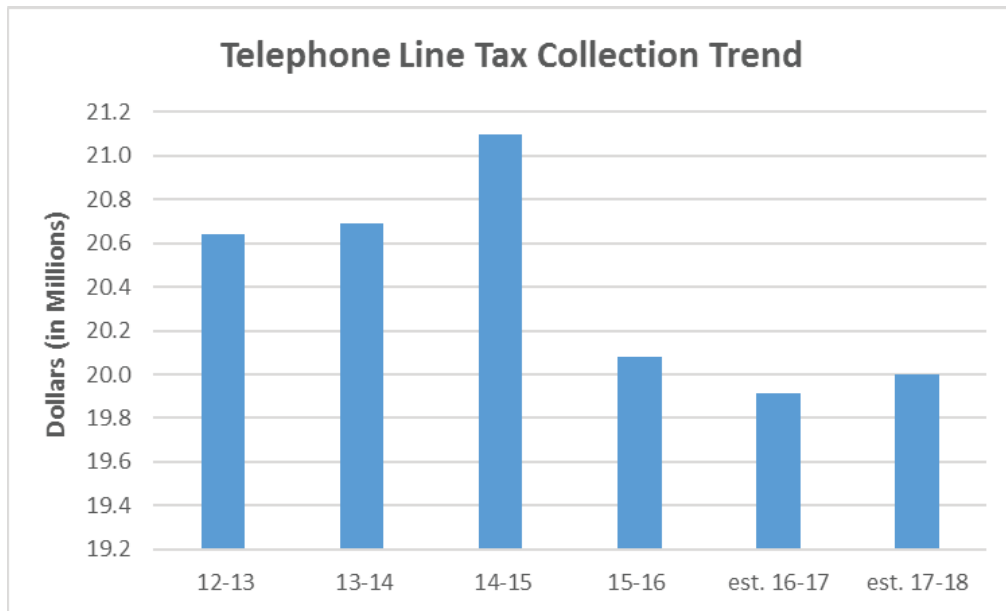
GENERAL FUND REVENUE ESTIMATES

TELEPHONE LINE TAX

2015-2016 Actual	\$ 20,077,343
2016-2017 Adopted	\$ 21,614,000
2017-2018 Forecast	\$ 20,000,000
2017-2018 Adopted	\$ 20,000,000
% of General Fund	1.6 %
% Change from 2016-2017 Adopted	(7.5 %)

Revenue Estimates

Based on the current collection trend for Telephone Line Tax, receipts in 2016-2017 are estimated to total \$20.2 million, a less than 1% decrease from prior year levels. In 2017-2018, receipts are anticipated to remain relatively flat at \$20.0 million.



GENERAL FUND REVENUE ESTIMATES

BUSINESS TAXES

2015-2016 Actual	\$ 50,864,355
2016-2017 Adopted	\$ 48,800,000
2017-2018 Forecast*	\$ 63,300,000
2017-2018 Adopted	\$ 63,300,000
% of General Fund	5.0 %
% Change from 2016-2017 Adopted	29.7 %

* The 2017-2018 Forecast was increased \$300,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

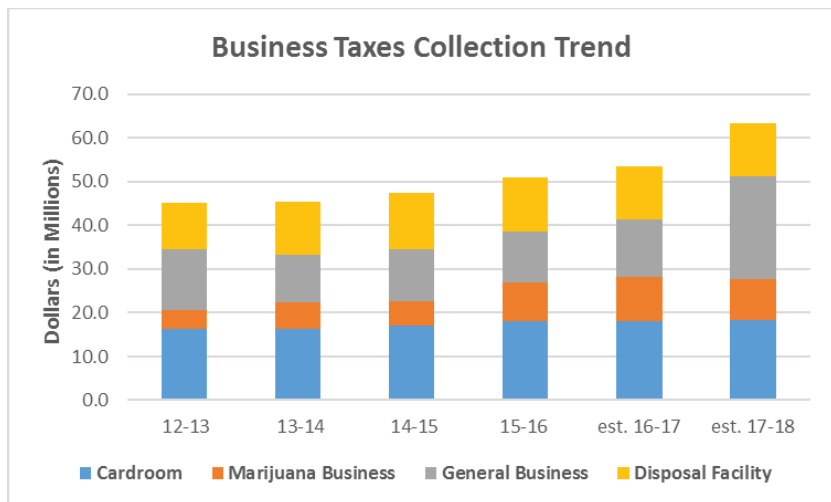
Revenue Estimates

Business Taxes Category	2017-2018 Adopted Budget
Cardroom Taxes	\$ 18,300,000
Disposal Facility Taxes	12,000,000
General Business Taxes	23,650,000
Marijuana Business Taxes	9,350,000
Total	\$ 63,300,000

In 2016-2017, Business Taxes are estimated to reach \$52.0 million, a 2.2% increase from prior year levels. In 2017-2018, revenues are estimated to increase 21.8% to \$63.3 million due to changes in the General Business Tax that were approved by voters in November 2017 and become effective July 1, 2017.

Cardroom Tax

Based on current performance, collections in the Cardroom Tax category are estimated at \$18.1 million in 2016-2017, which is consistent with the prior year levels. Receipts are anticipated to increase slightly in 2017-2018 with estimated collections of \$18.3 million.



Disposal Facility Tax

In the Disposal Facility Tax category, collections are estimated at \$12.3 million in 2016-2017 based on collection trends, which assumes an approximate 1% increase from the prior year collection level of \$12.2 million. In 2017-2018, revenues are projected to decrease 2.4% to \$12.0 million as a result of waste diversion efforts. 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.

GENERAL FUND REVENUE ESTIMATES

BUSINESS TAXES

Revenue Estimates

General Business Tax

In 2016-2017, General Business Tax proceeds are expected to reach \$12.0 million, which is fairly consistent with the prior year level of \$11.8 million and takes into consideration the remaining billing cycles, account closeouts and cleanups anticipated in 2016-2017, and the historical collections rates of invoices. In 2017-2018, revenues are anticipated to increase to \$23.7 million, due to the Modernization of the San José business tax, which was approved by San José voters on November 8, 2016 (Measure G). The adjustments to the business tax, which will take effect July 1, 2017, include: increasing the base tax; increasing the incremental tax and making it more progressive; increasing the cap (the maximum amount of the tax affecting large businesses); updating the application of the tax to more classes of business; and adding inflation based adjustments for future tax rates.

Marijuana Business Taxes

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 2016-2017, collections are anticipated to increase to approximately \$9.4 million, an increase of 5.7% from prior year levels of \$8.9 million. It should be noted that this estimate includes marijuana business tax as well as marijuana business tax compliance. Actual marijuana business tax collections are anticipated at \$9.3 million in 2016-2017, which is 14.8% above prior year actuals of \$8.1 million. The marijuana business tax compliance collections in 2016-2017 are anticipated at approximately \$75,000, which is significantly lower than last year's collections of \$772,000. With the increasing compliance of registered collectives, revenues from compliance are expected to drop again to \$50,000 in 2017-2018; however, the 2017-2018 tax revenues are expected to remain consistent with the 2016-2017 collection estimate of \$9.3 million, bringing the total estimated 2017-2018 collections to \$9.35 million. In November 2016, the California Marijuana Legalization Initiative (Proposition 64) legalized recreational marijuana use in the State of California. In San José, the only legal marijuana operations are the 16 registered collectives. Nonmedical marijuana sales are currently prohibited in San José, therefore, the estimates do not assume any new revenues associated with nonmedical uses.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

2015-2016 Actual	\$ 53,765,907
2016-2017 Adopted	\$ 51,572,553
2017-2018 Forecast*	\$ 53,316,113
2017-2018 Adopted	\$ 59,778,354
% of General Fund	4.7 %
% Change from 2016-2017 Adopted	15.9 %

* The 2017-2018 Forecast was increased \$850,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

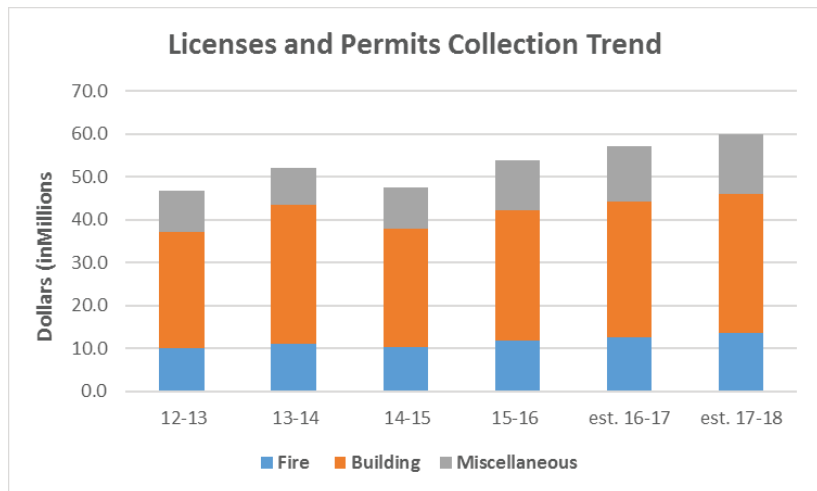
Revenue Estimates

Licenses and Permits Category	2017-2018 Adopted Budget
Building	\$ 32,500,000
Fire Permits	13,511,000
Other Licenses and Permits	13,767,354
Total	\$ 59,778,354

The Licenses and Permits category contains 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 2017-2018, the Licenses and Permits category is estimated at \$59.8 million, a 15.9% increase from the 2016-2017 Adopted Budget.

Building Permits

In 2016-2017, the Building Permits revenues are estimated at \$31.5 million based on the extremely strong development performance experienced. In 2017-2018, the base revenue estimate is set at \$28.5 million, assuming a leveling off of development activity. The Building Development Fee Program base costs, however, are expected to exceed this base revenue estimate in 2017-2018 by



\$9.2 million. In the 2018-2022 General Fund Forecast, it was assumed that the Building Development Fee Program would be used to close this \$9.2 million gap in 2017-2018 to ensure the program remained at 100% cost recovery. In the Adopted Budget, the funding gap is addressed by fee adjustments and the use of the Building Development Fee Program Reserve as well as cost adjustments to better align the fee program costs between the Planning and Building Fee Programs.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

Revenue Estimates

Building Permits (Cont'd.)

In December 2016, the City Council accepted the *City of San José Development Services Cost Recovery Analysis, Process Improvements, Calculation of Unearned Revenues, and Refund Processing Report*. The Report highlighted that the Building Development Fee Program, along with the other Development Services Partners, is not capturing all its costs from the fees and charges collected from customers. To move closer to full cost recovery without requiring the use of the Building Development Fee Program Reserve, an increase to the Building permit fees is included, as discussed in the 2017-2018 Proposed Fees and Charges document that was approved by the City Council on June 13, 2017. Changes to the Building hourly rates combined with adjustments to fees will help to close the cost recovery gaps and provide the Building Development Fee Program with sufficient resources to support existing service levels. The fee changes are estimated to generate an additional \$4.0 million in 2017-2018, bringing the 2017-2018 revenue estimate to \$32.5 million.

Budget actions totaling a net savings of \$900,000 are included in this budget, including a Planning staff realignment that shifts 6.0 planner positions from the Building Development Fee Program to the Planning Development Fee Program to properly align costs with revenues and shared resources expenditures associated with supporting document imaging technology. With the fee and cost changes, there will be less reliance on the use of the Building Development Fee Program Reserve to close the Base Budget funding gap, and will result in an increase to the Reserve of \$4.9 million in the Adopted Budget (this partially offsets the use of \$9.2 million of the Reserve in the Base Budget). After accounting for these adjustments, a remaining Building Development Fee Program Reserve of \$18.1 million at the beginning of 2017-2018 is estimated, primarily for works-in-progress projects.

Additional detail on these budget actions is provided in the Planning, Building and Code Enforcement, Finance, and Information Technology Departments under the *City Departments* section of this document. A more detailed description of the various fees is provided in the 2017-2018 Proposed Fees and Charges document that was released on May 5, 2017 and approved by the City Council on June 13, 2017.

Fire Permits

This fee program includes both the Development and Non-Development Fee areas. In 2017-2018, the Fire Permits revenue estimate of \$13.5 million is above the 2016-2017 estimated collection level of \$12.0 million due to fee adjustments. To maintain cost recovery in these areas and ensure that service delivery needs are met for 2017-2018, several budget actions are included in this document.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

Revenue Estimates

Fire Permits (Cont'd.)

In the Fire Development Fee Program area, the 2017-2018 revenue estimate of \$8.6 million, is 15.3% above the 2016-2017 estimated collection level of \$7.5 million. The 2017-2018 revenue estimate includes a Base Budget revenue estimate of \$7.5 million, assuming steady development performance, and approved fee increases of \$1.1 million, or an approximately 15%. The Fire Development Fee Program costs are expected to slightly exceed estimated revenue levels in 2017-2018. In the 2018-2022 Five-Year Forecast, it was assumed that the use of \$1.1 million of the Fire Development Fee Program Reserve would be necessary to balance this fee program in 2017-2018; however, the Fire Development Program fee increases are projected to address this funding gap, and would allow an increase to the Fire Development Fee Program Reserve of \$1.1 million, offsetting the reduction necessary in the Base Budget. In addition, a few expenditure budget actions totaling \$126,000 are included in the 2017-2018 Adopted Budget, including sharing resources to replace two inspector vehicles that were taken out of service and purchasing 30 tablets and accessories for mobile fire inspection services. In total \$127,000 of the Fire Development Fee Program will be used to balance this fee program and remain 100% cost recovery in 2017-2018. After accounting for these adjustments, and an increase of \$1.4 million for higher than estimated 2016-2017 revenue, the 2017-2018 Fire Development Fee Program Reserve will have \$8.2 million, primarily for works-in progress projects.

In the Fire Non-Development Fee area, the 2017-2018 revenue estimate of \$4.9 million is higher than the 2016-2017 estimate of \$4.5 million and reflects fee increases of approximately 8% to maintain cost recovery in this program and fund program additions. This includes the addition of 1.0 Fire Prevention Inspector and overtime funding to help improve the percentage of occupancies (non-mandated and assemblies).

Additional detail on these budget actions is provided in the Fire Department under the *City Departments* section of this document. A more detailed description of the various fees is provided in the 2017-2018 Proposed Fees and Charges document that was released on May 5, 2017 and approved by the City Council on June 13, 2017.

Miscellaneous Other Licenses and Permits

The 2017-2018 Adopted Budget includes \$13.8 million for a variety of other Licenses and Permits; a net increase of \$951,000 from the 2017-2018 Revised Forecast level of \$12.8 million. This increase primarily reflects fee adjustments to maintain cost-recovery and anticipated changes in activity levels. These adjustments include:

- An increase of \$541,000 to adjust various Police Department permits to maintain cost recovery levels.
- A net increase of \$410,000 for other changes to licenses and permits, including building code enforcement and other Code Enforcement fee programs (\$420,000) and temporary street closures (-\$10,000).

GENERAL FUND REVENUE ESTIMATES

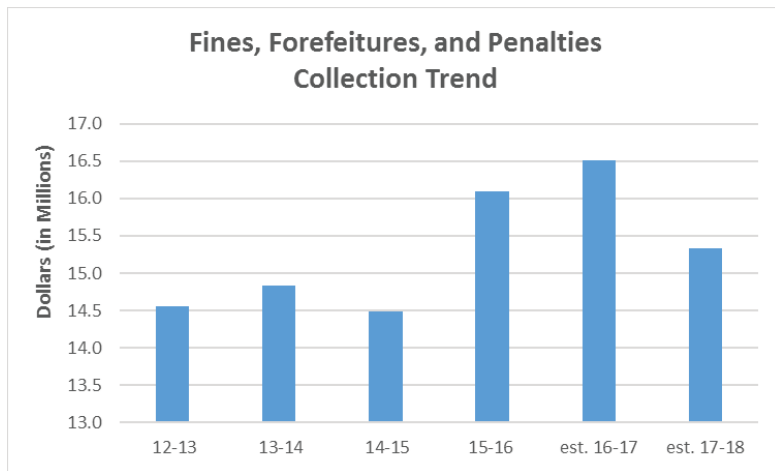
FINES, FORFEITURES, AND PENALTIES

2015-2016 Actual	\$ 16,090,283
2016-2017 Adopted	\$ 14,910,600
2017-2018 Forecast*	\$ 15,257,000
2017-2018 Adopted	\$ 15,336,284
% of General Fund	1.2 %
% Change from 2016-2017 Adopted	2.9 %

* The 2017-2018 Forecast was increased \$515,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Revenue Estimates

In 2017-2018, overall collections of \$15.3 million are projected in the Fines, Forfeitures, and Penalties category, which is slightly below the 2016-2017 estimate. Following is a discussion of major components of this category.



Parking Fines

Parking Fines are expected to generate approximately \$11.2 million in 2016-2017, a 2.8% increase from 2015-2016 collections of \$10.9 million.

In 2017-2018, Parking Fines revenues are expected to remain at \$11.2 million. Issuance of citations for non-compliance with safety-related and street sweeping parking violations, such as parking in a bike path or blocking disabled sidewalk access, or parking in a posted No Parking zone for street sweeping activities, is one tool the Transportation Department uses to heighten awareness around roadway safety, with the goal of changing driver behavior.

In addition to parking fines, collections of \$350,000 are anticipated in 2017-2018 from the City's participation in a program under which the State of California Franchise Tax Board collects past-due parking fines on behalf of the City. This estimate is consistent with projected 2016-2017 collections and slightly above actual collections of \$311,000 in 2015-2016.

Vehicle Code and Municipal Court Fines

In 2017-2018, Vehicle Code Fines are estimated at \$1.0 million, which is consistent with the 2016-2017 estimate. Municipal Court Fines are expected to reach \$250,000, which is a 28.6% decrease from the 2016-2017 estimate of \$350,000, but is fairly consistent with 2015-2016 collections of \$227,000.

GENERAL FUND REVENUE ESTIMATES

FINES, FORFEITURES, AND PENALTIES

Revenue Estimates

Business Tax Penalties

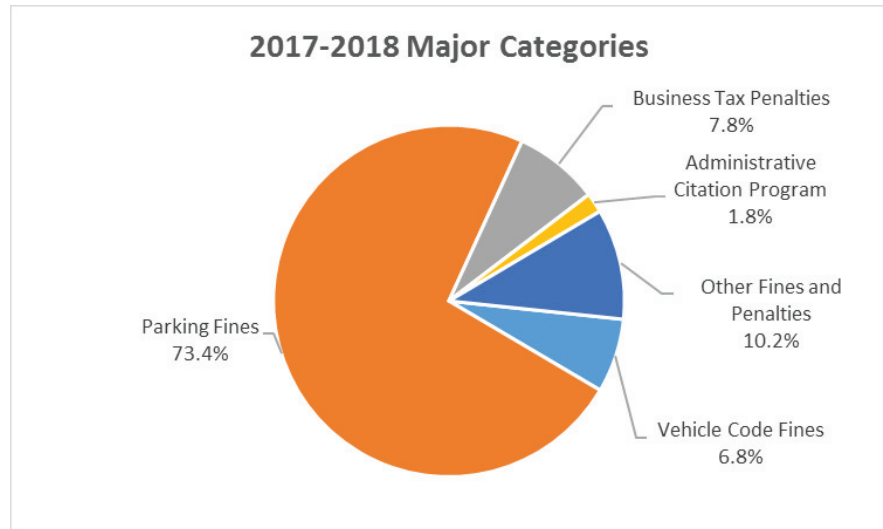
Business Tax penalties are projected at \$1.2 million for 2017-2018 based on historical collection patterns for this category.

Administrative Citation Program

The 2017-2018 Administrative Citation Program is projected to generate \$280,000 in total collections, including \$250,000 in fines and an additional \$30,000 in penalties.

Other Fines and Penalties

Other Fines and Penalties of \$1,011,000 are estimated to be received in 2017-2018 and reflect a variety of sources, including but not limited to: \$250,000 for Code Enforcement administrative remedies, \$125,000 multiple housing permit penalties, \$130,000 associated with Fire safety penalties, \$140,000 in Blight Fines, \$120,000 in Animal Services Field Citations, \$34,000 in False Alarm Fines, and \$133,000 in other fines and penalties. The 2017-2018 Adopted Budget includes additional revenue of \$79,000 related to expansion of the Massage Parlor Permit and Regulation Program. As a result of increased regulation, additional fine revenue is anticipated in 2017-2018.



GENERAL FUND REVENUE ESTIMATES

REVENUE FROM USE OF MONEY AND PROPERTY

2015-2016 Actual	\$ 5,100,705
2016-2017 Adopted	\$ 3,863,935
2017-2018 Forecast*	\$ 5,640,000
2017-2018 Adopted	\$ 5,640,000
% of General Fund	0.4 %
% Change from 2016-2017 Adopted	46.0 %

* The 2017-2018 Forecast was increased \$400,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Revenue Estimates

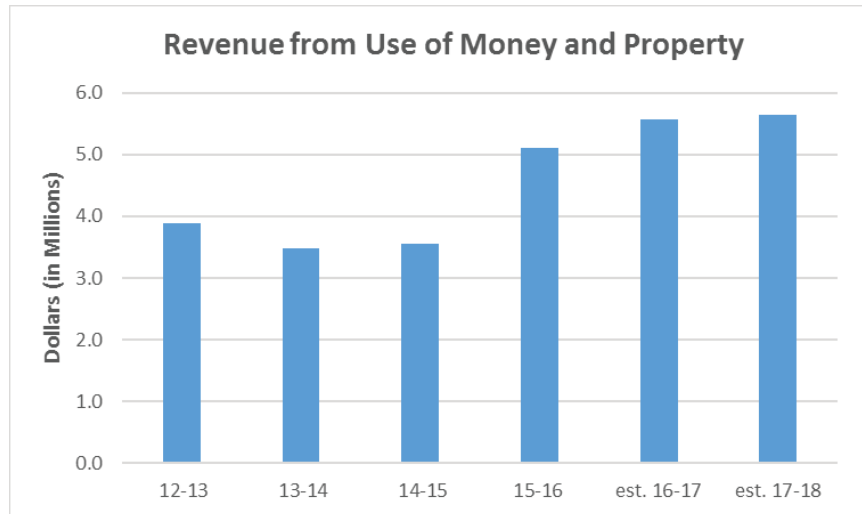
In 2017-2018, overall collections of \$5.6 million are projected in the Use of Money and Property category.

Rental of City-Owned Property

In 2017-2018 it is anticipated that approximately \$2.9 million will be generated from the rental of City-owned property, which is consistent with estimated collections in 2016-2017.

General Fund Interest Earnings

The anticipated interest earnings collection level in 2017-2018 is \$2.0 million, which is slightly above the \$1.8 million estimated in 2016-2017 and well above 2015-2016 collections of \$1.2 million. The higher collection amounts are a result of increased interest rates.



Miscellaneous Collections

An additional \$788,000 in miscellaneous sources is estimated to be generated in 2017-2018 primarily from Subrogation Recovery (\$500,000), Property Tax and Conveyance Tax Interest (\$175,000), the rental of the 4th Street banquet facility (\$50,000), and Fairmont Catering (\$50,000).

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM LOCAL AGENCIES

2015-2016 Actual	\$ 17,143,120
2016-2017 Adopted	\$ 24,811,281
2017-2018 Forecast	\$ 23,651,000
2017-2018 Adopted	\$ 26,040,025
% of General Fund	2.0 %
% Change from 2016-2017 Adopted	5.0 %

Revenue Estimates

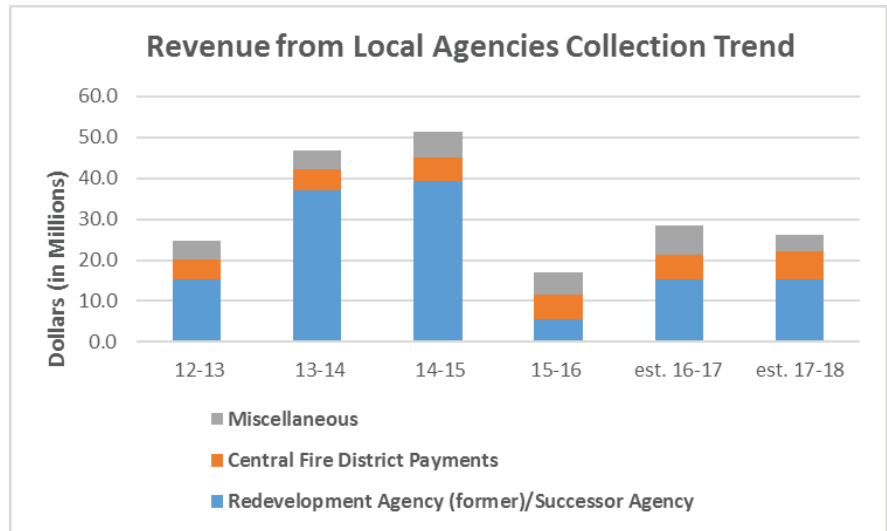
In 2017-2018, revenue of \$26.0 million is projected from other local agencies, such as the Successor Agency to the Redevelopment Agency and Central Fire District, to reimburse the City for services provided.

Successor Agency to the Redevelopment Agency

The largest revenue estimate in this category is a reimbursement from the Successor Agency to the Redevelopment Agency of San José for the payment of the Convention Center Debt Service of \$15.26 million in 2016-2017 and \$15.24 million in 2017-2018. A corresponding expenditure is assumed in the City-Wide Expenses category for this debt service payment.

Central Fire District

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 \$6.6 million are anticipated in 2016-2017. This reflects a 7.9% increase from the prior year levels. In 2017-2018, collections are projected to increase 5.5% to \$6.96 million.



GENERAL FUND REVENUE ESTIMATES

REVENUE FROM LOCAL AGENCIES

Revenue Estimates

Other Payments

Other projected payments from local agencies in 2017-2018 include reimbursements for services provided by the Animal Care and Services Program (\$970,000) and the final payment associated with the annexation in the Cambrian area to the City of Campbell (\$199,000).

Included in the 2017-2018 Adopted Budget are the following additional adjustments:

- A one-time increase of \$1.6 million to reflect the County's portion of the Senior Nutrition Program costs. This funding from the County of Santa Clara Department of Aging and Adult Services covers two-thirds of the total cost of the program and will be used to reimburse the City's vendor for the cost of the meals for seniors at all 13 senior nutrition sites from July 2017 to June 2018.
- A one-time increase of \$570,023 to reflect the following grant/reimbursement revenue: Santa Clara Valley Water District for the Homeless Response Team park rangers extension (\$175,000), Metropolitan Transportation Commission for urban village planning (\$150,000), Santa Clara County to support Viva CalleSJ, ¡Viva Parks!, and Plaza de Cesar Chavez placemaking events (\$125,000), and Santa Clara County District Attorney's Office for the California Office of Emergency Services County Victim Services Program (\$120,023).
- An increase of \$222,203 million reflects the rebudget of grant revenues from 2016-2017 to 2017-2018 to support the following: 2016 County Victim Services Program (\$142,203); Cultural Affairs Special Project (\$40,000); Partnerships to Improve Community Health (\$25,000); and BART Public Art Design (\$15,000).

The Adopted Budget does not assume reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program). The reimbursement associated with this program was eliminated from the budget beginning in 2014-2015 and this budget continues to assume no reimbursement for the services provided by the City. Because the City's performance falls only slightly below the performance standards set forth in the agreement with the County, no reimbursement is provided to the City for either the equipment reimbursement component (Annex B, Category A funds) or the service-related component (Annex B, Category B funds). It should be noted that the direct incremental cost to the City to provide the paramedic program totals over \$5.0 million annually. If the County were to assume responsibility for this program, its costs are estimated to far exceed this amount.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE STATE OF CALIFORNIA

2015-2016 Actual	\$ 12,174,306
2016-2017 Adopted	\$ 11,328,516
2017-2018 Forecast*	\$ 10,835,000
2017-2018 Adopted	\$ 12,962,140
% of General Fund	1.0%
% Change from 2016-2017 Adopted	14.4%

* The 2017-2018 Forecast was increased \$425,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section

Revenue Estimates

Revenues in this category include Tobacco Settlement and State Grants/Reimbursements.

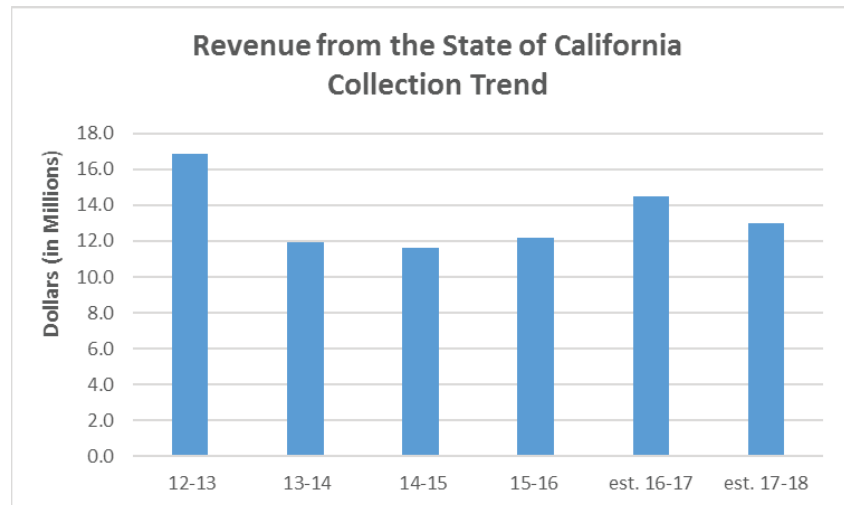
Collections in this category are estimated to reach \$14.2 million in 2016-2017 and decrease to \$13.0 million in 2017-2018. This decrease reflects the elimination of one-time grants and reimbursements.

Tobacco Settlement Revenue

Beginning in 2010-2011, Tobacco Settlement revenue from the State is deposited in the General Fund. The 2016-2017 Tobacco Settlement payment totaled \$9.2 million, which is slightly above the \$8.9 million received in 2015-2016. In 2017-2018, collections are anticipated to decrease back to the 2015-2016 collection level of \$8.9 million.

State Grants/Reimbursements

On an annual basis, the City receives several grants and reimbursements, including: Abandoned Vehicles Abatement (\$650,000); Auto Theft reimbursement (\$725,000); and Highway Maintenance Charges reimbursement (\$110,000). Vehicle License Fees Collection in Excess are also estimated at \$450,000 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.



GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE STATE OF CALIFORNIA

Revenue Estimates

State Grants/Reimbursements (Cont'd.)

In addition, the following increases to State grants and reimbursements are anticipated in 2017-2018:

- An increase of \$1.3 million reflects the rebudget of grant revenues from 2016-2017 to 2017-2018 to support the following: Diridon Station Area Plan (\$400,000); City Law Enforcement Grant (\$291,358); California Gang Reduction, Intervention and Prevention (CALGRIP) (\$250,000); Internet Crimes Against Children (\$189,318); Selective Traffic Enforcement Program (\$129,549); and Pacific Library Partnership for Life Skills Academy (\$10,645).
- A one-time increase of \$528,000 to reflect grant funding from the Metropolitan Transportation Commission for urban village planning. The concept of urban villages was established in the Envision San José 2040 General Plan that was adopted in 2011. The policy intends to create a framework that directs sustainable job and housing growth within walkable and bike-friendly areas that have good access to transit and other infrastructure and facilities.
- A one-time increase of \$221,500 to reflect funding to support Viva CalleSJ, ¡Viva Parks!, and Plaza de Cesar Chavez placemaking events.
- A one-time increase of \$106,770 to reflect grant revenue to support the Selective Traffic Enforcement Program (\$75,000) and State Homeland Security Grant Program (\$31,770).

GENERAL FUND REVENUE ESTIMATES

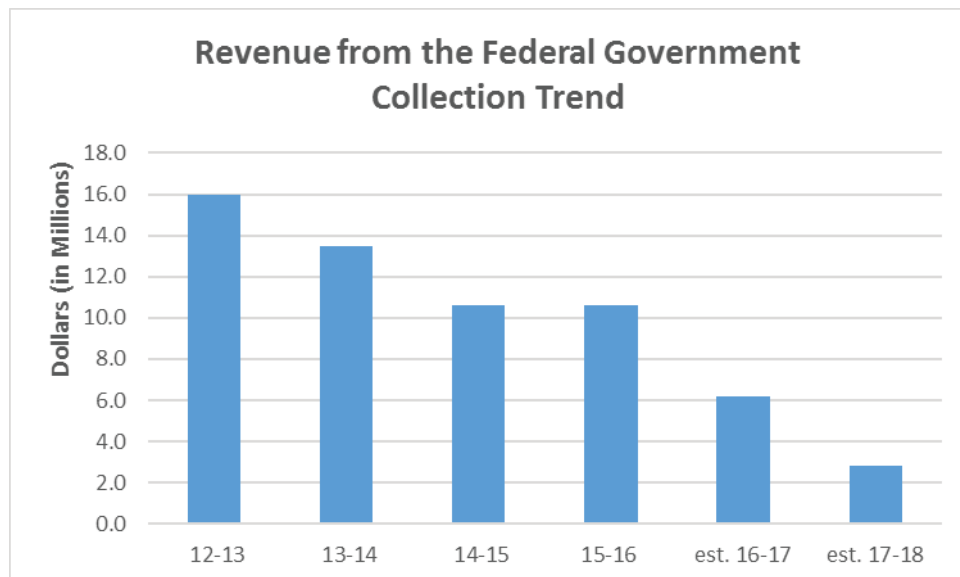
REVENUE FROM THE FEDERAL GOVERNMENT

2015-2016 Actual	\$ 10,599,204
2016-2017 Adopted	\$ 4,161,294
2017-2018 Forecast	\$ 1,358,334
2017-2018 Adopted	\$ 2,791,670
% of General Fund	0.2 %
% Change from 2016-2017 Adopted	(32.9 %)

Revenue Estimates

The revenue in this category accounts for grants and reimbursements from the Federal Government. The following Federal grants and reimbursements are included in the Adopted Budget and are anticipated to be received in 2017-2018:

- The final year receipt of a three-year grant for the Fire Staffing for Adequate Fire and Emergency Response grant (SAFER) (\$1.4 million).
- The rebudget of \$1.2 million in grant revenues from 2016-2017 to 2017-2018 to support the following: Urban Areas Security Initiative Grant – Police 2016 (\$733,382); Urban Area Security Initiative – Fire 2016 (\$261,676); National Forum Capacity – Building Grant OJJDP (\$75,000); 2013 Encourage Arrest Policies and Enforcement of Protection Orders Program (\$73,843); Internet Crimes Against Children 2016-2018 (\$37,500); and Metropolitan Planning Commission Planning (\$14,127).
- One-time funding of \$207,808 to support the Internet Crimes Against Children 2016-2018 (\$112,500) and Northern California Regional Intelligence Center SUASI – Police 2016 (\$95,308) grants.



GENERAL FUND REVENUE ESTIMATES

FEES, RATES, AND CHARGES	
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2015-2016 Actual	\$ 47,057,929
2016-2017 Adopted	\$ 41,731,974
2017-2018 Forecast*	\$ 42,515,270
2017-2018 Adopted	\$ 48,498,645
% of General Fund	3.8 %
% Change from 2016-2017 Adopted	16.2 %

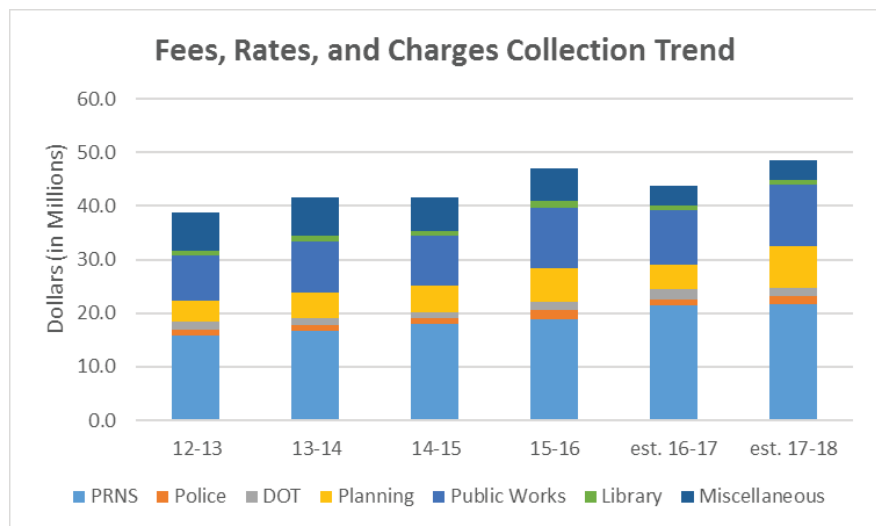
* The 2017-2018 Forecast was decreased \$210,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Revenue Estimates

Fees, Rates, and Charges Category	2017-2018 Adopted Budget
Parks, Recreation and Neighborhoods Services (PRNS)	\$ 21,753,084
Public Works Department	11,585,000
Planning, Building and Code Enforcement	7,730,000
Department of Transportation (DOT)	1,674,720
Police Department	1,373,071
Library	775,300
Miscellaneous	3,607,470
Total	\$ 48,498,645

Contained in this revenue category are the various fees and charges levied to recover costs of services provided by several City departments. The Fees, Rates, and Charges estimate in 2017-2018 totals \$48.5 million, which is 16.2% above 2016-2017 Adopted Budget levels of \$41.7 million.

The Adopted Budget includes an increase of \$6.0 million from the Revised Forecast with adjustments to various individual categories. These adjustments are brought forward to recognize revenues from new fees, maintain cost recovery levels of existing programs, and account for anticipated activity changes in 2017-2018. The various program fee changes included in the 2017-2018 Adopted Budget are discussed in detail below.



GENERAL FUND REVENUE ESTIMATES

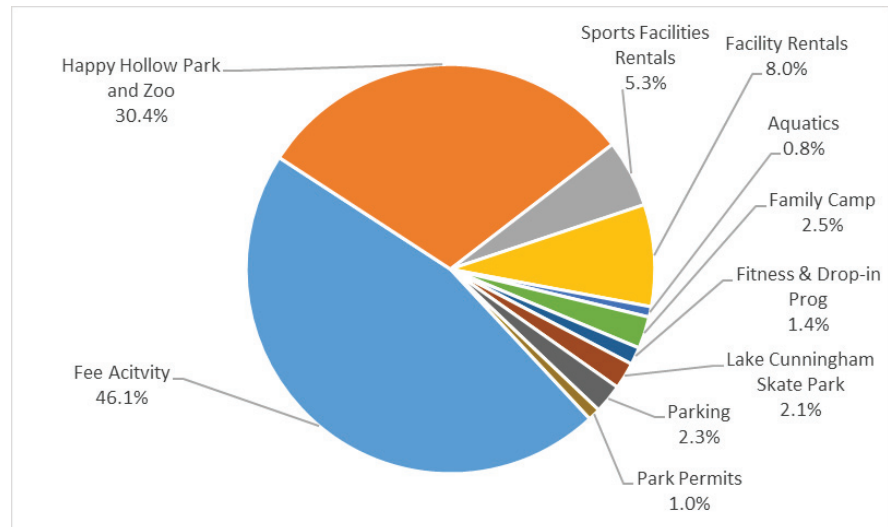
FEES, RATES, AND CHARGES

Revenue Estimates

This section highlights the major fee programs in this category. A more detailed description of the various fees is provided in the 2017-2018 Proposed Fees and Charges document that was released on May 5, 2017 and approved by the City Council on June 13, 2017.

Parks, Recreation and Neighborhood Services Fees

Parks, Recreation and Neighborhood Services Department (PRNS) fee collections are estimated at \$21.8 million in 2017-2018 based on projected activity levels and fees. The 2017-2018 Adopted Operating Budget includes upward revenue adjustments totaling \$1.3 million to align revenues with increased activity levels. Of that amount, the Fee Activity program was



increased by \$512,000 to account for additional activity in the Leisure and Recreation of City Kids (ROCK) Programs. Additional adjustments include: a \$571,000 increase in Happy Hollow Park and Zoo revenues due primarily to corporate rentals; a \$117,000 increase in Lake Cunningham Skate Park revenue, a \$91,000 increase in field reservations revenue; and a \$5,000 decrease to reflect service credits for PRNS special events permits as directed in the Mayor's March Budget Message for Fiscal Year 2017-2018. Under this "service credit" program, neighborhood and school groups can volunteer in parks and community centers and litter pick-up events in exchange for a "service credit" that allows groups free or reduced fees for community-building events at parks and community centers, as well as street closure permits for block parties. Budget actions are included to add staff and resources to address the higher activity levels.

Public Works Fees

Public Works fee revenues are projected to total \$10.3 million in 2016-2017 and increase to \$11.6 million in 2017-2018. The 2017-2018 collection level reflects moderate fee increases to help close the funding gap between ongoing revenues and expenditures and to support approved additions. The increase in revenues, along with the use of a portion of the Public Works Development Fee Program Reserve, are sufficient to support the base costs and program additions in 2017-2018.

A number of expenditure actions totaling \$233,000 are included in the Adopted Budget, including the addition of 1.0 Senior Construction Inspector and 1.0 Principal Engineering Technician positions to address the increasing demand for services in the Utility Fee Program, shared resources in order to support Development Services document imaging technology projects, as well as costs associated with

GENERAL FUND REVENUE ESTIMATES

FEES, RATES, AND CHARGES

Revenue Estimates

Public Works Fees (Cont'd.)

the implementation of the new Portfolio and Project Management Office (PPMO) within the Information Technology Department.

In December 2016, the City Council accepted the *City of San José Development Services Cost Recovery Analysis, Process Improvements, Calculation of Unearned Revenues, and Refund Processing Report*. The Report highlighted that the Development Services Partners were not capturing all their costs from the fees and charges collected from customers. To move closer to full cost recovery for the Public Works Development Fee Program without requiring the use of the Public Works Development Fee Program Reserve, increases to permit fees were included in the 2017-2018 Proposed Fees and Charges document, which was approved by the City Council on June 13, 2017. The fee changes are estimated to generate an additional \$1.3 million in 2017-2018, bringing the 2017-2018 revenue estimate to \$11.6 million. With the approved fee changes, there will be less reliance on the use of the Public Works Development Fee Program Reserve to close the Base Budget funding gap, and will result in an increase to the Reserve of \$1.0 million in the Adopted Budget (this partially offsets the use of \$2.2 million of the Reserve in the Base Budget). The 2017-2018 Adopted Budget includes the Public Works Development Fee Program Reserve at \$5.2 million, primarily for works-in-progress projects.

Additional detail on these budget actions is provided in the Public Works, Planning, Building and Code Enforcement, and Information Technology Departments under the *City Departments* section of this document. A more detailed description of the various fees is provided in the 2017-2018 Proposed Fees and Charges document that was released on May 5, 2017 and approved by the City Council on June 13, 2017.

Planning Fees

The Planning, Building and Code Enforcement Department administers a variety of fees and charges related to the processing of planning permit applications.

In 2016-2017, Planning Fees are anticipated to generate approximately \$4.5 million. This collection level, along with the use of a portion of the Planning Development Fee Program Reserve, was sufficient to support program costs in 2016-2017 without any fee increases. In 2017-2018, the Planning Development Fee Program costs are expected to significantly exceed the base revenue estimate of \$4.5 million, and the Planning Development Fee Program Reserve is not sufficient to support these costs. Additionally, in December 2016, the City Council accepted the *City of San José Development Services Cost Recovery Analysis, Process Improvements, Calculation of Unearned Revenues, and Refund Processing Report*. The Report highlighted that the Planning Development Fee Program, along with the other Development Services Partners, is not capturing all its costs from the fees and charges collected from customers. In order to move closer to full cost recovery for the Planning Development Fee Program without requiring the use of the Planning Development Fee Program Reserve and to support program additions in 2017-2018, significant changes to the permit fees were included in the 2017-2018 Proposed Fees and Charges document, which was approved by the City Council on June 13, 2017. The approved fee changes are estimated to result in an increase in revenue of \$3.2 million, bringing the 2017-2018 revenue estimate to \$7.7 million.

GENERAL FUND REVENUE ESTIMATES

FEES, RATES, AND CHARGES

Revenue Estimates

Planning Fees (Cont'd.)

Expenditure additions in the Adopted Budget include a Planning staff realignment that shifts 6.0 planner positions from the Building Development Fee Program to the Planning Development Fee Program to properly align costs, the addition of 9.0 limit-dated planner positions to address development activities in the Permit Center and Development Review, and funding of \$150,000 to convert microfiche films to electronic files. This program will also fund shared resources expenditures. The 2017-2018 base level of revenue of \$4.5 million necessitated the use of \$1.7 million of the Planning Development Fee Program Reserve to balance base costs in 2017-2018. With the approved fee changes, there will be less reliance on the use of the Planning Development Fee Program Reserve to close the Base Budget funding gap, and will result in an increase to the Reserve of \$1.2 million in the Adopted Budget (this partially offsets the use of \$2.2 million of the Reserve in the Base Budget). After accounting for these adjustments, a remaining Planning Development Fee Program Reserve of \$1.4 million at the beginning of 2017-2018 is estimated, primarily for works-in-progress projects.

Additional detail on these budget actions is provided in the Planning, Building and Code Enforcement and Information Technology Departments under the *City Departments* section of this document. A more detailed description of the various fees is provided in the 2017-2018 Proposed Fees and Charges document that was released on May 5, 2017 and approved by the City Council on June 13, 2017.

Transportation Fees

The revenue estimate for Transportation Fees, Rates, and Charges totals \$1.7 million in 2017-2018, which is slightly above the 2016-2017 Adopted Budget estimate (\$1.6 million). Fee adjustments resulting in a net increase of \$133,000 to various Transportation fees and charges are included based on an analysis of the cost to deliver various services.

Police Fees

The 2017-2018 revenue estimate for Police Fees, Rates, and Charges totals \$1.4 million, slightly above the 2016-2017 anticipated collection levels of \$1.3 million. Fee adjustments resulting in a net increase of \$64,000 to various Police fees and charges are included based on an analysis of the cost to deliver various services.

Library Fees and Fines

Library Department Fees, Rates, and Charges for 2017-2018 are estimated at \$775,000, which is below the 2016-2017 Adopted Budget estimate of \$889,000 and the 2015-2016 collection level of \$1.2 million.

GENERAL FUND REVENUE ESTIMATES

FEES, RATES, AND CHARGES

Revenue Estimates

Miscellaneous Departmental Fees

Collections of \$3.6 million are anticipated in 2017-2018 from a variety of fees and charges, which is consistent with the 2016-2017 estimate. The majority of the revenue in this category is generated from the Solid Waste Enforcement Fee (SWEF) Program with a 2017-2018 revenue estimate of \$2.1 million.

GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE	
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2015-2016 Actual*	\$ 123,547,615
2016-2017 Adopted	\$ 17,752,381
2017-2018 Forecast**	\$ 14,410,648
2017-2018 Adopted	\$ 28,829,148
% of General Fund	2.3 %
% Change from 2016-2017 Adopted	62.4 %

* The 2015-2016 Actual includes revenues associated with the issuance of a \$100 million TRANs based on cash flow needs.

** The 2017-2018 Forecast was increased \$40,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section

Revenue Estimates

The Other Revenue category includes litigation settlements, SAP Center at San José revenues, Investment Program Reimbursement, Public, Education, and Government (PEG) Access Facilities; Sale of Surplus Property, Sidewalk Repair and Tree Maintenance Activities, and Miscellaneous Other Revenue. In 2017-2018, the revenue estimate of \$28.8 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2017-2018 costs or agreements and the elimination of one-time funding sources. This figure excludes revenues associated with the issuance of the Tax Revenue Anticipation Notes (TRANs) that will be brought forward in 2017-2018 with an offsetting expenditure based on estimated cash flow needs.

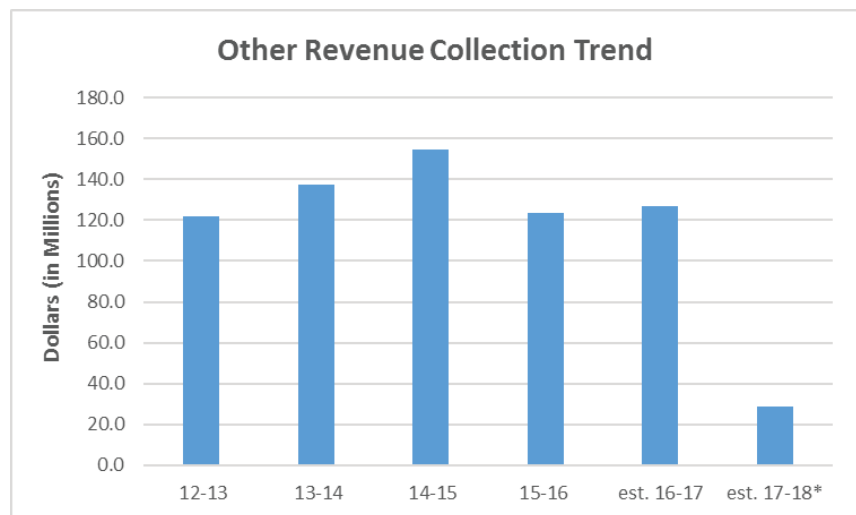
Litigation Settlements

In 2017-2018, Litigation Settlements revenue of \$100,000 is included in the Adopted Budget, which is consistent with the 2016-2017 estimate.

SAP Center at San José Revenues

The City receives payments from Arena Management associated with the use of SAP

Center at San José. In 2017-2018, \$5.1 million is estimated from the Arena Fixed Fee. After 2017-2018, this payment will be reduced to \$375,000 in accordance with the term sheet with Sharks Sports Entertainment approved in May 2015.



GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE

Revenue Estimates

Investment Program Reimbursement

The 2017-2018 revenue estimate for this category is \$1.2 million based on the estimated costs of Investment Program in the Finance Department that will be reimbursed from investment earnings.

Public, Education, and Government (PEG) Access Facilities

In 2017-2018, payments from Comcast and AT&T required under the Franchise Agreement 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 is an associated City-Wide Expenses allocation for this purpose.

Sale of Surplus Property

In 2017-2018, the proceeds from the Sale of Surplus Property category is estimated at \$800,000 based on the anticipated assets that will be sold next fiscal year.

Sidewalk Repair and Tree Maintenance Activities

When the City performs sidewalk repair services for non-owner occupied residences, the property owners reimburse the City for those costs. The 2017-2018 revenue estimate for this category is \$1.8 million. There is a corresponding City-Wide Expenses allocation to fund the contractual sidewalk repairs, as described in the *City-Wide Expenses* section of this document.

Property owners are also assessed for the costs of tree services provided by the City. If the City performs emergency tree services, such as removing a tree that has fallen in the street, the property owner is assessed a fee to cover the cost of this service. This fee is expected to generate \$600,000 in 2017-2018; a corresponding City-Wide Expenses allocation is included to provide the service.

Miscellaneous Other Revenue

Various other revenue sources are included in this revenue category including: Silicon Valley Energy Watch Grant (\$814,000), SB90 reimbursements from the State of California (\$350,000), Office of Gaming Control (\$282,000), P-Card Incentive Payments (\$200,000), City Hall parking revenues (\$120,000), and Secondary Employer Insurance reimbursement from Police Officers (\$84,000).

Included in the 2017-2018 Adopted Budget are the following additional adjustments:

- A one-time increase of \$12.9 million due to the Successor Agency prevailing in litigation against Santa Clara County (County) regarding the withholding of the PERS and Water District levies by the County. As a result, the litigation should allow for some repayment of City funds advanced to pay for certain Successor Agency enforceable obligations. The Adopted Budget includes the full funding of \$12.9 million as revenue to the General Fund, however, \$6.3 million is eligible to be returned to the General Purpose Parking Fund.

GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE

Revenue Estimates

Miscellaneous Other Revenue (Cont'd.)

- An increase of \$1.1 million reflects the rebudget of grant revenues from 2016-2017 to 2017-2018 for the following: East Side Union High School District Community Wireless Network Project (\$800,000); Energy and Utility Conservation Measures Program (\$150,000); Silicon Valley Foundation Strengthening Community Relations Project (\$68,500); Foundation Grant – encores4youth Initiative (\$50,000); Creative Industry Incentive Fund (\$30,000); and Neighborhood Gateway Galleries (\$25,000).
- A one-time increase of \$270,000 to reflect Mayoral Fellows grant revenue from the following: Service Year and Knight Foundation (\$200,000); Harvard Business School (\$45,000); and Cities of Service (\$25,000).
- A one-time increase of \$100,000 to reflect the following grants: the Institute for Market Transformation and the National Resources Defense Council for zero net energy programs (\$50,000); National Recreation and Park Association for the Healthy Out-of-School Time Program (\$25,000), and the National Endowment for the Arts for the Neighborhood Gateway Galleries (\$25,000).
- A one-time increase of \$25,000 to reflect grant revenue to support Viva CalleSJ, ¡Viva Parks!, and Plaza de Cesar Chavez placemaking events from the American Association of Retired Persons (AARP) (\$15,000), and Youth Connections Foundation (\$10,000).

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS	
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2015-2016 Actual	\$ 75,438,675
2016-2017 Adopted	\$ 79,337,731
2017-2018 Forecast*	\$ 86,058,560
2017-2018 Adopted	\$ 88,428,909
% of General Fund	6.9%
% Change from 2016-2017 Adopted	11.5%

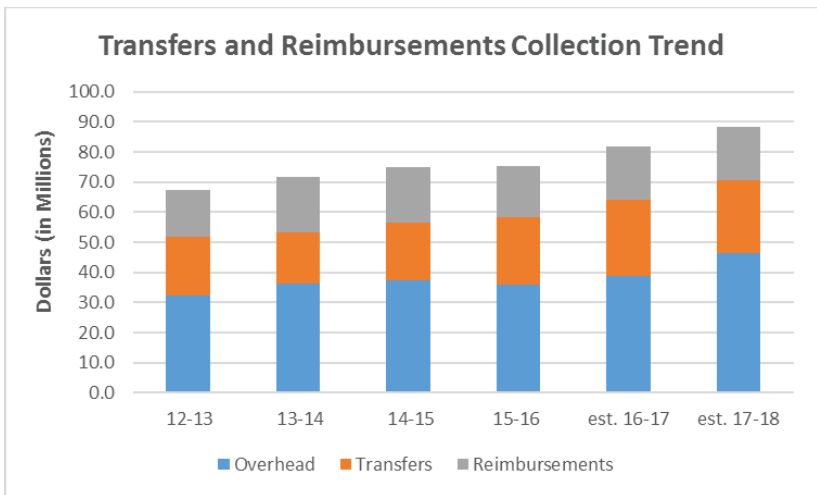
* The 2017-2018 Forecast was increased \$501,953 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Revenue Estimates

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 overhead charges, reimbursements for services rendered, or simple transfers. In total, Transfers and Reimbursements are anticipated to generate approximately \$88.4 million in 2017-2018. This amount is above the 2016-2017 budget estimate of \$81.8 million due to increased overhead reimbursements and budgeted transfers. The following is a discussion of the three major subcategories included in the Transfers and Reimbursements revenue category: Overhead Reimbursements, Transfers, and Reimbursements for Services.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2017-2018, a total of \$46.6 million in reimbursements are projected based on 2017-2018 overhead rates prepared by the Finance Department applied against the projected 2017-2018 applicable salaries. This figure reflects the following: an increase of \$185,000 incorporated into the Revised



Forecast based on final overhead rates and updated allocations of staff across funds; and an increase of \$1.7 million incorporated into the 2017-2018 Adopted Budget (\$1.3 million ongoing) generated from various budget actions that changed the staffing levels funded by capital and special funds. Descriptions of the budget actions that generate these overhead reimbursement changes can be found in the *City Departments* Section of this document. Following is a summary of the overhead reimbursement changes from the Revised Forecast by fund.

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

Revenue Estimates

Overhead Reimbursements (Cont'd.)

<u>Fund</u>	<u>Overhead Adjustment</u>
Capital Funds	\$ 899,211
Sewer Service and Use Charge Fund (541)	322,613
Water Utility Fund (515)	152,278
Storm Sewer Operating Fund (446)	121,124
Airport Maintenance and Operation Fund (523)	93,936
Multi-Source Housing Fund (448)	59,385
San José/Santa Clara Treatment Plant Operating Fund (513)	59,090
Low and Moderate Income Housing Asset Fund (346)	54,545
Vehicle Maintenance and Operations Fund (552)	6,325
Integrated Waste Management Fund (423)	(98,956)
Total Adjustments	\$ 1,669,551

Transfers

The Transfers category is projected at \$23.9 million in 2017-2018. The largest component of this category (\$14.0 million) is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for police and aircraft rescue and firefighting services provided by the Police and Fire Departments. These reimbursements have been built to cover the 2017-2018 direct costs as well as the indirect costs. Additional large transfers programmed for 2017-2018 include the following: Construction and Conveyance Tax Fund transfers (\$3.6 million) associated with park maintenance costs and methane monitoring; Construction Excise Tax Fund transfer (\$1.8 million); General Purpose Parking Fund (\$1.4 million); Workforce Development Act Fund for the reuse of City facilities (\$488,000); Convention and Cultural Affairs Fund (\$437,000); interest earnings from various funds, the largest of which is the Construction and Conveyance Tax Fund (\$839,000).

As directed in the Mayor's March Budget Message for Fiscal Year 2017-2018 and approved by the City Council, the \$1.4 million transfer from the General Purpose Parking includes one-time transfers totaling \$668,513 for the Residential Parking Pilot Program (\$118,513), Business Permit Process Improvement Bootcamp (\$200,000), Storefront Activation Grant (\$250,000), and Downtown Ice Rink Improvements (\$100,000).

The Adopted Budget also incorporates a reduction to the transfer from the Community Facilities Revenue Fund that was included in the 2017-2018 Forecast to reimburse the General Fund for finance staffing to support the Hayes Mansion (\$117,715). When the Proposed Budget was developed it was assumed the Hayes Mansion would be sold and reimbursement would no longer be available. While the sale did not occur as anticipated as discussed in Manager's Budget Addendum #25, this position remains in the General Fund to provide support for the Hayes Mansion and other finance transactions.

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

Revenue Estimates

Reimbursements for Services

Reimbursements for services represent the cost to the General Fund for staff and supplies provided on behalf of other City funds. For 2017-2018, the revenue estimate for this category is \$18.0 million.

The largest single source of revenue in this category is reimbursements from the Gas Tax Funds for the cost of City street-related expenses. Based on year-to-date performance, the Gas Tax receipts in 2016-2017 are projected to reach \$17.3 million. Collections are anticipated to remain flat at \$17.3 million in 2017-2018; however, several factors may impact collections, including changes in gas prices, current economic conditions, and a 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.

The Reimbursements for Services category also includes reimbursement for actual City costs associated with administering the Deferred Compensation Program (\$515,000) and the Maintenance Assessment District Funds (\$155,000).

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

Rebudget: Contingency Reserve	\$ 35,500,000
Rebudgets: Earmarked Reserves/Expenditures	\$143,248,173
Unexpended Earmarked Reserves*	\$19,856,224
2016-2017 Expenditure Savings/Additional Revenue*	\$ 6,600,000
2016-2017 Ending Fund Balance Reserve*	\$ 11,000,000
Liquidation of Prior Year Encumbrances*	\$ 1,000,000
Fund Balance Subtotal:	\$ 217,204,397
Reserve for Encumbrances	\$39,757,863
Fund Balance Total:	\$ 256,962,260
% of General Fund**	17.0%

* Used for 2017-2018 Adopted Budget balancing purposes.

** Excludes Reserve for Encumbrances.

Estimates for both the unrestricted and restricted (reserve for encumbrances) portions of the 2016-2017 Ending Fund Balance/2017-2018 Beginning Fund Balance, totaling \$257.0 million, are included as part of the 2017-2018 Adopted Budget. The estimate for the encumbrance reserve is set at the 2015-2016 actual level (\$39.8 million). The Adopted Budget included a matching expenditure amount intended to reflect the corresponding encumbrances that are estimated for 2017-2018.

The estimate for unrestricted fund balance is set at \$217.2 million, representing a \$148.6 million increase from the revised 2017-2018 Revised Forecast level of \$68.6 million. When the initial Forecast was developed, the fund balance projection totaled \$69.4 million and included the following: an unexpended (rebudgeted) Contingency Reserve estimate of \$35.5 million; a combination of excess revenues, expenditure savings, and the liquidation of prior year carryover encumbrances totaling \$17.0 million; and additional funding of approximately \$16.9 million from various reserves to support specific costs programmed in 2017-2018. The use of reserves included the following: \$9.2 million from the Building Development Fee Program Reserve, \$2.4 million from the Public Works Development Fee Program Reserve, \$1.9 million from the Planning Development Fee Program Reserve, and \$1.7 million from the Fire Development Fee Program Reserve to cover costs associated with these fee programs in 2017-2018; \$1.1 million from the Staffing for Adequate Fire and Emergency Response (SAFER) Reserve; \$425,000 from the Airport Attraction Program Reserve; \$130,000 from the Master Address Database Reserve; and \$100,000 from the School Crossing Guard Staffing Reserve. In the Revised Forecast, the reserves amount carried over was reduced by \$854,000 to reflect a lower carryover amount of the Development Fee Program Reserves (Fire: reduction of \$530,000; Public Works: reduction of \$187,000; Planning: reduction of \$135,000; Building: reduction of \$2,000) necessary to bridge the gap between 2017-2018 revised base revenues and expenditures.

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

The \$148.6 million increase from the Revised Forecast includes the following:

- Rebudget of 2016-2017 funds for expenditure-related items and unexpended reserves in the amount of \$143.2 million, including \$137.96 million that was brought forward to the City Council in June 2017 after the release of the Proposed Budget. The remaining \$5.3 million was incorporated into the Proposed Budget and included the following: Homeless Rapid Rehousing/Tiny Homes (\$2.3 million), Fire Station 37 Reserve (\$960,000), Technology Equipment Replacement to Converged or Hyper-Converged Infrastructure (\$610,000), Urban Area Security Initiative Grant – Police 2016/Dispatch Consoles (\$570,000), San José Environmental Sustainability Plan Implementation Staffing (\$306,030), Talent Recruitment Initiative (\$200,000), Historic Preservation (\$100,000), Mayor’s Gang Prevention Task Force Clean Slate Program (\$100,000), Human Resources Non-Personal/Equipment – Workers’ Compensation Claims contract (\$90,000), and Aquatics Program (\$25,000).
- Liquidation of various reserves totaling \$3.8 million, including the Cultural Facilities Capital Maintenance Reserve (\$1.975 million), 2017-2018 Future Deficit Reserve (\$1.4 million), and General Plan Update Reserve (\$375,000).
- Additional anticipated fund balance of \$1.6 million generated from personal services savings that are projected in the Police Department due to vacancy savings.

Following is a discussion of the fund balance components:

- The Beginning Fund Balance estimate assumed the carryover of the 2016-2017 Contingency Reserve of \$35.5 million, with the assumption that this amount would not be used in 2016-2017 and would be available in 2017-2018. The 2017-2018 Forecast also included additional funding of \$500,000, bringing the Contingency Reserve to \$36.0 million. This reserve was set at the level necessary to comply with the City Council policy to maintain a minimum of 3% contingency reserve and allowed for anticipated rebudget adjustments that were expected to be brought forward as part of the Adopted Budget. The Contingency Reserve is approximately enough to cover General Fund payroll costs for less than two and one-half weeks in an emergency.
- Rebudgeted Earmarked Reserves and Expenditures totaled \$143.2 million. Details of the Earmarked Reserves of \$79.4 million that are rebudgeted from 2016-2017 to 2017-2018 can be found in the *City-Wide Expenses, Capital, Transfers, and Reserves* section of this document. Major Earmarked Reserve rebudgets include: Budget Stabilization Reserve (\$16.3 million); General Liability Catastrophic Reserve (\$15.0 million); Building Development Fee Program Reserve (\$13.2 million); Fire Development Fee Program Reserve (\$7.2 million); Retiree Healthcare Solutions Reserve (\$6.1 million); and Salaries Benefits Reserve (\$5.0 million). Expenditure rebudgets totaled \$63.8 million, the majority of which represent City-Wide Expenses that were not completed in 2016-2017 for which funding was carried over to 2017-2018.

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

- The use of various Unexpended Earmarked Reserves of \$19.9 million include: Development Fee Program Reserves (\$14.3 million); Cultural Facilities Capital Maintenance Reserve (\$2.0 million); 2017-2018 Future Deficit Reserve (\$1.4 million); SAFER Reserve (\$1.1 million); Airport Attraction Program Reserve (\$425,000); General Plan Update Reserve (\$375,000); Master Address Database Reserve (\$130,000); and School Crossing Guard Reserve (\$100,000).
- The 2016-2017 Ending Fund Balance Reserve (\$11.0 million) and the Expenditure Savings/Additional Revenue (\$6.6 million) represent the total excess revenues and expenditure savings of \$17.6 million expected to be generated at the end of 2016-2017 for use in 2017-2018.
- The Liquidation of Prior Year Encumbrances was estimated at \$1.0 million in 2016-2017 to be available for use in 2017-2018. This is consistent with the level assumed in the 2017-2018 Forecast.