2017-2018
City Manager's Budget Request

&

2018-2022
Five-Year Forecast
and
Revenue Projections

For the
General Fund and Capital Improvement Program

Office of the City Manager

February 2017

2017-2018
CITY MANAGER'S BUDGET REQUEST
&
2018-2022
FIVE-YEAR ECONOMIC FORECAST AND REVENUE PROJECTIONS

For the
General Fund and Capital Improvement Program

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

Prepared by
Office of the City Manager

February 2017

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Norberto Dueñas

SUBJECT: **2017-2018 CITY MANAGER'S BUDGET REQUEST AND 2018-2022 FIVE-YEAR FORECAST**

DATE: March 16, 2017

INFORMATION

EXECUTIVE SUMMARY

In compliance with City Charter Section 1204, and the City Council's Adopted Budget process, this document provides both the recommended 2017-2018 City Manager's Budget Request (2017-2018 Budget Balancing Strategy Guidelines) and the 2018-2022 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. Major highlights of this report follow.

As shown in the chart below, a General Fund shortfall of $12.4 million is projected for 2017-2018. This projection is derived by comparing the estimated revenues with the cost of delivering City Council-approved existing services as well as the services for which the City has already committed, such as the operation of new facilities or other capital projects scheduled to come on-line next year. In the remaining years of the Forecast, General Fund shortfalls are projected, ranging from $11.5 million to $34.8 million annually. These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from -0.5% to -1.5% of the projected annual budget (combined total of revenues and expenditures). Over the five-year period, a total shortfall of $88.9 million is anticipated, which equates to approximately $17.8 million annually. This average shortfall figure equates to -0.8% of the projected General Fund annual budget (revenues and expenditures).

2018-2022 General Fund Forecast
Incremental General Fund Surplus/(Shortfall)

2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
($12.4 M)	($34.8 M)	($11.5 M)	($17.4 M)	($12.8 M)

- This Forecast reflects the Administration's best estimates on the projected revenues and expenditures over the next five years based on the information currently available. It does not, however, incorporate several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2016-2017; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

- With shortfalls in each year, the General Fund position is worse when compared to the 2017-2021 Forecast issued in February 2016. In the previous forecast, a small surplus was projected in the first year, followed by small shortfalls (ranging from -$4.2 million to -$15.8 million) in the remaining four years. The change from the previous forecast reflects increased revenues that are more than offset by increased expenditures, primarily due to increases in personnel costs.

- The voter approved local Sales Tax (June 2016) and Business Tax Modernization (November 2016) measures significantly improved what would have otherwise been the City's General Fund position in 2017-2018. The local Sales Tax is currently projected to generate $35 million annually. The 2016-2017 Adopted Budget allocated approximately $16 million of this amount to ongoing uses, including funding for Police Department sworn and non-sworn staffing, Fire Department sworn staffing and overtime to eliminate fire station "brown-outs", and homeless rapid rehousing.

- As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. Various cost elements can also vary from year to year. As seen in recent years, retirement costs fluctuate and will likely continue to experience upward or downward swings based on actual performance of the retirement funds and changes in actuarial economic and demographic assumptions approved by the Federated and Police and Fire Department Retirement Boards. In 2017-2018, the Sales Tax revenue estimate, which is the City's second largest General Fund revenue source, is particularly difficult to project given the downward performance in the last two quarters during a period in which most other economically sensitive revenues are performing well. In addition, the Budget Office is in the process of implementing a new budget system, with the expenditure data continuing to undergo extensive data verification and refinement. Consistent with past practice, as part of the preparation for the 2017-2018 Proposed and Adopted Budgets, the Administration will bring forward revisions to both the revenue and expenditure estimates as new information becomes available.

- The chart on page 3 compares the 2017-2018 Forecast to the 2016-2017 Adopted Budget. The combined result of the Adopted to Forecast changes is a General Fund shortfall of $12.4 million. The first element of the chart is the carry-over from the 2016-2017 Adopted Budget of $32.8 million and represents the ongoing funding made available as part of the 2016-2017 Adopted Budget that was allocated to one-time needs, resulting in the carryover of ongoing resource capacity to the following year. This primarily reflects the additional local Sales Tax revenue that was approved by the voters in June 2016 (only $16 million of that funding was allocated to ongoing needs in 2016-2017) as well as budget balancing actions in 2016-2017 that did not allocate $8.0 million to ongoing uses to address a portion of the projected shortfall in 2017-2018. The next major comparison element is the change in revenue sources year-over-year. Ongoing revenues are projected to increase by $41.7 million, driven primarily by increases in the Property Tax, Business Tax, and Utility Tax revenue estimates. The decline in the Sales

Tax category reflects the lower performance in 2016-2017 that impacts the 2017-2018 estimate. When comparing expenditures (the third element), base costs are expected to increase by $86.9 million from 2016-2017 ongoing budget levels, with the largest increase in retirement costs and employee pay increases.

2017-2018 General Fund Forecast
Reconciliation from 2016-2017 Adopted Budget

2017-2018 General Fund Forecast Components (Ongoing)	$ in Millions
Carry-Over from 2016-2017 Adopted Budget	**$ 32.82**
Revenue Changes	
- Property Tax	$ 17.98
- Business Tax	14.20
- Utility Taxes	5.57
- Overhead Reimbursements	4.75
- Transfers	2.04
- Transient Occupancy Tax	1.77
- Franchise Fees	1.70
- Sales Tax	(6.70)
- Other Net Revenue Changes	0.35
Total Revenue Changes (Increase)	**$ 41.66**
Expenditure Changes	
- Retirement (Police/Fire $35.3 M, Federated/Other $8.0 M; Measure F $3.0 M)	$ 46.30
- Employee General Pay/Non-Management Step/ Management Pay-For-Performance (does not include associated retirement costs)	28.30
- Healthcare/Dental	4.20
- Water	2.04
- Cultural Facilities Capital Maintenance Reserve (TOT Growth)	1.77
- Transfers to Other Funds (support for Hayes Mansion, Municipal Golf Courses, Communications Capital Program, and general fleet vehicle replacement)	1.50
- Police Marked Vehicle Replacement	1.40
- Debt Service (e.g., City Hall, Energy Services Co. (ESCO), FMC)	1.15
- Workers' Compensation Program	1.10
- General Liability Claims	1.00
- Vehicle Maintenance and Operations	0.78
- Gas and Electric Utilities	0.77
- Contingency Reserve	0.50
- Committed Additions (Parks and Traffic)	0.43
- Capital Unanticipated/Emergency Maintenance	0.15
- Fire Apparatus Replacement	(0.35)
- Workers' Compensation Claims Payments	(1.00)
- Other Expenditure Net Savings	(3.15)
Total Expenditure Changes (Increase)	**$ 86.89**
2017-2018 Projected General Fund Shortfall	**($ 12.41)**

- For the 2017-2018 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the total cost in the General Fund. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the $826.5 million projected personal services total for 2017-2018, salary and other compensation costs total $467.4 million (56.6% of projected personal services), retirement costs total $297.6 million (36.0% of projected personal services), and health and other fringe benefits costs total $61.5 million (7.4% of projected personal services). In the out years of the forecast, annual personal services growth ranging from 3.9% to 6.5% is projected.

- Committed Additions, expenses that address previous City Council direction, are included and total $0.4 million in 2017-2018, rising to $2.0 million by the end of the forecast period. The largest expense in this category is the Arcadia Softball Complex.

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

- In approaching the 2017-2018 budget, the Administration proposes the use of the budget balancing strategy guidelines outlined in this memorandum (2017-2018 City Manager's Budget Request). The overall City of San José Budget Principles, the City Council-approved Guiding Principles for Restoring City Service Levels, and the Service Restoration Decision Making Framework, combined with City Council approval of the March Budget Message and priorities identified in prior policy sessions, will also guide the City's budget development efforts. The Administration recommends City Council approval of the proposed 2017-2018 City Manager's Budget Request, with any desired revisions, as part of the Mayor's March Budget Message review and approval process later in March.

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

- Projections for the selected Capital Improvement Program (CIP) revenues are also included in this document. These revenues total $364.9 million over the five-year period, up 10% from the $330.5 million included in the 2017-2021 Adopted CIP. Construction and Conveyance (C&C) Tax receipts over the five-year period remained flat compared to the prior forecast due to the combination of increasing home prices and declining numbers of property sales. Increases to the Building and Structure Construction Tax (20%) and the Construction Excise Tax (25%) revenue estimates are included in this Forecast, due to higher construction activity valuation.

BACKGROUND

In compliance with City Charter Section 1204 and the City Council's Adopted Budget process, this document provides both the recommended 2017-2018 City Manager's Budget Request and the 2018-2022 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program. The City Manager's Budget Request and Five-Year Forecast are key components of the City's annual budget process and critical steps in developing the City's annual Operating and Capital Budgets and the Five-Year Capital Improvement Program (CIP).

The City Manager's Budget Request includes budget balancing strategy guidelines that the Administration recommends to be used in developing the 2017-2018 Proposed Budget. These guidelines are predicated on the most current projections for expenditure requirements and available revenue in the coming fiscal year. As the City's anticipated fiscal status for 2017-2018 is an integral part of the Administration's proposed approach to preparing the 2017-2018 budget, a detailed discussion of the key economic, revenue, and expenditure assumptions for 2017-2018, and the subsequent four years, is provided as part of this document.

ANALYSIS

This section includes the following: a discussion of the 2017-2018 City Manager's Budget Request; an overview of the 2018-2022 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program; and a description of the next steps in the 2017-2018 budget process.

2017-2018 CITY MANAGER'S BUDGET REQUEST

The City Manager's Budget Request includes a set of general budget balancing strategy guidelines recommended to be used in the development of the 2017-2018 Proposed Budget. These proposed guidelines have been formulated in the context of projections for General Fund deficits in each year of the Forecast period. The over-arching goals of these guidelines are to continue operational and fiscal stability while delivering services to our community in a cost-effective manner. This includes keeping General Fund revenues and expenditures in balance while maintaining or adding resources, in some limited cases, to continue programs funded on a one-time basis in 2016-2017, as appropriate, to address significant organizational or community risk, to fund unmet/deferred infrastructure needs, and/or to address key service needs identified by the City Council as priorities. In addition to City Council's approval of the Mayor's March Budget Message and priorities identified in prior policy sessions, these guidelines will be used with the overall City Council-approved City of San José Budget Principles, the City Council-approved Guiding Principles for Restoring City Service Levels, and the Service Restoration Decision Making Framework that are attached as an appendix to this document.

In accordance with the City Charter, the City is required to adopt a balanced budget each year, allocating any projected surplus or addressing any projected shortfall. In 2017-2018, a General Fund shortfall of $12.4 million is projected, representing 0.6% of the General Fund annual budget (revenues and expenditures). In the out years of the Forecast, General Fund shortfalls range from

-$11.5 million to -$34.8 million annually. These shortfall amounts are relatively small when put into context of the size of the projected General Fund budget, ranging from -0.5% to -1.5% of the projected annual budget, but point to a negative trend that would indicate that the City lacks capacity to address significant ongoing funding needs. To avoid future service disruptions, it is critical that the City does not over-commit its resources in this environment. Although overall service levels fall below desired levels for the San José community, the Administration continues to recommend aligning new ongoing service commitments with ongoing funds to support additions, to the extent possible. As in past years, the Administration recommends that one-time funding identified in the budget process be strategically invested to address one-time needs, such as addressing a portion of the City's unmet/deferred infrastructure and maintenance needs or building reserves.

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

- The costs to continue services funded on a one-time basis in 2016-2017 in the General Fund. The major items funded on a one-time basis include the following: Pavement Maintenance Program, San José Works, San José Learns, Police Department Downtown Foot Patrol, Parks, Recreation and Neighborhood Services Placemaking and Parks Activation, City Attorney's Office Legal Transactions and Litigation Division Staffing, Office of Immigrant Affairs, Policy and Ordinance Assistance, Sports Authority, Business Development and Economic Strategy Activities, Server Replacements, and Neighborhood-Led Beautification Days. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2016-2017. This analysis will be conducted during the 2017-2018 budget process and funding recommendations for these programs and services will be included in the 2017-2018 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.

- The costs associated with ongoing unmet/deferred infrastructure and maintenance needs were updated and presented to the City Council on February 28, 2017 at $8.5 million annually in the General Fund ($144.0 million all funds). In addition, there is a one-time backlog of infrastructure needs totaling $56.1 million in the General Fund ($1.5 billion all funds).

- The costs associated with a Police Staffing Restoration Strategy (to increase budgeted sworn officers to 1,250 positions) that was approved with the adoption of the 2014-2015 budget. As part of this strategy, ongoing cost savings from new police officers who receive Tier 2 retirement benefits are to be dedicated to restoring sworn police staffing. However, accumulated savings through 2017-2018 were used to offset San Jose Police Officers' Association (SJPOA) increases approved in August 2015. In the out years, the forecast sets aside estimated sworn police retirement savings that grow to $8.1 million ongoing by 2021-2022.

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

- It should be noted that the Development Fee Programs (Building, Fire, Planning, and Public Works) are designed to be 100% cost recovery and have been programmed to have a neutral impact on the Forecast by adjusting the revenue and costs to be equal. In the Planning, Building, Fire, and Public Works Development Fee Programs, budget gaps are currently projected for 2017-2018. It is assumed that a combination of program reserves that are available in each of these programs, fee changes, and/or cost reductions will be used to address these variances. For purposes of the Forecast, the use of program reserves is assumed.

2017-2018 Budget Balancing Strategy Guidelines

The 2017-2018 Budget Balancing Strategy Guidelines provide recommended direction on the general approaches to use in the development of the 2017-2018 Proposed Budget.

2017-2018 Budget Balancing Strategy Guidelines
1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to maximize service delivery within existing resources, to ensure no negative impact on future budgets, and to maintain the City's high standards of fiscal integrity and financial management. To the extent possible, establish a Future Deficit Reserve in the General Fund to cover any projected budgetary shortfall in the following year as a stopgap measure.
3. Evaluate vacant positions to determine if any position changes should be brought forward to better meet departmental needs, with the goal of filling existing vacant positions before adding new net positions to the organization.
4. Focus on business process redesign to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
5. Explore alternative service delivery models (e.g., partnerships with non-profit, public, or private sector for out- or in-sourcing services) to ensure no service overlap, reduce and/or share costs, and use City resources more efficiently and effectively. The City Council Policy on Service Delivery Evaluation provides a decision-making framework for evaluating a variety of alternative service delivery models.
6. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.
7. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources.
8. Establish a fees, charges and rates structure designed to fully recover operating costs, while considering the impacts on fee and rate payers, and explore opportunities to establish new fees and charges for services, where appropriate.
9. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
10. If ongoing resources are available, focus investments in the following areas: services included in the 2016-2017 budget on a one-time basis, as appropriate; and additions that address significant organizational or community risks.

11. If one-time resources are available, focus on investments that address the City's unmet or deferred infrastructure needs and/or leverage resources to or improve efficiency/effectiveness through technology and equipment or other one-time additions.
12. In addition to considering service restoration priorities previously identified by the City Council, take a holistic approach regarding the restoration of services. As outlined in the Guiding Principles for Restoring City Service Levels as approved by the City Council on March 20, 2012, allocate additional resources with the following goals in mind: ensure the fiscal soundness of the City; choose investments that achieve significant outcomes; and improve efficiency and effectiveness of service delivery. Using a multi-pronged approach to restoring direct services, take into consideration the following factors: adequate strategic support resources; adequate infrastructure; service delivery method to ensure efficient and effective operations; service delivery goals and current performance status; service sustainability; and staffing resources.
13. Engage employees in department budget proposal idea development.
14. Continue a community-based budget process where the City's residents and businesses are educated and engaged, as well as have the opportunity to provide feedback regarding the City's annual budget.
15. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions.

These guidelines are very similar to those approved by the City Council as part of the Mayor's March Budget Message for Fiscal Year 2016-2017 with a couple of additions. Item #3 is added to focus on the need to fill existing vacant positions before adding net new positions to the City, and item #11 is included to describe the potential use of one-time resources.

Framework and Guiding Principles for Restoring City Service Levels

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

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

Incorporating Strategies into the 2017-2018 Budget Process

As noted above, the Administration proposes the use of the general budget balancing strategy guidelines outlined above in the 2017-2018 City Manager's Budget Request combined with the overall City of San José Budget Principles, the City Council-approved Guiding Principles for Restoring City Service Levels, and the Service Restoration Decision Making Framework to approach the 2017-2018 budget development process.

In December 2016, the Administration directed the City departments to develop 2017-2018 budget proposals using a draft version of the 2017-2018 Budget Balancing Strategy Guidelines. At that time, no reduction targets were issued given the expectation that revenues and expenditures would remain in relatively close alignment. However, the funding demands and community expectations were again expected to far exceed the resources available in 2017-2018. Given this environment, departments were directed to take a targeted and very limited approach to budget proposal development. This included the pursuit of opportunities to reduce costs without impacting direct services, generate new revenues, and/or implement new service delivery models. Departments were also directed to evaluate program-level budgets and determine if there are opportunities to shift resources or reconfigure operations to close service delivery gaps or adjust to shifting community needs. Vacant positions were to be evaluated to determine if any position changes should be brought forward to better meet departmental needs, with the stated goal of filling existing vacant positions before adding new net positions to the organization. Budget proposals requesting a net addition of General Fund resources were to be limited to those that address truly significant community or organizational risks. The Administration will continue to consider cost reductions and service delivery efficiencies that make sense, but does not anticipate any direct service reductions in 2017-2018 consistent with the approach over the past five years.

The Mayor is scheduled to issue a proposed March Budget Message on March 17, 2017, which will then be discussed, amended if necessary, and adopted by the City Council. The contents of that Message will provide guidance for the preparation of the City Manager's 2017-2018 Proposed Capital and Operating Budgets currently scheduled to be submitted on April 24, 2017 and May 1, 2017, respectively. As part of the 2017-2018 Mayor's March Budget Message, the Administration requests confirmation of the proposed 2017-2018 Budget Balancing Strategy Guidelines, with any desired revisions. As required by City Charter, those Proposed Budgets will contain comprehensive plans for how the City organization will address the highest priority needs of the community while maintaining the fiscal integrity of the City.

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

Sessions, Public Hearings, and the Mayor's June Budget Message during the months of May and June 2017.

2018-2022 FIVE-YEAR FORECAST AND REVENUE PROJECTIONS

The 2018-2022 Five-Year Forecast and Revenue Projections portion of this document is divided into five sections.

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

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

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

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

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

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

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

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

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

2018-2022 General Fund Forecast

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

2018-2022 General Fund Five-Year Forecast
($ in Millions)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Projected Revenues	$1,091.3	$1,121.3	$1,153.1	$1,187.1	$1,219.6
Projected Expenditures	$1,103.7	$1,168.5	$1,211.8	$1,263.2	$1,308.5
Total Cumulative Surplus/(Shortfall)	($12.4)	($47.2)	($58.7)	($76.1)	($88.9)
Total Incremental Surplus/(Shortfall)	**($12.4)**	**($34.8)**	**($11.5)**	**($17.4)**	**($12.8)**

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2016-2017; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

In the 2018-2022 Forecast, incremental General Fund shortfalls are anticipated in each year. These margins are relatively narrow when put into context of the size of the projected General Fund budget, ranging from -0.5% to -1.5% of the projected annual budget (revenues and expenditures). However, as stated previously, there are significant expenditure components that are not incorporated into the Forecast.

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

When reconciling next year's Forecast to the 2016-2017 Adopted Budget, the projected shortfall of $12.4 million for 2017-2018 is the result of the following: a surplus carryover from the 2016-2017

Adopted Budget of $32.8 million (primarily associated with the voter-approved Sales Tax measure that was not fully allocated to ongoing uses in 2016-2017 as well as budget balancing actions in 2016-2017 that did not allocate $8.0 million to ongoing uses to address a portion of the projected shortfall in 2017-2018), improved revenues of $41.7 million, offset by increased costs of $86.9 million.

General Fund revenues are estimated to improve $41.7 million when compared to the ongoing revenue performance assumed in the 2016-2017 Adopted Budget. Aside from Sales Tax, revenue performance in 2016-2017 continues to reflect moderate growth and is estimated to exceed current budgeted levels. General Sales Tax receipts for the first two quarters (July through December 2016) were down 9.4% and 3.1% when compared to same quarters in the prior year. Given the performance experienced in the first two quarters, no growth is projected for the remaining two quarters of 2016-2017, which would bring receipts to $180.0 million. This collection level is $8.8 million below the Adopted Budget estimate of $188.8 million and brings down the starting point for 2017-2018. In addition, the Local Sales Tax, a new ¼ cent local sales tax approved by San José voters in June 2016, is now estimated to generate $26 million in 2016-2017, which is $4 million below the estimate of $30 million used to develop the 2016-2017 Adopted Budget. Additionally, in 2017-2018, the Local Sales Tax is estimated at $35 million, which is $5 million less than the $40 million assumed when the ballot measure was brought forward. In 2017-2018, other revenue categories that are forecasted to grow year-over-year include: Property Tax based on the most recent information provided by the County of Santa Clara ($18.0 million); Business Tax ($14.2 million) primarily due to the Modernization of the San José business tax, which was approved by voters in November 2016; Utility Tax ($5.6 million); Overhead Reimbursements ($4.8 million); Transfers from Other Funds ($2.0 million); Transient Occupancy Tax ($1.8 million) with the additional funding allocated to a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve per previous City Council direction; Franchise Fees ($1.7 million); and miscellaneous categories that have experienced a net changes based on actual collections experience ($0.4 million).

On the expenditure side, a number of upward and downward adjustments have been incorporated into this Forecast resulting in a net increase of $86.9 million in 2017-2018. The largest change from the 2016-2017 Adopted Budget is the increase in retirement costs ($46.3 million). This increase reflects changes in retirement rates, the impact of salary increases, the annualization of positions that were added for a partial year in 2017-2018 (e.g., 19.0 Community Service Officers and 5.0 Crime and Intelligence Analyst positions), and the addition of positions scheduled to start in 2017-2018 (41 sworn Police positions to be added in February 2018). Employee pay increases account for the next largest change at $28.3 million and include general pay increases, non-management step increases, and management pay-for-performance. This figure also reflects the annualization of positions added in 2017-2018 and the addition of positions scheduled to start in 2018. The next largest increases are programmed for health and dental costs ($4.2 million), water costs, primarily in the Parks, Recreation and Neighborhood Services Department ($2.0 million), Transfers to Other Funds, including funds that support the Hayes Mansion, Municipal Golf Courses, Communications Capital Program, and general fleet vehicle replacement ($1.5 million), and Police Marked Vehicle Replacement ($1.4 million). Downward adjustments are included for Fire

Apparatus Replacement (-$0.35 million) and Workers' Compensation Claims Payments (-$1.0 million) based on projected needs for 2017-2018 and claims performance.

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

General Fund Committed Additions

Cost estimates for a number of specific "Committed Additions" that address previous City Council direction are included in this Forecast in the years that they are projected to be required. The Committed Additions category, summarized in the chart below, reflects projected additional operating and maintenance costs for new or renovated capital projects in the 2017-2021 Adopted Capital Improvement Program or for projects approved by the City Council during 2016-2017. The costs of the additions total $0.4 million in 2017-2018 and increase to approximately $2.0 million by the end of the Forecast period.

2018-2022 General Fund Committed Additions
Maintenance and Operations Costs

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
New Parks and Recreation Facilities	$257,000	$493,000	$676,000	$875,000	$997,000
New Traffic Infrastructure Assets	55,000	59,000	61,000	81,000	87,000
Measure P (Parks)	121,000	782,000	827,000	873,000	913,000
Total	**$433,000**	**$1,334,000**	**$1,564,000**	**$1,829,000**	**$1,997,000**

These Committed Additions are related to new parks and recreational facilities, new traffic infrastructure assets, and the Arcadia Softball Complex as part of the Measure P (Parks) Bond funds. A detailed listing of all committed additions with operating and maintenance costs are included in this 2018-2022 General Fund Forecast and can be found in *Section 3 - Committed Additions to the Base General Fund Forecast* of this document.

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

General Fund Capital Operating and Maintenance Costs/Budget Principle #8 requires City Council certification that funding will be made available in the General Fund for capital projects with an estimated operating budget impact greater than $100,000 at the time of taking beneficial use of the facility or project, and that this operations and maintenance funding will not require a decrease in existing basic neighborhood services. Capital projects with operating and maintenance costs over $100,000 that have been previously certified by the City Council, or are recommended for certification in the future, are identified in Chart A in Section III. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast that have not been approved by the City Council may be recommended for certification as part of the 2018-

2022 Proposed Capital Improvement Program. If certified by the City Council, the operating and maintenance costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents. It should be noted that the maintenance and operations costs for the Arcadia Softball Complex (previously titled Softball Complex) and Vietnamese Cultural Heritage Garden projects are estimated to exceed $100,000; however, these projects were established prior to the adoption of Budget Principle #8 and did not need to be certified by City Council.

Alternative Forecast Scenarios

To model the range of budgetary scenarios possible under varying economic conditions, two alternative forecasts have been developed in addition to the "Base Case." "Optimistic" and "Pessimistic" cases model economic scenarios considered possible, but less likely to occur than the "Base Case." These alternatives are presented to provide a framework that gives perspective to the Base Case. The Base Case Forecast is still considered, however, the most likely scenario and is being used for planning purposes for the 2017-2018 Proposed Operating Budget. It should be noted that the expenditure assumptions remain constant in each of these alternative scenarios. In addition, as directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in Transient Occupancy Tax receipts over the 2013-2014 actual collection level are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve, therefore no change in Transient Occupancy Tax growth is modeled as part of these cases as there is no impact to the operating margin.

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

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

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

Capital Revenue Forecast

Section V of this report describes the Capital Revenue Forecast that will be used to develop several major elements of the 2017-2018 Capital Budget and the 2018-2022 Capital Improvement Program (CIP). As in past years, the construction-related revenue estimates included in this report are derived from construction activity projections provided by the Planning, Building and Code Enforcement (PBCE) Department and an analysis of actual collection patterns. The projections and their basis are described in a report prepared by the PBCE Department, which is included as *Appendix C* of this document (Development Activity Highlights and Five-Year Forecast [2018-2022]). This activity forecast includes a review of specific projects that are in progress as well as a general prediction of expected levels of new construction.

The following table compares the estimates for the economically sensitive capital revenue categories included in this Five-Year Forecast with those included in the 2017-2021 Adopted CIP. As shown below, revenues are anticipated to increase as compared to the prior Forecast with a projected increase of 10% over the 2017-2021 Adopted CIP, from $330.5 million to $364.9 million in the 2018-2022 Forecast.

Capital Revenue Forecast Comparison Summary
($ in Thousands)

	2017-2021 CIP	2018-2022 Forecast	Difference	% Change
Construction and Conveyance Tax	$176,000	$176,000	$0	0%
Building and Structure Construction Tax	65,000	78,000	13,000	20%
Construction Excise Tax	84,000	105,000	21,000	25%
Municipal Water System Fees	500	375	(125)	(25%)
Residential Construction Tax	875	1,000	125	14%
Sanitary Sewer Connection Fee	3,250	3,500	250	8%
Storm Drainage Connection Fee	875	1,000	125	14%
TOTAL	**$330,500**	**$364,875**	**$34,375**	**10%**

Real estate activity (primarily housing sales) determines the collection level of the Construction and Conveyance Tax. After reaching a record setting high of $49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to $20.5 million in 2008-2009. However, collections have rebounded in recent years with revenues reaching $42.7 million in 2015-2016. While below the most recent peak in 2014-2015, revenues are expected to remain strong in 2016-2017. Based on increased home prices coupled with lower inventory and property transfers, collections in 2016-2017 are projected to end the year at $38 million. This collection level is 11% below the receipts of $42.7 million received in 2015-2016 but is slightly higher than the $36 million estimated in the 2017-2021 Adopted CIP. Based on recent collection trends and real estate activity, collections in this volatile revenue category are anticipated to drop slightly to $36 million in 2017-2018, decrease to $35 million in 2018-2019, and remain constant through the remainder of the forecast period. Estimated revenues in the 2018-2022 Forecast are projected to generate $176 million, which is flat to the estimate of $176 million in the 2017-2021 Adopted CIP.

The remaining economically sensitive capital revenue categories are directly linked to private development activity. Based on projections provided by the PBCE Department, construction activity valuation is anticipated to continue at high levels but lower than the peak levels experienced in 2013-2014. Construction valuation is estimated at $1.7 billion in 2016-2017, a 12% increase compared to $1.6 billion in 2015-2016. This level of activity is expected to decrease to $1.4 billion in 2017-2018 due to a decrease in new commercial construction and alterations activity, $1.3 billion in 2018-2019 and drop to approximately $1.2 billion annually, in 2019-2022 of the forecast as anticipated projects are completed. Though construction activity is anticipated to decrease from its current level over the next five years, overall activity is greater than the previous forecast period. For the largest categories, revenue increases over the previous forecast period are projected, including a 20% ($13 million) increase to the Building and Structure Construction Tax and a 25% ($21 million) increase to the Construction Excise Tax, due to strong residential and commercial development activity. Under the Downtown High-Rise Residential Development Incentive Program, 50% of construction taxes are waived for any residential tower in the downtown area that breaks ground by July 2018 and is completed by December 2020. It is anticipated that several major residential projects in Downtown will start in 2017-2018. Under the North San José Area Development Policy, any Building and Structure Construction Tax collected for new developments will need to be set aside in a reserve for future transportation improvement projects within that area.

Next Steps in the 2017-2018 Budget Process

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

March 2017

- 2017-2018 Mayor's March Budget Message Released with Public Hearing; Amended/Approved by City Council

April 2017

- 2017-2018 Proposed Capital Budget and 2018-2022 Capital Improvement Program Released

May 2017

- 2017-2018 Proposed Operating Budget and 2017-2018 Proposed Fees and Charges Released
- 2017-2018 Community Budget Meetings

- City Council Study Sessions and Initial Public Hearing on 2017-2018 Proposed Operating Budget, 2018-2022 Proposed Capital Budget and Capital Improvement Program, and 2017-2018 Proposed Fees and Charges

June 2017

- 2017-2018 Mayor's June Budget Message Released with Final Public Hearing; Amended/Approved by City Council
- 2017-2018 Operating Budget, 2017-2018 Capital Budget and 2018-2022 Capital Improvement Program, and 2017-2018 Fees and Charges adopted by City Council

CONCLUSION

This document compares the projected revenues and expenditures for the General Fund over the next five years as well as provides estimates for some of the key revenues that support the City's Capital Improvement Program. A General Fund shortfall of $12.4 million is projected in 2017-2018, followed by shortfalls ranging from $11.5 million to $34.8 million in the out years of the Forecast. While these margins are relatively narrow when put into context of the size of the projected General Fund budget, they point to an overall weakening of the City's economic position.

As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document, and it is important to keep in mind that this Forecast does not reflect several elements that would impact the General Fund over the forecast period, including: 1) costs associated with services that were funded on a one-time basis in 2016-2017; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

The revenue and expenditure projections for 2017-2018 will continue to be refined over the next several months as additional information becomes available. In 2017-2018, the Sales Tax revenue estimate, which is the City's second largest General Fund revenue source, is particularly difficult to project given the downward performance in the last two quarters during a period in which most other economically sensitive revenues are performing well. In addition, the Budget Office is in the process of implementing a new budget system, with the expenditure data continuing to undergo extensive data verification and refinement. Based on this additional data, any necessary adjustments will be incorporated into the 2017-2018 Proposed and Adopted Operating Budgets, as appropriate.

This document also provides the recommended 2017-2018 City Manager's Budget Request (Budget Balancing Strategy Guidelines) for consideration by the City Council as part of its review of the Mayor's March Budget Message. The over-arching goals of these guidelines are to continue operational and fiscal stability while delivering services to our community in a cost-effective manner. The Administration will continue to consider cost reductions and service delivery efficiencies that make sense, but does not anticipate any direct service reductions in 2017-2018 consistent with the approach over the past five years.

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

Norberto Dueñas
City Manager

Five-Year Economic Forecast and Revenue Projections

2018-2022

Section 1

Elements of the General Fund Forecast

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Overview

This document provides three alternative Five-Year Forecast scenarios for General Fund revenues and expenditures: Base Case, Optimistic Case, and Pessimistic Case. The Administration recommends that the Base Case, considered the most likely projection, be used for the development of the 2017-2018 Proposed Operating Budget. Given the uncertainties inherent in any five-year forecast, however, two alternative case forecasts for the General Fund are also provided. These scenarios attempt to model the potential impact of more optimistic and pessimistic views of the future economic environment that affect the City's revenue collections.

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

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

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

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

As with all forecasts, this General Fund Forecast is based on a series of assumptions regarding the overall economic environment, both now and in the future. These assumptions were reached after reviewing the projections included in a number of economic forecasts. The economic conditions and the projected impacts on City revenues will continue to be closely monitored and any new developments will be factored into the City Manager's 2017-2018 Proposed Operating Budget, scheduled to be published on May 1, 2017.

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

Current National Economic Conditions

As has been the case for several years, the U.S. economy continues to expand. Real U.S. Gross Domestic Product (GDP) increased by 1.6% in 2016, compared with an increase of 2.6% in 2015. The increase in real GDP in 2016 reflected positive contributions from personal consumption expenditures, residential fixed investment, State and local government spending, exports and federal government spending that were partly offset by negative contributions from private inventory investment and nonresidential fixed investment.[1] The U.S. unemployment rate had little change over the past year, standing at 4.8% in January 2017 compared to 4.9% in January 2016, according to the U.S. Department of Labor's Bureau of Labor Statistics February 3, 2017 report. Since last October, the U.S. economy is operating at a commonly estimated level of full employment (under 5% unemployment). The past few U.S. expansions have ended about three years after the economy reached full employment, therefore, if the experience of the past few expansions repeated itself, the current expansion would continue for the next couple of years.[2]

Some of the key drivers to the U.S. economy include new housing construction, automotive manufacturing and sales, and a robust technology sector. While new home construction remains below historical levels, it is expected to continue to rise as the current growth rate is scarcely keeping up with demand. The continued expansion in the housing sector is crucial to long-term economic growth. Car sales are strong at approximately 17 million cars per year, matching the last two years' pace, and this high volume of sales is expected to continue. The automotive sector represents a large and important employment sector in the economy and a base component of the U.S.'s industrial production sector. It is important to note that the housing and

[1] U.S. Department of Commerce Bureau of Economic Analysis, GDP: Fourth Quarter and Annual 2016 (Second Estimate), February 28, 2017
[2] Legislative Analyst's Office, The 2017-18 Budget: California's Fiscal Outlook, November 16, 2016

Base Case Forecast

automobile sectors are highly sensitive to interest rates, which are beginning to rise. While rates have not yet increased enough to affect these two sectors, future increases are likely to impact activity in these sectors; the extent of the impact is not known at this time.

On a national level the real estate market has recently experienced the highest level of housing sales in over a decade. Home sales in 2016 totaled 5.45 million, which was almost 4% higher than 2015 sales of 5.25 million, and represents the highest level of sales since 2006 (6.48 million). Although the housing market was extremely strong overall in 2016, the final month of the year showed sales declining, which is likely the result of historically low housing supply coupled with high home prices. According to Lawrence Yun, National Association of Realtors Chief Economist, "Solid job creation throughout 2016 and exceptionally low mortgage rates translated into a good year for the housing market. However, higher mortgage rates and home prices combined with record low inventory levels stunted sales in much of the country in December."[3] The trend of extremely low levels of inventory, rising mortgage rates, and increased home prices is continuing in 2017. Regarding new housing inventory, privately owned housing starts were at a seasonally adjusted annual rate of 1.2 million in December 2016. This activity level was 11.3% above the revised November rate of 1.1 million and is 5.7% above the December 2015 rate of 1.2 million.[4] Although housing starts have been increasing over the past several years, they continue to be lower than historical levels, which averaged 1.5 million to 1.6 million units per year.

The energy sector is one of the backbones of the U.S. economy, with petroleum accounting for almost one-third of the nation's energy production. While oil production had been generally decreasing for many years, more cost-effective drilling and improvements in extraction technology has resulted in increased oil production over the past eight years.[5] In 2016, the price per barrel of oil averaged around $40, a drop from the average price of $50 per barrel in 2015 and significantly down from $96 per barrel that was seen in 2014. In late 2016, the Organization of the Petroleum Exporting Countries (OPEC) agreed to production decreases, which is anticipated to help drive the average oil price up to approximately $52-$53 in 2017 and $55-$56 in 2018.[6]

The Technology sector is still expanding at the national level, however, the rate of increase has recently begun to slow down. While venture capital, the driving force of the technology sector, remains high, venture capital investment levels have begun to subside. After reaching peak levels of $78.9 billion in 2015, the annual venture capital investment totaled $69.1 billion in 2016. The 2016 activity is likely not indicative of ongoing declines in the technology sector, but rather a return to a normal activity level.[7]

[3] National Association of Realtors, News Release, January 24, 2017
[4] U.S. Census Bureau and U.S. Department of Housing and Urban Development, News Release, January 19, 2017
[5] U.S. Energy Information Administration, U.S. Energy Facts Explained, Updated June 3, 2016
[6] U.S. Energy Information Administration, News Release, January 12, 2017
[7] National Venture Capital Association, News Release, January 11, 2017

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

National Economic Outlook

Moderate continued economic growth appears likely for the next several years, driven by growth across most sectors of the economy. According to the December 2016 UCLA Anderson Business School Forecast, continued job growth, along with wage increases, will power consumption in 2017. With $500 billion in tax cuts projected in the third quarter of 2017, the GDP, which is currently around 2%, is anticipated to increase to 3% for about one year, then decline to 2% due to the economy continuing to operate at about full employment coupled with anticipated increases to interest rates.

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).[8] The Federal Reserve has only raised interest rates twice over the last decade, the most recent of which occurred in December 2016 (at the time of this forecast). However, 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 decease 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. In addition, trade negotiations with China and Mexico will likely be altered; however, this forecast anticipates that those situations are managed without significant impact to the local economy. In addition, if mass deportations occur, that change is anticipated to result in lower job growth and economic activity.

Current City of San José Economic Conditions

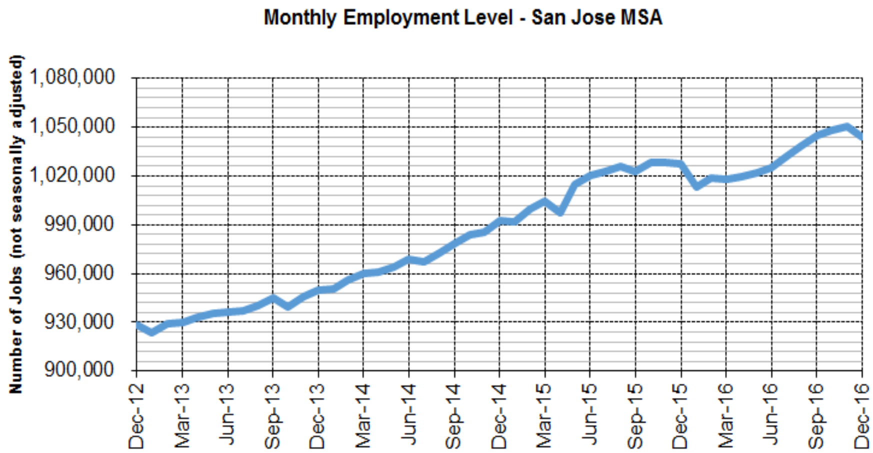
The local economy is continuing its multi-year expansion; however, the rates of growth for certain economic indicators are starting to moderate from the extremely strong growth levels experienced in recent years. While indicators are generally positive, performance in a couple of the City's economically sensitive revenues, namely Sales Tax and Construction and Conveyance Taxes, are down from the prior year.

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

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

The San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) continues to report positive trends in employment. The employment level in December 2016 of 1.11 million was 3.4% above the December 2015 level of 1.07 million. This includes 13,600 jobs in professional and business services, marking its 80th consecutive month gain on a year-over-year basis, as well as 9,000 jobs in private educational and health services.[9]



The unemployment rates at the local, State, and national levels remain very low. In December 2016, the unemployment rate for the San José MSA of 3.4% represents a slight decrease from the November 2016 rate of 3.5%, and is solidly below the 3.9% rate experienced a year ago. In this region, the December 2016 unemployment rate is less than the unadjusted unemployment rate of 5.0% for the State and the nation, which has a current unadjusted unemployment rate of 4.5%.

Unemployment Rate (Unadjusted)

	Dec. 2015	Nov. 2016	Dec. 2016**
San José Metropolitan Statistical Area*	3.9%	3.5%	3.4%
State of California	5.7%	5.0%	5.0%
United States	4.8%	4.4%	4.5%

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

Private Sector Construction Activity (Valuation in $ Millions)

	July-Dec. 2015	July-Dec. 2016	% Increase/ (Decrease)
Residential	$ 245.0	$ 328.1	33.9%
Commercial	$ 137.9	$ 394.5	186.0%
Industrial	$ 139.1	$ 275.5	98.0%
Total	**$ 522.0**	**$ 998.1**	**91.2%**

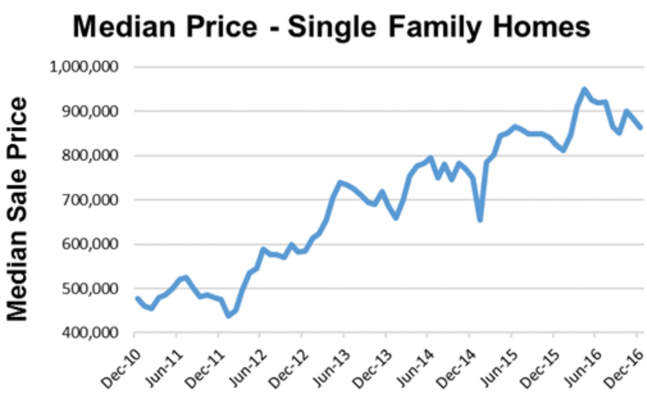
Local construction activity remains very strong through December 2016; and is tracking at almost double prior year levels. Residential permits for new dwelling units through December totaled 1,424 versus 1,028 last year. Correspondingly, the valuation of new residential construction also increased significantly ($278.1 million in 2016-2017 vs. $187.0 million in 2015-2016).

[9] State of California Employment Development Labor Market Information, Press Release, January 20, 2017

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

Combined residential (new and alteration) valuation of $328.1 million through December is 33.9% above the prior year level of $245.0 million. Overall commercial valuation through December is significantly above the 2015-2016 level ($394.5 million in 2016-2017 vs $137.9 million in 2015-2016). New commercial construction and alteration activity are both up compared to prior year levels. Industrial construction valuation through December 2016 is 98.0% above the 2015-2016 level ($275.5 million in 2016-2017 vs $139.1 million in 2015-2016).



The local real estate market, however, is beginning to see declines in property transfers compared to prior year levels. The 2016 number of property transfers totaled 561, a decrease of 17.6% from the same time period in the prior year. The number of new listings for single-family and multi-family dwellings has also decreased 27.0% compared to prior year levels. However, the median single-family home price in December 2016 totaled $863,000, which represents a 4.6% increase from the December 2015 total of $825,000. In addition, it took less time to sell these homes, with the average days on the market for single-family and multi-family dwellings in December 2016 totaling 34 days, a 13.0% decrease from December 2015.

City of San José Economic Outlook

While most of the above metrics have improved or remained at elevated levels when compared to the previous year, the local economy is expected to enter a period of slower economic growth. One of the driving forces of the slowdown in the local economy is the moderating of Silicon Valley venture capital investments. Due to the concentration of technology firms in the Silicon Valley, this region is heavily influenced by the technology sector. With venture capital investment in new technology companies declining, future employment levels and job growth are at risk of slowing or declining. Venture capital investments are not expected to collapse as they did in 2000, but rather will remain at elevated levels with a smaller rate of growth. However, should job growth in the region slow significantly, a moderation or decline in housing prices would likely follow.

In the near term, foreign investment, primarily from China, is anticipated to help maintain investment levels in the technology industry and local real estate. However, the weakened economic environment in China will continue to be monitored. China is a large consumer of investments in technology companies and real estate in Silicon Valley. Should the economy in China deteriorate and government controls are placed on the outflow of money, a loss or slowed investment in Santa Clara County may occur. In addition, any trade negotiations that are changed at a Federal level may also have impacts on the investment levels from China, but it is anticipated to be a minimum impact.

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Base Case Forecast

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

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

Optimistic Case

In the Optimistic Case, local conditions are very strong and the area's largest tech employers are doing much better than the Base Case forecast. This case assumes a very large infrastructure spending program and significant increases in defense spending at the national level. The U.S. Department of Defense purchases substantial high tech equipment, which would significantly benefit the local economy. In addition, as venture capital investments remain steady and there is higher foreign investment directed towards start-ups, which help propel the economy. In this scenario, local employment continues to expand at a high rate and, because of this solid employment growth, housing prices remain at high levels and grow through the entire forecast period. Also in this scenario, the growth in the national economy is a bit higher than that of the Base Case. As a result of this higher national outlook, local inflation is also higher.

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

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

ELEMENTS OF THE GENERAL FUND FORECAST

ASSUMPTIONS REGARDING THE ECONOMIC ENVIRONMENT

Pessimistic Case

The Pessimistic Case assumes that a combination of adverse factors results in lower economic growth rates than in the Base Case. Both employment and home prices contract well below those presented in the Base Case. Under the Pessimistic Case, there is a rapid decline of domestic and foreign venture capital investment. Further, the enforcement of immigration laws and the reduced number of visa permits being authorized impact the local labor force much greater than in the Base Case.

The Pessimistic Case assumes home prices and related construction activity decline deeper than in the Base Case. In addition, these decreases would happen earlier (late 2017) and would occur very quickly, whereas the Base Case assumes a gradual decline occurring over the five-year period. Decreased revenue collections in categories such as Property Tax, Sales Tax, and Transient Occupancy Tax would be realized when compared to the Base Case. Lower employment levels, along with very low inflation also impact these revenues. Conversely, Gas Taxes are slightly up due to projected reductions in oil prices which typically results in increased gas consumption.

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

Impact of Forecasted Economic Conditions on Revenue Collections

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

An in-depth analysis of the General Fund revenue categories was completed to develop 2017-2018 revenue estimates included in this Forecast. Over 450 revenue sources were examined to estimate the outcome in 2016-2017 and build upon those projections to develop the 2017-2018 revenue estimates. These estimates are based on the Base Case Forecast economic scenario described in this section. These revenue estimates will be closely examined and updated again during the preparation of the 2017-2018 Proposed Operating Budget scheduled to be released on May 1, 2017.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

As displayed in the General Fund Forecast below, revenues (exclusive of Beginning Fund Balance) are shown to increase from $1.0 billion in 2017-2018 to $1.1 billion in 2021-2022, for an average growth rate of 2.95% per year.

February 2018-2022 Forecast
Revenue Summary

General Fund Revenue Category	Modified Budget 2016-2017	Forecast 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
General Revenues						
Property Tax	271,737,000	289,715,000	305,910,000	319,584,000	333,039,000	346,560,000
Sales Tax	224,695,553	228,000,000	234,521,000	242,143,000	250,158,000	258,263,000
Transient Occupancy Tax	16,952,000	18,720,000	19,469,000	20,248,000	21,057,000	21,900,000
Franchise Fees	48,916,811	50,620,000	51,622,000	52,510,000	53,350,000	52,322,000
Utility Tax	95,749,500	101,320,000	102,921,000	103,899,000	105,156,000	106,428,000
Telephone Line Tax	21,614,000	20,000,000	20,044,000	20,084,000	20,120,000	20,154,000
Business Tax	48,800,000	63,000,000	63,321,000	63,600,000	63,873,000	64,161,000
Licenses and Permits	51,572,553	52,466,000	54,670,000	56,857,000	59,245,000	61,555,000
Fees, Rates, and Charges	42,196,974	42,725,000	44,520,000	46,301,000	48,245,000	50,127,000
Fines, Forfeitures and Penalties	14,910,600	14,742,000	14,926,000	14,995,000	15,145,000	15,299,000
Money and Property	3,863,935	5,240,000	5,319,000	5,452,000	5,626,000	5,789,000
Revenue from Local Agencies	28,529,732	23,651,000	23,823,000	24,129,000	24,431,000	24,736,000
Revenue from the State	13,430,591	10,410,000	10,410,000	10,410,000	10,410,000	10,410,000
Federal Revenue	6,064,881	1,358,000	0	0	0	0
Other Revenue	126,007,160	14,371,000	9,483,000	9,021,000	9,095,000	9,170,000
Gas Tax	17,500,000	17,300,000	16,819,000	16,325,000	16,343,000	16,316,000
Total General Revenues	**1,032,541,290**	**953,638,000**	**977,778,000**	**1,005,558,000**	**1,035,293,000**	**1,063,190,000**
Transfers & Reimbursements						
Overhead Reimbursements	39,732,192	44,739,000	46,618,000	48,482,000	50,519,000	52,489,000
Transfers	22,055,522	22,853,000	23,859,000	24,552,000	25,305,000	25,935,000
Reimbursements for Services	673,510	665,000	693,000	721,000	751,000	780,000
Total Transfers & Reimbursements	**62,461,224**	**68,257,000**	**71,170,000**	**73,755,000**	**76,575,000**	**79,204,000**
Total General Fund Revenues	**1,095,002,514**	**1,021,895,000**	**1,048,948,000**	**1,079,313,000**	**1,111,868,000**	**1,142,394,000**
Beginning Fund Balance	255,206,416	69,442,000	72,323,000	73,806,000	75,208,000	77,184,000
Grand Total Sources	**1,350,208,930**	**1,091,337,000**	**1,121,271,000**	**1,153,119,000**	**1,187,076,000**	**1,219,578,000**
Growth %			**2.74%**	**2.84%**	**2.94%**	**2.74%**

Understanding the basis for the revenue estimates included in this Forecast requires a discussion of the assumptions used for estimating each of the revenue categories. The following discussion focuses on estimates used for the 2017-2018 General Fund Forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Property Tax

Property Tax receipts of $277.4 million are projected for 2016-2017, which is 2.1% above the modified budget estimate of $271.7 million and 5.4% above the 2015-2016 actual collection level of $263.3 million. In 2017-2018, Property Tax collections are expected to increase 4.4% to $289.7 million. Additional information about each of the Property Tax sub-categories is provided below.

Secured Property Taxes account for over 90% of the revenues in this category. In 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 ownership or new construction, and the full or partial restoration of property values that were temporarily reassessed downwards under Proposition 8 due to the declining market value. On a County-wide basis, the 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 addition to the changes in assessed value, collections in this category are impacted by the ERAF payment. Beginning in 1992, agencies have been required to reallocate a portion of property tax receipts to the ERAF, which offsets the State's General Fund contributions to school districts under Proposition 98. However, once there are sufficient funds in ERAF to fulfill obligations, the remainder is to be returned to the taxing entities that contributed to it. In 2015-2016, the City received $6.6 million from excess ERAF funds from 2014-2015. In 2016-2017, the ERAF payment is projected to total $4.4 million and reflect the excess funds from 2015-2016.

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 Security 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 of 1.998%. A net increase in residential and commercial valuation is also anticipated from the combination of changes in ownership, new construction, and the continued partial or full restoration of property values that had previously been reassessed downward under Proposition 8 due to declining home values. 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 will continue to be a positive factor driving growth in this category. In calendar year 2016, residential real estate experienced gains as 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.

REVENUE FORECAST

Property Tax

Due to the uncertainty of the ERAF receipt each year, a payment of $4.0 million is incorporated into the 2017-2018 Secured Property Tax estimate, which represents an 8% decrease from the 2016-2017 estimated collection level.

It should be noted that final data on the actual tax levy for 2016-2017 is not yet available as adjustments are made through June 30, 2017. Each month, the County of Santa Clara provides information on the status of the property tax roll for the upcoming year. Many of the adjustments, however, are not reflected until the latter months of a given fiscal year (April-June). The impact of reassessments of commercial property will not be known until the end of 2016-2017. As this information becomes available, refinements to the Property Tax estimates may be brought forward during the 2017-2018 budget process.

Unsecured Property Taxes are the second largest revenue source in this category. Growth in this category is driven primarily by increases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Based on actual collections through December, Unsecured Property Tax receipts are estimated at $14.1 million in 2016-2017, which is 1.4% above the prior year level of $13.9 million. Collections are expected to increase approximately 3% in 2017-2018 to $14.5 million based on the current economic conditions.

SB 813 Property Taxes (supplemental taxes) represent payments for taxes owed on recent housing resales. In 2016-2017, receipts are estimated at $7.0 million, which is approximately 13% above the prior year collection level of $6.2 million. In 2017-2018, however, collections in this category are projected to decrease approximately 21% to $5.5 million, which is considered a more sustainable collection level for this category. The drop in the number of single-family and multi-family dwellings sales is anticipated to impact this category.

The **Aircraft Property Tax** payment is estimated at $2.83 million in 2016-2017, a 6.1% increase from the 2015-2016 collection level. In 2017-2018, receipts are anticipated to grow approximately 2% to $2.89 million.

The **Homeowners Property Tax Relief** category is projected at $1.0 million for 2017-2018, which is consistent with the 2016-2017 revenue estimate and 2015-2016 actual collections.

In the out years of the Forecast, annual Property Tax receipts are projected to increase approximately 4.1% to 5.6% annually over the five-year period. A portion of this growth is due to an estimated 2% CCPI increase annually.

REVENUE FORECAST

Sales Tax

The Sales Tax category includes General Sales Taxes, Local Sales Tax, and Proposition 172 Sales Taxes. In 2016-2017 collections are projected to reach $211.9 million, which includes revenue from the voter-approved local sales tax. This collection level falls below the 2016-2017 modified 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. Following is a discussion of the Sales Tax sub-categories.

Information on actual receipts for the first quarter of **General Sales Tax** for the current year was received in December 2016 and represented activity for July through September 2016. The first quarter 2016-2017 General Sales Tax revenues were down 9.4% from the same quarter the prior year. The large decline was primarily driven by a correction associated with jet fuel sales tax revenues that were allocated to San Jose in 2015-2016 in error and 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. On an economic basis, receipts were down 2.0% in the first quarter of 2016-2017. The City's Sales Tax consultant, MuniServices, provides economic performance data to the City, which is considered to be a more accurate measure of the actual sales tax activity in San José for a particular period. This growth analysis measures sales tax receipts, excluding State and county pools, and adjusts for anomalies, payments to prior periods, and late payments. The chart below outlines the various sectors of sales tax and the percentage of the total receipts received.

Sales Tax Revenue Economic Performance
July – September 2016

Economic Sector	% of Total Revenue	% Change July – Sept 2015 to July – Sept. 2016
General Retail	25.1%	-0.6%
Transportation	22.8%	-1.9%
Business-to-Business	21.4%	-8.6%
Food Products	17.6%	+5.0%
Construction	12.3%	-1.2%
Miscellaneous	0.8%	-14.2%
Total	**100.0%**	**-2.0%**

In addition, information regarding the second quarter (October – December 2016) General Sales Tax revenues was recently received, and collections in San José were down 3.1% from the same quarter in 2015-2016. This performance contrasts with the growth experienced for Santa Clara County (up 1.2%), the Bay Area (up 2.6%), and the State (up 2.8%). Detailed data by the economic sector that would provide insight on this decline is not yet available for the second quarter. As information is received, the Administration will be working closely with the City's Sales Tax consultant, MuniServices, to better understand performance in the most recent quarter and the impact on the Forecast. As described above, jet fuel revenues were attributed to San Jose in error in 2015-2016. When comparing quarterly performance to last year, a portion of the decline is associated with jet fuel revenue that was received in 2015-2016 and is no longer being reflected in 2016-2017. This factor will continue to impact performance in 2016-2017. Given the performance

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Sales Tax

experienced in the first two quarters, no growth is projected for the remaining two quarters, which would bring receipts to $180.0 million in 2016-2017. This collection level is well below (-8.2%) the prior year receipts of $196.0 million that were higher due, in large part, to a one-time payment in 2015-2016 of approximately $12 million associated with the "Triple Flip" wind down. The quarterly declines in Sales Tax compared to the same quarter in the prior year have not occurred since 2009-2010 and is concerning given the general health of the local economy.

In 2017-2018, General Sales Tax receipts are estimated at $187.0 million, which reflect growth of 3.9% from the 2016-2017 estimate. This reflects 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. This assumes the return to growth that is consistent with the overall performance of the economy. The Sales Tax revenue projections for 2016-2017 and 2017-2018 will continue to be refined over the next few months as additional information becomes available. Adjustments to the 2017-2018 estimate may be recommended based on an analysis or the second quarter performance and/or third quarter 2016-2017 collections (January through March period; data received in June 2017). These adjustments will be brought forward through the 2017-2018 Proposed Budget released in May, a Manager's Budget Addendum in June, as appropriate.

Starting in 2016-2017, the Sales Tax category includes **Local Sales Tax**. In June 2016, San José voters approved a ¼ cent local sales tax that 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). Details regarding that performance, however, are not yet available. Once the Administration is able to evaluate the drivers of the performance, the revenue estimate may be revised. 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.

Proposition 172 Sales Tax collections (representing the ½ cent tax that is allocated to counties and cities on an ongoing basis for funding public safety programs) are expected to total $5.9 million in 2016-2017, which is slightly above the $5.8 million collected in the prior year. In 2017-2018, collections are projected to increase by approximately 2%, to $6.0 million.

In the out-years of the Forecast, annual Sales Tax performance is expected to show growth of 2.9% to 3.3% annually.

Transient Occupancy Tax

In 2016-2017, Transient Occupancy Tax (TOT) receipts in the General Fund are projected to reach $18.0 million, reflecting an increase of 8.7% from the 2015-2016 collection level. Current year receipts mark several years of consecutive growth in this category as occupancy rates and room rates continue to increase. In 2016-2017, occupancy levels through January 2017 increased

REVENUE FORECAST

Transient Occupancy Tax

slightly, from 73.9% to 75.6%; average room rates were up 8.7% from $185.43 to $201.48. The average revenue-per-available room also showed growth, with an increase of approximately 11%, from $137.28 through January 2016 to $152.69 through January 2017.

In 2017-2018, TOT receipts are projected at $18.7 million, reflecting growth of 4.0% from the 2016-2017 estimate. This estimate is based on information received from the City's consultant, Conventions, Sports and Leisure (CSL), that projects moderate growth in the range of 4% to 8% annual growth through 2021-2022. As TOT can experience wide swings of positive and negative growth, and given the historically high average daily room rates and hotel occupancy, the Forecast assumes steady annual growth of 4% through 2021-2022, bringing receipts to $21.9 million by 2021-2022.

As directed in the Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, the growth in Transient Occupancy Tax receipts over the 2013-2014 actual collection level of $11.9 million are to be set aside in a Cultural and Arts Facilities Capital Replacement and Maintenance Reserve. In this Forecast, due to the anticipated increase in 2016-2017 collections above the adopted estimate of $1.05 million and the additional growth expected in 2017-2018, this reserve will grow from the current level of $5.9 million to $13.8 million in 2017-2018. If current trends continue, the annual amount added to the reserve will increase to approximately $10 million by 2021-2022.

Franchise Fees

Franchise Fees are collected in the Electricity, Gas, Commercial Solid Waste, Cable, City-Generated Tow, Water, and Nitrogen Gas Pipeline categories. Overall, collections are projected at $49.7 million in 2016-2017, an increase of 1.6% 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 1.6% to $50.5 million, primarily due to growth in Gas (5.0%), Cable (2.0%), and Electricity (1.5%) categories.

Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in the calendar year (revenues in 2016-2017 are based on the calendar year 2016). Year-end estimates are typically based upon an examination of electricity and gas rate changes, industry actions, and actual collection patterns in the utility tax categories. The reconciliation of annual receipts from PG&E for 2016-2017 will be received in April 2017.

In the **Electricity Franchise Fee** category, 2016-2017 receipts are expected to reach $21.3 million, up approximately 1.5% compared to actual receipts in 2015-2016. This estimate takes into consideration the actual collection patterns for electricity utility tax receipts in calendar year 2016. In 2017-2018, Electricity Franchise Fee collections are projected to increase by approximately 2% to $21.7 million and 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.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Franchise Fees

In the **Gas Franchise Fee** category, the 2016-2017 estimated collections of $5.13 million reflect an increase of 3.4% from the $4.96 million received in the prior year. This estimate takes into consideration the actual collection patterns for gas utility tax receipts in calendar year 2016. In 2017-2018, Gas Franchise Fee collections are projected to increase by approximately 5% to $5.4 million. The increases estimated in the Gas Franchise Fee 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.

Commercial Solid Waste (CSW) Franchise Fee collections are estimated to reach budgeted levels of $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 estimate of $11.4 million is consistent with the 2016-2017 estimate and does not automatically assume a CPI adjustment. These adjustments are brought forward as proposed changes in the Proposed Operating Budget.

In the **Cable** Franchise Fee category, the estimated 2016-2017 collections of $10.6 million reflect growth of 1.7% from the prior year receipts. In 2017-2018, additional growth of 2% is projected, bringing the estimate to $10.8 million.

In **City Generated Tow**, projected revenues of $950,000 in 2016-2017 are 4.2% above prior year levels. Collections are anticipated to remain flat at $950,000 in 2017-2018.

Remaining categories, including **Water and Nitrogen Gas Pipeline**, are estimated to end 2016-2017 at $340,000 and increase to $354,000 in 2017-2018. In 2017-2018, collections are anticipated to remain flat for Nitrogen Gas Pipeline ($60,000) and increase 5% for Water ($294,000).

In the out years of the Forecast, Franchise Fee revenues are anticipated to increase in the range of 1.6% to 2.0% annually through 2020-2021 and then decrease 1.9% in 2021-2022 due to the sunsetting of a gas and electricity surcharge in the last half of fiscal year 2021-2022. On February 9, 2010, the City Council approved ordinances amending the franchises within PG&E for the sale of natural gas and electricity. These amendments added a franchise fee surcharge of 0.3%, resulting in a total franchise fee remitted to the City of 2.3% of gross receipts from the sale of gas and electricity through 2021. It is important to keep in mind that there is a significant potential for fluctuations in growth rates depending on the outcome of rate cases as well as changes in consumption levels.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Utility Tax

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 6% to $101.3 million. Due to the uncertainty regarding the outcome of rate cases, the Forecast generally does not assume revenue increases associated with pending rate cases; however, it does take into account changes already approved. Rate cases will continue to be monitored and adjustments will be brought forward as appropriate based on the final outcomes.

The **Electricity Utility Tax** is anticipated to generate $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 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 increases estimated in the Gas Utility Tax 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 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.

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 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, collections are projected to level off at 2016-2017 levels.

In the out years of the Forecast, growth ranging from 1.0% to 1.6% annually is expected in the Utility Tax category. There is significant volatility and uncertainty regarding the performance in this category based on potential changes in rates as well as consumption levels. In addition, the Water and Gas Utility Tax categories are significantly influenced by weather conditions.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Telephone Line Tax

Based on the current collection trend, receipts in 2017-2018 are estimated to total $20.0 million, which is consistent with the 2016-2017 estimate. Given the steady nature of collections in this category, receipts are anticipated to remain relatively flat (growth of less than 1%) in the out years of the Forecast as well.

Business Taxes

This category includes General Business Tax, Cardroom Tax, Disposal Facility Tax, and Marijuana Business Tax. In 2016-2017, Business Taxes are estimated to reach $51.5 million, a 1.2% increase from prior year levels. In 2017-2018, revenues are estimated to grow 22.3% to $63.0 million due to a change in the General Business Tax, as discussed below.

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 $11.7 million, 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.

Based on current performance, collections in the **Cardroom Tax** category are estimated at $18.1 million in 2016-2017, a less than 1% increase from the prior year collection level of $18.0 million. In 2017-2018, receipts are anticipated to grow slightly (approximately 1%) and total $18.3 million.

In the **Disposal Facility Tax** category, collections are estimated at $12.3 million in 2016-2017 based on current collection trends, which assumes an approximate 1% increase from the prior year collection levels 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.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

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 $9.1 million, an increase of 2.5% 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 $9.0 million, which is 11% above prior year actuals of $8.1 million, while the marijuana business tax compliance collections are anticipated at approximately $75,000, significantly lower than last year's collections of $772,000. With the increasing compliance of registered collectives, revenues from compliance are expected to drop to $50,000 in 2017-2018; however, the 2017-2018 tax revenues are expected to remain consistent with the 2016-2017 collection estimate of $9.0 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 Forecast does not assume any new revenues associated with nonmedical uses.

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

Licenses and Permits and Fees, Rates, and Charges

The Licenses and Permits and Fees, Rates, and Charges categories contain fees and charges collected by various departments. The most significant revenue sources are development-related fees. Revenue collection levels are projected based on City Council-approved cost-recovery policies with the goal of a net-zero impact on the General Fund. In 2017-2018, the Licenses and Permits category is estimated at $52.5 million and the Fees, Rates, and Charges category is estimated at $42.7 million.

For the Development Fee Programs, the Forecast assumes no net impact on the General Fund based on the assumption that these programs will remain at 100% cost recovery. For 2017-2018, the Building Fee Program, Planning Fee Program, Fire Fee Program, and Public Works Fee Program base expenditures are projected to exceed the base revenue estimates. There are sufficient earmarked reserves to bring projected revenues and expenditures into alignment for a net-zero General Fund impact in 2017-2018. This Forecast assumes that Fee Program Reserves will be used to address these shortfalls as outlined in the Beginning Fund Balance section below. For the non-development-related fees and charges, the 2017-2018 estimates are based on current collection trends and an evaluation of program costs.

In the out years of the Forecast, both the Licenses and Permits and Fees, Rates, and Charges categories are expected to experience growth ranging from 3.9% to 4.2%. The growth rates in the out years are tied to the expected increases in costs, which the fees are designed to recover, including increased retirement and health costs.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Fines, Forfeitures, and Penalties

In 2016-2017, the Fines, Forfeitures and Penalties category is expected to generate $15.1 million. The largest component of this revenue category is Parking Fines, which are currently expected to generate approximately $11.0 million in 2016-2017 based on current collection trends, 2.2% lower than prior year collections of $11.25 million. In 2017-2018, Parking Fines are expected to remain at $11.0 million. Total revenue in 2017-2018 is estimated at $14.7 million in the Fines, Forfeitures, and Penalties category. In the out years of the Forecast, annual growth of approximately 0.5% to 1.25% is projected.

Money and Property

This category consists of revenue associated with the rental of City-owned property, subrogation recovery efforts, and interest income and is projected to generate $5.0 million in 2016-2017. In 2017-2018, revenue is expected to increase by approximately 4% to $5.2 million, primarily due to higher interest earnings, which are anticipated as a result of increased interest rates. In the out years of the Forecast, growth of 1.5% to 3.2% annually is assumed.

Revenue from Local Agencies

In 2016-2017, revenue of $29.0 million is projected from other local agencies, such as the Successor Agency to the Redevelopment Agency of San Jose and the Central Fire District. In 2017-2018, revenue in this category is projected at $23.7 million. The 2017-2018 figure eliminates reimbursements and grants that are not secured on an ongoing basis.

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.

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.

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).

The Forecast does not assume reimbursement from the County of Santa Clara for the first responder advanced life support program (Paramedic Program). The reimbursement associated

Revenue from Local Agencies

with this program was eliminated from the budget beginning in 2014-2015 and this Forecast 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.

In the remaining years of the Forecast, the Revenue from Local Agencies category is projected to increase annually by approximately 0.7% to 1.3%.

Revenue from the State of California

The Revenue from the State of California category includes Tobacco Settlement payments, State grant revenues, and other State reimbursements. Collections in this category are estimated to reach $10.4 million in 2017-2018 and remain flat through the out years of the Forecast. Tobacco Settlement payments account for the majority of revenue in this category and are estimated at $8.9 million in 2017-2018, consistent with the amount projected for 2016-2017.

The State grants and reimbursements expected in 2017-2018 include: Abandoned Vehicles Abatement Program ($650,000); Auto Theft reimbursement ($725,000); 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.

Revenue from the Federal Government

The Revenue from the Federal Government category consists of grant revenues and rental income. In 2017-2018, only the last year of the three-year Fire Staffing for Adequate Fire and Emergency Response (SAFER) grant of $1.4 million is anticipated to be received. There is no funding assumed for this revenue category in the out years of the Forecast.

Other Revenue

The Other Revenue category consists of miscellaneous revenues received from a variety of sources, including the Arena Fixed Fee, cost reimbursements for the Investment Program, payments from Comcast and AT&T required under the Franchise Agreement, and proceeds from the Sale of Surplus Property. In 2016-2017, this category is expected to generate $126.6 million.

REVENUE FORECAST

Other Revenue

The 2016-2017 estimate includes a number of adjustments not included in the 2017-2018 Forecast, the largest of which include: 1) $100.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits that are brought forward in August of each year; and 2) $7.7 million in one-time financing proceeds associated with the Energy and Utility Conservation Measures Program.

In 2017-2018, the revenue estimate of $14.4 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 will increase significantly during 2017-2018 once the revenues associated with the issuance of the TRANs are brought forward with an offsetting expenditure based on estimated cash flow needs.

The Arena Fixed Fee will remain at $5.05 million in 2017-2018 and will then be reduced to $375,000 in the remaining years of the forecast in accordance with the term sheet with Sharks Sports Entertainment approved in May 2015. Payments from Comcast and AT&T are estimated at $2.1 million. As defined in the Franchise Agreement, these funds will be used to support the Public, Education, and Government (PEG) Access facilities. There are associated City-Wide Expenses allocations for this purpose. The cost reimbursement for the Investment Program is estimated at $1.2 million based on the current allocation of staff to this function. In addition, the proceeds from the Sale of Surplus Property category is estimated at $800,000 in 2017-2018 based on the anticipated assets that will be sold next fiscal year.

In the out years, collections in this category range from a decline of 34.0% (reduction to the Arena Fixed Fee) to a slight increase of 0.8%.

Gas Tax

Based on year-to-date performance, the Gas Tax receipts in 2016-2017 are projected to reach $17.3 million, an increase of approximately 6% from prior year actuals of $16.3 million. Several factors impact collections, including falling gas prices that would support increased consumption and, as an offsetting factor, the move to more energy efficient automobiles. In addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well. In 2017-2018, collections in this category are projected to remain at $17.3 million. In the out years of the Forecast, collections are expected to experience growth and declines ranging between -2.94% and 0.11% annually.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2017-2018, a total of $44.7 million in reimbursements are projected based on 2017-2018 overhead rates for the majority of City funds prepared by the Finance Department applied against the projected 2017-2018 salaries for those positions for which an overhead rate is applied. In the remaining years of the Forecast, annual increases ranging from 3.9% to 4.2% are assumed, reflecting increases in costs, which the overhead rate is designed to recover, including increased personal services costs.

Transfers

The Transfers category is projected at $22.9 million in 2017-2018, which is slightly below the 2016-2017 modified budget estimate of $24.8 million. The largest component of this category ($13.6 million) is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for Airport Crash Fire Rescue and Airport Police costs. In 2017-2018, these reimbursements have been built to cover the direct base costs as well as indirect costs. The Airport Crash Fire Rescue reimbursement for indirect costs is budgeted at actual costs rather than discounted to a cap of 25% that had been done in previous years given the strong performance of the Airport.

Additional large transfers programmed for 2017-2018 include the Construction and Conveyance Tax Fund transfer ($3.5 million) associated with park maintenance costs; the Construction Excise Tax Fund transfer ($1.8 million) for pavement maintenance activities; the General Purpose Parking Fund ($707,000) for arena meter revenue, Diridon Station Plan manager reimbursement, and interest earnings; and the Workforce Investment Act Fund transfer ($507,000) for use of various community centers and Workforce Investment Act program services.

Annual increases in the out years range from 2.5% to 4.4%. The reimbursement from the Airport Maintenance and Operation Fund for police and fire services is expected to increase in the out years based on the increased costs for those services.

Reimbursements for Services

The Reimbursements for Services category reimburses the City for actual costs associated with the Deferred Compensation Program and the Maintenance Assessment District Funds. These amounts have been set to recover costs in 2017-2018 of $665,000. In the remaining years of the Forecast, annual increases are expected to recover the projected cost increases from 3.9% to 4.2%.

ELEMENTS OF THE GENERAL FUND FORECAST

REVENUE FORECAST

Beginning Fund Balance

The $69.4 million forecast estimate of available 2017-2018 Beginning Fund Balance is based on the following assumptions:

- The current Contingency Reserve of $35.5 million is carried forward at the current level based on the assumption that this amount will not be used in 2016-2017 and will be available for use in 2017-2018. The current funding level is approximately enough to cover General Fund payroll costs for less than two weeks in an emergency. (On the expenditure side, the Contingency Reserve is increased to $36.0 million in 2017-2018 and grows to $38.0 million by 2021-2022, which complies with the City Council policy to set aside at least 3% of expenditures in this Reserve.)

- A total of $17.0 million in fund balance will be achieved in 2016-2017 for use in 2017-2018 from a combination of excess revenues and expenditure savings as well as the liquidation of prior-year carryover encumbrances. This fund balance figure is below the figure of $20.0 million assumed in the first year of the previous forecast and primarily reflects the impact of lower projected Sales Tax revenues in the current year. Consistent with past practice, the Administration will closely monitor actual General Fund performance through the remainder of the year and may bring forward adjustments to this estimate as appropriate later in the budget process.

- An additional $16.9 million reflects the liquidation of reserves. Of this amount, $15.2 million will be used to support the Development Fee Programs as follows: $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. These Development Fee Program reserves will cover a portion of the 2017-2018 base costs associated with these programs that cannot be addressed with base fee revenue. Other current year reserves that will be used to support base costs programmed in 2017-2018 include: the Staffing for Adequate Fire and Emergency Response (SAFER) 2014 Grant Reserve ($1.1 million), the 2017-2018 Airport Attraction Program Reserve ($425,000), the 2017-2018 Master Address Database Reserve ($130,000), and the 2017-2018 School Crossing Guard Staffing Reserve ($100,000).

In the out years of the Forecast, the beginning fund balance estimates assume that excess revenue of 1.0% and expenditure savings, including liquidations of carryover encumbrances, of 1.0% will be generated annually. These factors are expected to generate between $20.5 million and $22.8 million annually over the forecast period and assumes the return to more typical performance in this area. In addition, it is assumed that the Contingency Reserve level in each year will be carried over; and the use of the Development Fee Program Reserves for Building, Planning, Public Works, and Fire continue in the out years to support projected development fee program costs in excess of revenues. For the Development Fee Programs, a combination of fee increases, cost reductions, and/or use of reserves may be used to close gaps between revenues and expenditures, as needed. In total, the Beginning Fund Balance ranges from $69.4 million in 2017-2018 to $77.2 million in 2021-2022.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

An in-depth analysis of the General Fund expenditure categories was completed to develop the 2017-2018 expenditure estimates included in this Forecast. These expenditure estimates will be closely examined and updated again during the preparation of the 2017-2018 Proposed Operating Budget.

As displayed in the Forecast and the chart below, General Fund expenditures are shown to increase from $1.1 billion in 2017-2018 to $1.3 billion in 2021-2022, for an average growth rate of 4.6% per year.

February 2017 Forecast Expenditure Summary

	Modified Budget	Forecast				
Expenditure Category	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**
Personal Services						
Salaries and Other Compensation	$ 457,375,508	$ 467,397,000	$ 491,415,000	$ 510,381,000	$ 528,245,000	$ 546,733,000
Retirement	255,309,517	297,576,000	323,372,000	338,990,000	359,135,000	373,150,000
Health and Other Fringe Benefits	57,397,151	61,487,000	65,588,000	69,577,000	73,943,000	78,714,000
Total Personal Services	**$ 770,082,176**	**$ 826,460,000**	**$ 880,375,000**	**$ 918,948,000**	**$ 961,323,000**	**$ 998,597,000**
Total Non-Personal/Equipment	**$ 114,566,762**	**$ 107,824,000**	**$ 110,870,000**	**$ 112,032,000**	**$ 116,035,000**	**$ 117,659,000**
City-Wide						
City-Wide Expenses	$ 240,766,710	$ 87,098,000	$ 87,665,000	$ 88,588,000	$ 89,733,000	$ 91,293,000
Capital Projects	70,500,440	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Transfers	28,067,710	29,512,000	33,062,000	32,787,000	33,108,000	33,233,000
Earmarked Reserves	90,725,132	11,422,000	14,165,000	16,905,000	19,638,000	22,677,000
Contingency Reserve	35,500,000	36,000,000	36,000,000	36,000,000	36,500,000	38,000,000
Total City-Wide	**$ 465,559,992**	**$ 169,032,000**	**$ 175,892,000**	**$ 179,280,000**	**$ 183,979,000**	**$ 190,203,000**
Committed Additions						
New Parks and Recreatoin Facilities Maint. & Operations		257,000	493,000	676,000	875,000	997,000
New Traffic Infrastructure Assets Maint. & Operations		55,000	59,000	61,000	81,000	87,000
Measure P (Parks) Maint. & Operations		121,000	782,000	827,000	873,000	913,000
Total Committed Additions		**$ 433,000**	**$ 1,334,000**	**$ 1,564,000**	**$ 1,829,000**	**$ 1,997,000**
Total Base Exp. w/ Committed Additions	**$ 1,350,208,930**	**$ 1,103,749,000**	**$ 1,168,471,000**	**$ 1,211,824,000**	**$ 1,263,166,000**	**$ 1,308,456,000**
Growth %			**5.9%**	**3.7%**	**4.2%**	**3.6%**

It is important to note that adjustments are made to the Forecast to eliminate one-time additions/deletions and annualize partial-year allocations that were included in the 2016-2017 Adopted Budget. Various one-time additions totaling over $25 million are scheduled to expire in June 2017. The major items funded on a one-time basis include the following: Pavement Maintenance Program, San José Works, San José Learns, Police Department Downtown Foot Patrol, Parks, Recreation and Neighborhood Services Placemaking and Parks Activation, City Attorney's Office Legal Transactions and Litigation Division Staffing, Office of Immigrant Affairs, Policy and Ordinance Assistance, Sports Authority, Business Development and Economic Strategy Activities, Server Replacements, and Neighborhood-Led Beautification Days. Many of these programs and services will likely need to be re-evaluated for continued funding beyond 2016-2017. This analysis will be conducted during the 2017-2018 budget process and funding recommendations for these programs and services will be included in the 2017-2018 Proposed Operating Budget, as appropriate, and in context of other budgetary needs.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

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

Personal Services

As is the usual practice, the first year (2017-2018) projection for personal services costs in this Forecast has been calculated at a detailed level. Using the new budget system and the upgraded PeopleSoft system, an extract of payroll system information as of January 2017 was used as the starting point. This included the most recent retirement plan and health plan information for each position. The individual position-level information was then reviewed, corrected, and updated to ensure accurate salary step and bi-weekly salary, as well as any position reallocations. Also, 2016-2017 ongoing position additions (cost increases) and reductions (cost savings), as appropriate, were annualized and all categories of benefit costs in the coming year were projected.

For the 2017-2018 General Fund Forecast, personal services costs continue to account for approximately three-quarters of the total cost in the General Fund. The personal services category has been broken down into three major components (salaries and other compensation, retirement, and health and other fringe benefits). Of the $826.5 million projected personal services total for 2017-2018, salaries and other compensation costs amount to $467.4 million (56.6% of projected personal services), retirement costs amount to $297.6 million (36.0% of projected personal services), and health and other fringe benefits costs amount to $61.5 million (7.4% of projected personal services).

Following is a discussion of the specific factors impacting the salaries and other compensation, retirement, and health and other fringe benefits elements of personal services costs in this Forecast. As with past forecasts, personal services costs in years two through five of this Forecast have been projected on a more global basis, using the detailed costs calculated for the first year as a base, and then growing that base by an overall percentage factor representing expected growth from salary and benefit cost increases. The out-years are projected to inflate at an average annual rate of approximately 5.2%.

EXPENDITURE FORECAST

Salaries and Other Compensation:

Pay increases for all employees, salary step increases for current non-management employees, and pay for performance for management employees are assumed in each year of this Forecast. These increases total $28.3 million. The pay increases are based on current agreements reached with each of the City's bargaining units. With the majority of contracts set to expire in June 2018, modest increases are assumed for all bargaining units in the out-years of the Forecast in anticipation of negotiations for years beyond the current contract period. As contracts in the out-years of the forecast are determined, subsequent Forecast documents will be updated to reflect the latest information at that time. With the exception of employees represented by the San José Police Officers' Association (SJPOA) and the International Association of Fire Fighters (IAFF), Local 230, non-management step increases have been calculated at a 2.5% step increase rate. For SJPOA and IAFF, a 5% step increase rate was applied in this Forecast. The out-years of the Forecast also include salary step increases for eligible non-management employees and pay for performance for management employees.

The Overtime budget in the General Fund totals $28.0 million for 2017-2018, with most of these funds allocated to Police Department ($16.5 million) and Fire Department ($9.8 million) operations. The out-years of the Forecast continue these costs, with small adjustments using salary step growth as the inflationary factor.

Retirement:

The City's two retirement systems, the Federated Retirement System and the Police and Fire Department Retirement Plan, provide defined retirement benefits to eligible employees. Both retirement plans use investment income and employer and employee contributions to provide eligible retirees with pensions and retiree healthcare benefits. Employees represented by SJPOA and IAFF, Local 230 are members of the Police and Fire Department Retirement Plan and have different retirement benefits with the corresponding different City contributions and rates. Within the Police and Fire Department Retirement Plan, effective August 4, 2013, the City provides for a lower defined benefit plan (Tier 2) for new and rehired police members. Effective January 2, 2015, a lower defined benefit plan (Tier 2) was implemented for new and rehired Fire members.

EXPENDITURE FORECAST

Within the Federated Retirement System, effective September 30, 2012, the City provides for a lower defined benefit plan (Tier 2) for new employees in that system. Federated employees who joined the City between September 30, 2012 and September 27, 2013 are eligible for retiree healthcare coverage (Tier 2A). Effective September 27, 2013, however, new employees no longer receive retiree healthcare coverage (Tier 2B). Effective January 18, 2015, Federated employees that had left City employment with prior dental coverage vesting and return to the City, retain that benefit (Tier 2C). On December 4, 2012, a defined contribution plan (Tier 3) for new employees in Unit 99 (Senior Staff, Executive Staff, and senior managers under the City Manager's Appointing Authority; City Council Office staff; professional and management employees under the appointing authority of the City Attorney, City Auditor, and Independent Police Auditor; and some employees in the City Clerk's Office) was approved. Effective February 4, 2013, new employees to the City hired directly into Unit 99 have the ability to make the one-time election to participate in the defined benefit Tier 2B plan or the Tier 3 plan. The Tier 3 plan provides for a City contribution of 3.75%.

For 2017-2018, retirement costs total $297.6 million for the General Fund, which are up $42.3 million from the 2016-2017 Modified Budget of $255.3 million. These costs represent 27.0% of the total General Fund base expenditure budget with committed additions and reflect the Federated Retirement System and Police and Fire Department Retirement Boards' approved economic and demographic assumptions. To generate budgetary savings, this cost assumes the pre-payment of the City's annual required contribution (ARC) for Federated Retirement System Tier 1 members and contributions for the Police and Fire Department Retirement Plan for Tier 1 police and fire members. For 2017-2018, net budgetary savings from the pre-payment are estimated at approximately $4.1 million in the General Fund (includes borrowing costs) ($5.7 million in all funds). The pre-payment savings figure reflects a 45% reduction in accordance with the Prefunding Risk Mitigation Process approved by the Federated and Police and Fire Retirement Boards in 2015.

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

EXPENDITURE FORECAST

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

On June 5, 2012, voters approved a pension reform ballot measure known as Measure B. Measure B has been subsequently subject to various forms of litigation. In an effort to settle this case for budget stability and to provide certainty to the City's workforce, the City Council directed the City Administration to make any and all reasonable efforts to reach and implement a settlement. In August 2015 and December 2015, terms for the alternative pension reform settlement framework agreements with the Police and Fire and Federated bargaining units, respectively, were reached regarding Measure B, which included impacts to retiree healthcare. In November 2016, voters approved the Alternative Pension Reform measure (Measure F) that was consistent with the pension reform settlement framework. The actuarial reports for both the Federated and Police and Fire Retirement Systems used to prepare this Forecast do not incorporate changes associated with the implementation of Measure F. While not reflected in the retirement rates, an earmarked reserve of $3 million annually is included in this Forecast to account for projected changes in pension costs associated with the implementation of Measure F. The actuarial reports also assume the current frozen retiree healthcare contributions.

Based on projections received from the Retirement Boards' actuary (Cheiron) and the City Manager's Budget Office's independent analysis, Table 1 details the General Fund's retirement costs and budgetary retirement contribution rates for the Federated Retirement System and the Police and Fire Department Retirement Plan and the respective pension and retiree healthcare costs for the forecast period. Over this Forecast, the retirement costs are expected to grow from $297.6 million ($386.8 million in all funds) in 2017-2018 to $373.1 million ($481.3 million in all funds) in 2021-2022.

For illustration purposes only, Table 2 depicts the Retirement Board approved contribution rates for 2017-2018 and the Cheiron projected rates for the out-years of the Forecast. It should be noted that the City budgetary rates differ from the Federated and Police and Fire Retirement Board approved rates to reflect the application of the City's methodology to fund the Board approved UAL amounts, and the application of a pre-payment discount for Federated as well as Police and Fire Tier 1 contributions.

EXPENDITURE FORECAST

TABLE 1 – 2018-2022 CITY RETIREMENT CONTRIBUTION COSTS AND BUDGETARY CITY RETIREMENT CONTRIBUTION RATES
($ in Millions and with Pre-Payment Discount) *

Retirement Plan	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Fed. Ret. System Tier 1 – Pension	$73.7	$84.0	$89.8	$92.5	$96.4	$99.0
Fed. Ret. Syst. Tier 1 – Ret. Healthcare	$9.9	$9.3	$8.6	$7.9	$7.2	$6.5
Fed. Retirement Plan Tier 1 – Total	**$83.5**	**$93.3**	**$98.4**	**$100.4**	**$103.6**	**$105.5**
Budgetary Contribution Rates	*77.8%*	*92.4%*	*105.5%*	*117.5%*	*133.4%*	*149.7%*
Fed. Ret. System Tier 2A – Pension	$0.5	$0.5	$0.4	$0.4	$0.4	$0.4
Fed. Ret. Syst. Tier 2A – Ret. Healthcare	$0.8	$0.7	$0.7	$0.7	$0.7	$0.7
Fed. Retirement Plan Tier 2A – Total	**$1.3**	**$1.2**	**$1.1**	**$1.1**	**$1.1**	**$1.1**
Budgetary Contribution Rates	*15.5%*	*15.7%*	*15.7%*	*15.7%*	*15.7%*	*15.7%*
Fed. Ret. System Tier 2B – Pension	$3.1	$4.2	$5.1	$6.1	$7.0	$7.9
Fed. Ret. Syst. Tier 2B – Ret. Healthcare	$6.4	$8.5	$10.4	$12.2	$14.1	$15.9
Fed. Retirement Plan Tier 2B – Total	**$9.4**	**$12.7**	**$15.5**	**$18.3**	**$21.1**	**$23.8**
Budgetary Contribution Rates	*18.7%*	*18.9%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*
Fed. Ret. System Tier 2C – Pension	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
Fed. Ret. Syst. Tier 2C – Ret. Healthcare	$0.1	$0.2	$0.2	$0.2	$0.2	$0.2
Fed. Retirement Plan Tier 2C – Total	**$0.21**	**$0.3**	**$0.3**	**$0.3**	**$0.3**	**$0.3**
Budgetary Contribution Rates	*18.9%*	*19.1%*	*19.2%*	*19.2%*	*19.2%*	*19.2%*
Police Ret. Plan Tier 1 – Pension	$74.8	$90.3	$98.7	$100.8	$105.1	$106.0
Police Ret. Plan Tier 1 – Ret. Healthcare	$9.7	$11.1	$11.1	$10.4	$9.6	$8.8
Police Retirement Plan Tier 1 – Total	**$84.5**	**$101.4**	**$109.8**	**$111.2**	**$114.7**	**$114.8**
Budgetary Contribution Rates	*87.5%*	*92.7%*	*100.4%*	*108.6%*	*120.3%*	*131.8%*
Police Retirement Plan Tier 2 – Pension	$3.1	$3.4	$5.0	$6.3	$7.7	$9.2
Police Ret. Plan Tier 2 – Ret. Healthcare	$2.9	$3.0	$4.5	$5.8	$6.9	$8.3
Police Retirement Plan Tier 2 – Total	**$5.9**	**$6.4**	**$9.5**	**$12.1**	**$14.6**	**$17.5**
Budgetary Contribution Rates	*21.3%*	*21.6%*	*21.7%*	*21.7%*	*21.7%*	*21.7%*
Fire Retirement Plan Tier 1 – Pension	$58.8	$71.5	$77.2	$83.2	$90.3	$95.5
Fire Ret. Plan Tier 1 – Retiree Healthcare	$7.9	$8.0	$7.9	$7.7	$7.5	$7.2
Fire Retirement Plan Tier 1 – Total	**$66.7**	**$79.5**	**$85.1**	**$90.9**	**$97.8**	**$102.7**
Budgetary Contribution Rates	*87.6%*	*103.9%*	*112.7%*	*122.8%*	*136.2%*	*149.8%*
Fire Retirement Plan Tier 2 – Pension	$0.5	$0.9	$1.4	$1.9	$2.6	$3.4
Fire Ret. Plan Tier 2 – Retiree Healthcare	$0.5	$0.9	$1.3	$1.8	$2.3	$3.0
Fire Retirement Plan Tier 2 – Total	**$0.0**	**$1.8**	**$2.7**	**$3.7**	**$4.9**	**$6.4**
Budgetary Contribution Rates	*21.2%*	*22.4%*	*22.4%*	*22.4%*	*22.4%*	*22.4%*
Other Retirement Costs	$0.8	$1.0	$1.0	$1.0	$1.0	$1.0
Total General Fund	**$253.4**	**$297.6**	**$323.4**	**$339.0**	**$359.1**	**$373.1**
Total All Funds	**$332.0**	**$386.8**	**$419.0**	**$438.5**	**$463.5**	**$481.3**

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

Source: 2016-2017 Modified Budget; Cheiron Letters dated February 7, 2017 and March 7, 2017 (Federated) and January 30, 2017 and March 6, 2017 (Police and Fire) with applied City methodology to fund the Board approved UAL amounts and pre-payment discount for Federated Retirement System Tier 1, the Police Retirement Plan Tier 1, and the Fire Retirement Plan Tier 1.

EXPENDITURE FORECAST

TABLE 2 – 2018-2022 BOARD APPROVED CITY CONTRIBUTION RATES

Retirement Plan	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Fed. Ret. System Tier 1 – Pension	78.1%	94.0%	109.2%	123.1%	141.6%	160.4%
Fed. Ret. Syst. Tier 1 – Ret. Healthcare*	11.9%	9.4%	9.4%	9.4%	9.4%	9.4%
Fed. Retirement Plan Tier 1 – Total	**90.0%**	**103.4%**	**118.6%**	**132.5%**	**151.0%**	**169.8%**
Fed. Ret. System Tier 2A – Pension	6.0%	6.3%	6.3%	6.3%	6.3%	6.3%
Fed. Ret. Syst. Tier 2A – Ret. Healthcare*	11.9%	9.4%	9.4%	9.4%	9.4%	9.4%
Fed. Retirement Plan Tier 2A – Total	**17.9%**	**15.7%**	**15.7%**	**15.7%**	**15.7%**	**15.7%**
Fed. Ret. System Tier 2B – Pension	6.0%	6.3%	6.3%	6.3%	6.3%	6.3%
Fed. Ret. Syst. Tier 2B – Ret. Healthcare*	16.7%	12.7%	12.7%	12.7%	12.7%	12.7%
Fed. Retirement Plan Tier 2B – Total	**22.7%**	**19.0%**	**19.0%**	**19.0%**	**19.0%**	**19.0%**
Fed. Ret. System Tier 2C – Pension	6.0%	6.3%	6.3%	6.3%	6.3%	6.3%
Fed. Ret. Syst. Tier 2C – Ret. Healthcare*	16.7%	12.9%	12.9%	12.9%	12.9%	12.9%
Fed. Retirement Plan Tier 2C – Total**	**22.7%**	**19.2%**	**19.2%**	**19.2%**	**19.2%**	**19.2%**
Police Ret. Plan Tier 1 – Pension	80.4%	95.3%	104.9%	115.4%	129.8%	144.2%
Police Ret. Plan Tier 1 – Ret. Healthcare*	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Police Retirement Plan Tier 1 – Total	**90.7%**	**105.6%**	**115.2%**	**125.7%**	**140.1%**	**154.5%**
Police Retirement Plan Tier 2 – Pension	11.0%	11.3%	11.3%	11.4%	11.4%	11.4%
Police Ret. Plan Tier 2 – Ret. Healthcare*	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Police Retirement Plan Tier 2– Total	**21.3%**	**21.6%**	**21.6%**	**21.7%**	**21.7%**	**21.7%**
Fire Retirement Plan Tier 1 – Pension	81.6%	96.1%	105.3%	115.4%	129.5%	143.4%
Fire Ret. Plan Tier 1 – Ret. Healthcare*	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Fire Retirement Plan Tier 1 – Total	**92.2%**	**106.7%**	**115.9%**	**126.0%**	**140.1%**	**154.0%**
Fire Retirement Plan Tier 2 – Pension	10.6%	11.8%	11.8%	11.8%	11.8%	11.8%
Fire Ret. Plan Tier 2 – Retiree Healthcare*	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Fire Retirement Plan Tier 2 – Total	**21.2%**	**22.4%**	**22.4%**	**22.4%**	**22.4%**	**22.4%**

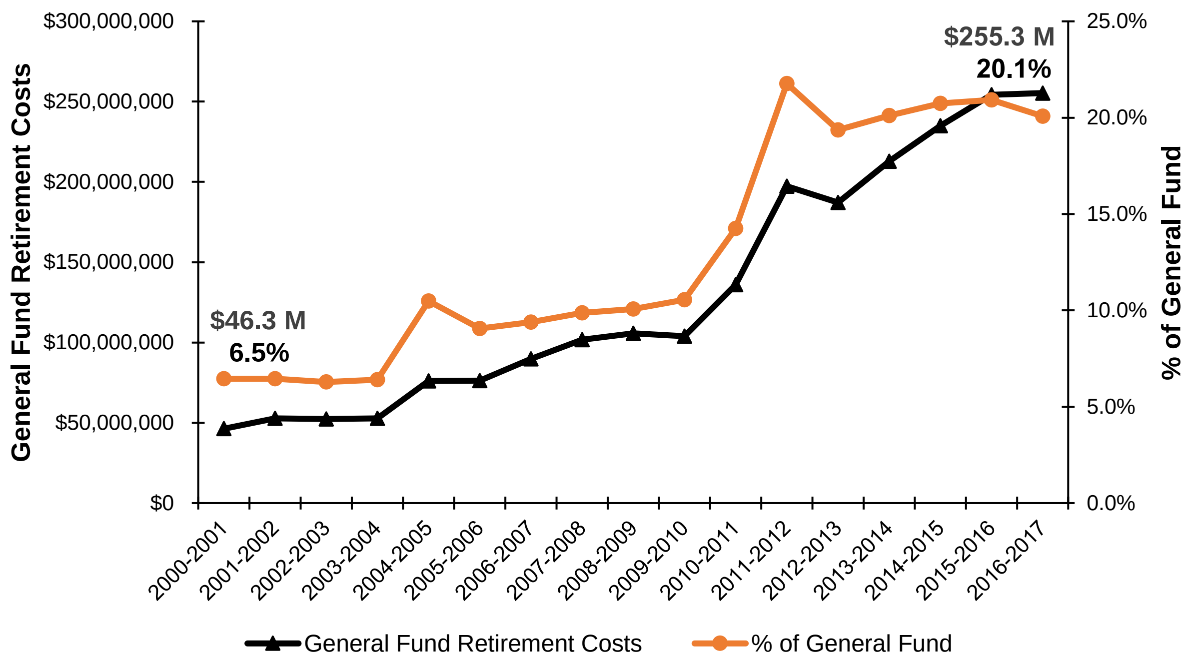
* The Federated, Police, and Fire Retiree Healthcare rates reflect the current frozen retiree healthcare rates throughout the forecast period.

Source: Cheiron Letters dated January 30, 2017 (Police and Fire) and February 7, 2017 (Federated). The projections do not reflect any changes due to Measure F approved by the voters in November 2016.

EXPENDITURE FORECAST

It is important to note that retirement costs continue to account for a growing share of the total General Fund budget as shown in the chart below. In 2001-2002, retirement costs of $46.3 million accounted for 6.5% of the General Fund, while in 2016-2017, those costs totaled 20.1% of the General Fund Adopted Budget.

General Fund Retirement Costs Comprised 20% of 2016-2017 Adopted Budget



Health and Other Fringe:

A projected health rate increase of 7.5% is included in the 2017-2018 Forecast based on national and City trend information received from the City's Human Resources Department benefits consultant. The annual health increase assumptions are held constant at 7.5% annually for the out-years of the forecast.

Based on actuarial information from the Human Resources Department and an evaluation of funding levels in the Dental Insurance Fund, no dental rate increase is anticipated in 2017-2018. For the out-years, the Forecast assumes annual dental rate increases of 3% based on City trends and actuarial analysis. There are no changes to the life insurance rates in this Forecast based on projected provider charges. For the payment of unemployment benefit claims, the City is self-insured. Based on actual claims experienced in 2016-2017, current funding available in the Unemployment Insurance Fund, and projected future claims, the unemployment insurance rate continues to be suspended through the five-year forecast period.

EXPENDITURE FORECAST

Non-Personal/Equipment

Non-personal/equipment expenditures for the first year of the Forecast have also been calculated at a detailed level and total $107.8 million in 2017-2018. In general, the process used by the City Manager's Budget Office to calculate this amount includes: adjusting each department's current year budget to eliminate one-time cost allocations, annualizing all partial-year reductions or additions approved for 2016-2017, projecting increases or decreases for specific large non-personal/equipment allocations (e.g., utilities, contractual services, vehicle maintenance and operations costs, and Police Department vehicle replacement) and reviewing past spending patterns and needs. The resulting 2017-2018 estimates represent a decrease of $6.8 million from the 2016-2017 Modified Budget level of $114.6 million, primarily due to the elimination of rebudgeted or carryover projects.

Departmental gas and electricity funding for 2017-2018 totaling $14.4 million has been adjusted in this Forecast to reflect projected rate increases, full year costs of new facilities coming online, and consumption changes. Major non-personal/equipment increases are included, primarily in the Parks, Recreation and Neighborhood Services Department for changes in water costs ($2.0 million), Human Resources Department for workers' compensation claims administration costs ($1.1 million), and Information Technology Department for Human Resources/Payroll/Budget Systems ongoing support ($200,000). Vehicle maintenance and operations costs in the General Fund, including fuel, inventory, and fleet staffing, total $14.1 million and reflect an increase of $629,000 from the 2016-2017 Adopted Budget, primarily due to increased fuel costs. The 2017-2018 non-personal/equipment base includes an adjustment for the scheduled replacement of marked, covert, and unmarked Police fleet vehicles from the Adopted Budget level of $2.3 million to $3.7 million based on the current replacement schedules and projected costs for these vehicles. Police vehicle replacement costs are expected to increase in the remaining years of the Forecast, based on the anticipated replacements that will be necessary in those years. Over the five-year period, police vehicle replacement costs are expected to total $21.6 million. In addition, funding of $3.3 million has been reallocated from seven City-Wide allocations to the responsible departments' Non-Personal/Equipment appropriations.

For the out-years of the Forecast, growth rates ranging from 1.1% to 3.6% have been assumed from the 2017-2018 non-personal/equipment base levels in each of the four years, adjusted for police vehicle replacement costs in those years. Excluding the police vehicle replacement cost adjustment, the average growth rate for the non-personal/equipment category is 2.2% annually.

EXPENDITURE FORECAST

City-Wide

City-Wide Expenses in the first year of the Forecast (2017-2018) total $87.1 million, a decline from the 2016-2017 Modified Budget of $240.8 million. This large reduction primarily reflects the impact of deleting the $100.0 million of borrowing proceeds from the Tax and Revenue Anticipation Notes (TRANs) issued for cash flow purposes to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits; eliminating one-time allocations that were rebudgeted to 2016-2017 ($31.9 million); and eliminating one-time budget actions ($18.0 million).

The line-items in this category are primarily made up of cross-departmental, large grant, and general city-wide expenditures. The 2017-2018 allocation includes anticipated cost adjustments based on factors such as contractual agreements, debt service schedules, and historical expenditure patterns. The largest 2017-2018 allocations in the City-Wide Expenditures category include: Workers' Compensation Claims ($20.5 million); Convention Center Lease Payments ($15.2 million); San José BEST and Safe Summer Initiative Programs ($5.6 million); General Liability Claims ($5.0 million); Sick Leave Payments Upon Retirement ($5.0 million); Homeless Rapid Rehousing ($4.0 million); ESCO Debt Service ($2.9 million); FMC Debt Service Payments ($2.2 million); Banking Services ($1.8 million); Property Tax Administration Fee ($1.8 million); Sidewalk Repairs ($1.8 million); Homeless Response Team ($1.5 million); Property Leases ($1.5 million); Public, Educational and Government Access Facilities – Capital ($1.5 million); and Successor Agency City Subsidy ($1.0 million) (administrative support costs). This category has also been adjusted to reflect the reallocation of seven City-Wide allocations totaling $3.3 million to the responsible department's Non-Personal/Equipment appropriations.

In the out-years of the Forecast, City-Wide Expenses are projected to increase minimally at an average growth rate of approximately 1%. While the majority of the individual line-items are expected to remain at 2017-2018 levels over this period, there are some categories that are expected to experience growth over the five years, including Workers' Compensation Claims (from $20.5 million to $24.9 million). Also increasing over the next five years is the FMC debt service payment, which is expected to go up in the out-years (from $2.2 million to $2.5 million) based on higher variable interest rate assumptions. Property leases, which grow over the five-year period (from $1.5 million to $1.7 million), reflect an annual increase of 3%. Insurance Premiums (increase from $640,000 to $700,000) and the Property Tax Administration Fee (increase from $1.8 million to $2.1 million) are increasing over the five years to reflect additional costs to administer these city-wide programs. Funding for many non-grant related City-Wide expenses has stabilized, and include ongoing allocations for the San José BEST and Safe Summer Initiative Programs ($5.6 million), Homeless Rapid Rehousing ($4.0 million), and Homeless Response Team ($1.5 million).

EXPENDITURE FORECAST

The General Fund **Capital Projects** category totals $5.0 million in 2017-2018 and remains at this level in each of the out-years of the Forecast. The largest item in this category is fire apparatus replacement ($3.4 million annually). The investment in fire apparatus replacement in this Forecast is based on an analysis of projected replacement schedules, replacement costs, and apparatus changes to meet safety needs. It also assumes that the Fire Construction and Conveyance Tax Fund will contribute $400,000 annually for these costs over the five-year period. The Capital Projects category also includes the continuation of annual allocations for unanticipated maintenance of City facilities ($900,000), fuel tanks and methane monitoring control and replacement ($400,000), annual capital expenditures ($200,000) to maintain sufficient power backup for the City Hall and the 9-1-1 Police Communications Building, and Arena repairs ($100,000).

The **Transfers** category totals $29.5 million in 2017-2018 and increases to approximately $33.0 million in the remaining years of the Forecast. The transfer to the City Hall Debt Service Fund to cover the General Fund portion of the debt service costs for the construction of City Hall is the largest line-item in this category and totals $19.8 million in 2017-2018 ($21.4 million in each of the remaining years of the Forecast). Other large transfers include the following: funding to cover a portion of the debt service payments and operating costs for the Hayes Mansion Conference Center ($3.5 million in 2017-2018 and $2.8 million - $3.6 million in the remaining years of the Forecast) and Rancho del Pueblo and Los Lagos Golf Courses ($2.8 million in 2017-2018 and $2.8 million - $2.6 million in the remaining years of the Forecast); payments in accordance with the San José Arena Management agreement extension ($750,000 in 2017-2018 and 2018-2019 and $2.3 million in each of the remaining years of the Forecast) for Arena capital rehabilitation and enhancements; and a transfer to the Vehicle Maintenance and Operations Fund for general fleet replacement ($1.2 million annually).

All of the debt service and maintenance and operations costs for the Hayes Mansion Conference Center and golf courses are funded in the Community Facilities Revenue and Municipal Golf Course Funds, respectively; however, revenues in those funds are not projected to be sufficient to completely cover these costs. The transfer from the General Fund for the Hayes Mansion Conference Center decreased from a $4.4 million subsidy level in 2017-2018 in the last Forecast to $3.5 million required in 2017-2018 in this Forecast. In the out-years of the Forecast, the subsidy totals $3.6 million in 2018-2019, $2.8 million in 2019-2020, $2.9 million in 2020-2021 and $3.0 million in the last year of this Forecast based on projected debt service payments for that facility. These transfers are lower than those projected in the last Forecast due to better recent performance of the facility. The transfer for the golf course subsidy increased from a $2.2 million subsidy level in 2016-2017 to $2.8 million in 2017-2018 and drops to $2.6 million in the out-years of the Forecast.

The payments for Arena capital rehabilitation and enhancements are in compliance with the San José Arena Management Agreement Extension from 2009-2018. Annual funding of $750,000 is maintained through 2017-2018 of the Forecast for this agreement expiring on June 30, 2018. In accordance with the term sheet with Sharks Sports and Entertainment approved in May 2015 that alters the City's capital payment obligations, annual funding increases to $2.3 million in the remaining years of the Forecast.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

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

The transfer to the Vehicle Maintenance and Operations Fund ($1.2 million annually) is included to fund a vehicle replacement schedule for the General Fleet as well as transfers to the Communications C&C Fund ($600,000 in 2017-2018 to $1.1 million in the out-years) to fund the City's share of capital costs for the Silicon Valley Regional Interoperability Authority.

The Transfers category also includes payments to various Maintenance Assessment Districts and Business Improvement Districts for the General Fund's share of landscape services in those areas ($893,000 to $990,000 annually).

The **Earmarked Reserves** category totals $11.4 million in 2017-2018 and increases to $22.7 million in 2021-2022. This category includes a $3 million Alternative Pension Reform Measure (Measure F) Implementation Reserve to account for additional anticipated costs associated with Measure F, which was approved by the voters in November 2016, but are not yet reflected in the retirement costs. This reserve is intended to address three types of costs: Tier 2 ongoing costs, rehired Tier 1 employee retroactivity costs, and current Tier 2 employee retroactivity costs. This category also includes a Deferred Infrastructure and Maintenance Reserve of $800,000 to fund critical capital maintenance or address urgent technology needs. These resources will be allocated as part of the 2017-2018 Proposed Budget. The annual allocation to the Cultural Facilities Maintenance Reserve totals $6.8 million in 2017-2018 and increases to $10.0 million in 2021-2022. In accordance with City Council direction, the General Fund portion of the Transient Occupancy Tax revenue above the 2013-2014 base year is to be set aside for cultural and arts facilities capital replacement maintenance. Funding is included for the Police Department Staffing Earmarked Reserve ($2.0 million in 2018-2019, increasing to $8.1 million in the last year of the Forecast) per City Council Policy to set aside Police Tier 2 retirement savings to fund additional police sworn positions until sworn staffing levels reach 1,250 officers. In addition, annual funding of $240,000 is allocated to the General Plan Update Reserve to set aside fees collected by developers toward the future update or revision of the General Plan.

The Forecast does not include a number of Earmarked Reserves that may remain unspent in 2016-2017 and later recommended for rebudget or use in 2017-2018. Some of the larger current Earmarked Reserves include the Development Fee Program Reserves, Budget Stabilization Reserve, Workers' Compensation/General Liability Catastrophic Reserve, Retiree Healthcare Solutions Reserve, Sick Leave Payments Upon Retirement Reserve, Salaries and Benefits Reserve, and Cultural Facilities Capital Maintenance Reserve.

Per City Council policy, the **Contingency Reserve** ($36.0 million) is projected at the level necessary to comply with the City Council policy to maintain a minimum 3% Contingency Reserve and allows for anticipated rebudget adjustments that will be incorporated into the 2017-2018 budget. This amount would be sufficient to cover approximately one pay period of payroll costs (two weeks). This amount is carried through 2019-2020 and increases to $36.5 million in 2020-2021 and $38.0 million in 2021-2022 to remain in compliance with the reserve policy.

ELEMENTS OF THE GENERAL FUND FORECAST

EXPENDITURE FORECAST

Committed Additions to the Base General Fund Forecast

In this Forecast, projected additions to the base expenditure level have been included as **Committed Additions**. Although all are subject to further review during the budget process, Committed Additions are additional expenditures to which the City is considered to be committed by prior City Council action, such as the costs related to maintaining and operating capital projects previously approved by the City Council. The Forecast Base Case, considered most likely to occur, includes ongoing program costs plus Committed Additions. Committed Additions total $433,000 in 2017-2018 and increase to approximately $2.0 million by 2021-2022. These Committed Additions, as well as a discussion of General Fund Capital Operating and Maintenance/Budget Principle #8, are explained in more detail in Section III of this document.

The approved bond measure from the November 2000 election for parks (Measure P) includes the Arcadia Softball Complex that will require additional maintenance and operations funding ($121,000 in 2018-2019, increasing to approximately $913,000 in 2021-2022).

Also included in the Committed Additions are maintenance and operations costs associated with non-bond projects such as new parks and recreation facilities and new traffic infrastructure assets. The non-bond projects committed additions costs in the Forecast range from $312,000 in 2017-2018 to $1.1 million by 2021-2022.

General Fund Capital Operating and Maintenance/Budget Principle #8

Budget Principle #8 states that Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding $100,000 without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including operations and maintenance costs, will not require a decrease in existing basic neighborhood services. Consistent with that direction, this Forecast includes a detailed list and discussion of capital projects that were previously certified by the City Council with annual operating and maintenance costs in the General Fund greater than $100,000. Capital funding for these projects have been included as part of approved Capital Improvement Programs or approved by City Council in 2016-2017. It should be noted that the maintenance and operations costs for the Arcadia Softball Complex (previously titled Softball Complex) and Vietnamese Cultural Heritage Garden projects are estimated to exceed $100,000; however, these projects were established prior to the adoption of Budget Principle #8 and did not need to be certified by City Council.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

The operating margin reflects the variance between the projected General Fund revenues and expenditures for each year of the Forecast, assuming the Base Case with Committed Additions. In 2017-2018, a deficit of $12.4 million is projected, followed by additional deficits throughout the forecast period: $34.8 million in 2018-2019, $11.5 million in 2019-2020, $17.4 million in 2019-2020, and $12.8 million in 2021-2022. Base Case expenditures, including committed additions, increase from $1.10 billion in 2017-2018 to $1.31 billion in 2021-2022, for an average annual growth rate of approximately 4.6%. The sources of revenue total $1.09 billion in 2017-2018 and grow to $1.22 billion in 2021-2022, increasing at a slightly lower average annual growth rate of 2.9%.

The following table shows how the projected surpluses and shortfalls have changed in the most recent forecasts. It is assumed that each preceding surplus or shortfall is addressed completely with ongoing solutions in the year it appears. Each year of the February 2017 Forecast is compared to the corresponding year in the February 2016 Forecast.

2018-2022 General Fund Forecast
Changes in Operating Margin
($ in Millions)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
February 2016 Incremental Surplus/(Shortfall)	**($11.1)**	**($15.8)**	**($4.2)**	**($4.8)**	**N/A**
June 2016 Incremental Surplus/(Shortfall)	$21.7	N/A	N/A	N/A	N/A
February 2017 Incremental Surplus/(Shortfall)	**($12.4)**	**($34.8)**	**($11.5)**	**($17.4)**	**($12.8)**

Note: Does not include 1) costs associated with services that were funded on a one-time basis in 2016-2017; 2) costs associated with unmet/deferred infrastructure and maintenance needs; and 3) one-time revenue sources or expenditure needs. It should also be noted that no net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

For the February 2017 General Fund Forecast, the Budget Office completed an in-depth review of anticipated revenues and expenditures for 2017-2018 and the remaining four years of the forecast period. The 2017-2018 projected deficit of $12.4 million reflects a substantial change from the $21.7 million budget surplus projected in June 2016 (2016-2017 Adopted Budget). This change is the net result of numerous revenue and expenditure changes as described in this document.

ELEMENTS OF THE GENERAL FUND FORECAST

OPERATING MARGIN

In the out years of this Forecast, the General Fund position is worse than that presented in the previous Forecast with shortfalls ranging from -$11.5 million to -$34.8 million annually. Broadly, this change is a result of total revenue growth remaining relatively unchanged as compared to the previous forecast period while cost increases have risen more substantially, particularly salary and retirement costs. While the General Fund position is weaker than in the prior Forecast, the operating margins remain relatively narrow when put into context of the size of the projected General Fund budget of over $1 billion.

Five-Year Economic Forecast and Revenue Projections

2018-2022

BASE CASE

February 2017 Forecast	MODIFIED BUDGET	FORECAST				
REVENUE SUMMARY	**2016-2017**	**2018**	**2019**	**2020**	**2021**	**2022**
PROPERTY TAX	271,737,000	289,715,000	305,910,000	319,584,000	333,039,000	346,560,000
		6.62%	**5.59%**	**4.47%**	**4.21%**	**4.06%**
SALES TAX	224,695,553	228,000,000	234,521,000	242,143,000	250,158,000	258,263,000
		1.47%	**2.86%**	**3.25%**	**3.31%**	**3.24%**
TRANSIENT OCCUPANCY TAX	16,952,000	18,720,000	19,469,000	20,248,000	21,057,000	21,900,000
		10.43%	**4.00%**	**4.00%**	**4.00%**	**4.00%**
FRANCHISE FEES	48,916,811	50,620,000	51,622,000	52,510,000	53,350,000	52,322,000
		3.48%	**1.98%**	**1.72%**	**1.60%**	**(1.93%)**
UTILITY TAX	95,749,500	101,320,000	102,921,000	103,899,000	105,156,000	106,428,000
		5.82%	**1.58%**	**0.95%**	**1.21%**	**1.21%**
TELEPHONE TAX	21,614,000	20,000,000	20,044,000	20,084,000	20,120,000	20,154,000
		(7.47%)	**0.22%**	**0.20%**	**0.18%**	**0.17%**
BUSINESS TAX	48,800,000	63,000,000	63,321,000	63,600,000	63,873,000	64,161,000
		29.10%	**0.51%**	**0.44%**	**0.43%**	**0.45%**
LICENSES AND PERMITS	51,572,553	52,466,000	54,670,000	56,857,000	59,245,000	61,555,000
		1.73%	**4.20%**	**4.00%**	**4.20%**	**3.90%**
FEES, RATES, AND CHARGES	42,196,974	42,725,000	44,520,000	46,301,000	48,245,000	50,127,000
		1.25%	**4.20%**	**4.00%**	**4.20%**	**3.90%**
FINES, FORFEITURES & PENALTIES	14,910,600	14,742,000	14,926,000	14,995,000	15,145,000	15,299,000
		(1.13%)	**1.25%**	**0.46%**	**1.00%**	**1.02%**
MONEY & PROPERTY	3,863,935	5,240,000	5,319,000	5,452,000	5,626,000	5,789,000
		35.61%	**1.51%**	**2.50%**	**3.19%**	**2.90%**
REVENUE FROM LOCAL AGENCIES	28,529,732	23,651,000	23,823,000	24,129,000	24,431,000	24,736,000
		(17.10%)	**0.73%**	**1.28%**	**1.25%**	**1.25%**
REVENUE FROM THE STATE OF CALIFORNIA	13,430,591	10,410,000	10,410,000	10,410,000	10,410,000	10,410,000
		(22.49%)	**0.00%**	**0.00%**	**0.00%**	**0.00%**
FEDERAL REVENUE	6,064,881	1,358,000	0	0	0	0
		(77.61%)	**(100.00%)**	**N/A**	**N/A**	**N/A**
OTHER REVENUE	126,007,160	14,371,000	9,483,000	9,021,000	9,095,000	9,170,000
		(88.60%)	**(34.01%)**	**(4.87%)**	**0.82%**	**0.82%**
GAS TAX	17,500,000	17,300,000	16,819,000	16,325,000	16,343,000	16,316,000
		(1.14%)	**(2.78%)**	**(2.94%)**	**0.11%**	**(0.17%)**
TOTAL GENERAL REVENUES	**1,032,541,290**	**953,638,000**	**977,778,000**	**1,005,558,000**	**1,035,293,000**	**1,063,190,000**
		(7.64%)	**2.53%**	**2.84%**	**2.96%**	**2.69%**

BASE CASE

February 2017 Forecast REVENUE SUMMARY	MODIFIED BUDGET 2016-2017	FORECAST 2018	2019	2020	2021	2022
TRANSFERS & REIMBURSEMENTS						
OVERHEAD REIMBURSEMENTS	39,732,192	44,739,000	46,618,000	48,482,000	50,519,000	52,489,000
TRANSFERS	22,055,522	22,853,000	23,859,000	24,552,000	25,305,000	25,935,000
REIMBURSEMENTS FOR SERVICES	673,510	665,000	693,000	721,000	751,000	780,000
TOTAL TRANSFERS & REIMBURSEMENTS	**62,461,224**	**68,257,000**	**71,170,000**	**73,755,000**	**76,575,000**	**79,204,000**
		9.28%	**4.27%**	**3.63%**	**3.82%**	**3.43%**
TOTAL GENERAL FUND REVENUES	**1,095,002,514**	**1,021,895,000**	**1,048,948,000**	**1,079,313,000**	**1,111,868,000**	**1,142,394,000**
		(6.68%)	**2.65%**	**2.89%**	**3.02%**	**2.75%**
BEGINNING FUND BALANCE	255,206,416	69,442,000	72,323,000	73,806,000	75,208,000	77,184,000
GRAND TOTAL SOURCES	**1,350,208,930**	**1,091,337,000**	**1,121,271,000**	**1,153,119,000**	**1,187,076,000**	**1,219,578,000**
		(19.17%)	**2.74%**	**2.84%**	**2.94%**	**2.74%**

BASE CASE

February 2017 Forecast **EXPENDITURE SUMMARY**	MODIFIED BUDGET 2016-2017	FORECAST 2018	2019	2020	2021	2022
PERSONAL SERVICES						
Salaries and Other Compensation	457,375,508	467,397,000	491,415,000	510,381,000	528,245,000	546,733,000
Retirement	255,309,517	297,576,000	323,372,000	338,990,000	359,135,000	373,150,000
Health and Other Fringe Benefits	57,397,151	61,487,000	65,588,000	69,577,000	73,943,000	78,714,000
TOTAL PERSONAL SERVICES	**770,082,176**	**826,460,000**	**880,375,000**	**918,948,000**	**961,323,000**	**998,597,000**
		7.32%	**6.52%**	**4.38%**	**4.61%**	**3.88%**
TOTAL NON-PERSONAL/EQUIPMENT	**114,566,762**	**107,824,000**	**110,870,000**	**112,032,000**	**116,035,000**	**117,659,000**
		(5.89%)	**2.82%**	**1.05%**	**3.57%**	**1.40%**
CITY-WIDE						
CITY-WIDE EXPENSES	240,766,710	87,098,000	87,665,000	88,588,000	89,733,000	91,293,000
CAPITAL PROJECTS	70,500,440	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
TRANSFERS	28,067,710	29,512,000	33,062,000	32,787,000	33,108,000	33,233,000
EARMARKED RESERVES	90,725,132	11,422,000	14,165,000	16,905,000	19,638,000	22,677,000
CONTINGENCY RESERVE	35,500,000	36,000,000	36,000,000	36,000,000	36,500,000	38,000,000
TOTAL CITY-WIDE	**465,559,992**	**169,032,000**	**175,892,000**	**179,280,000**	**183,979,000**	**190,203,000**
		(63.69%)	**4.06%**	**1.93%**	**2.62%**	**3.38%**
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	**1,350,208,930**	**1,103,316,000**	**1,167,137,000**	**1,210,260,000**	**1,261,337,000**	**1,306,459,000**
		(18.29%)	**5.78%**	**3.69%**	**4.22%**	**3.58%**

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

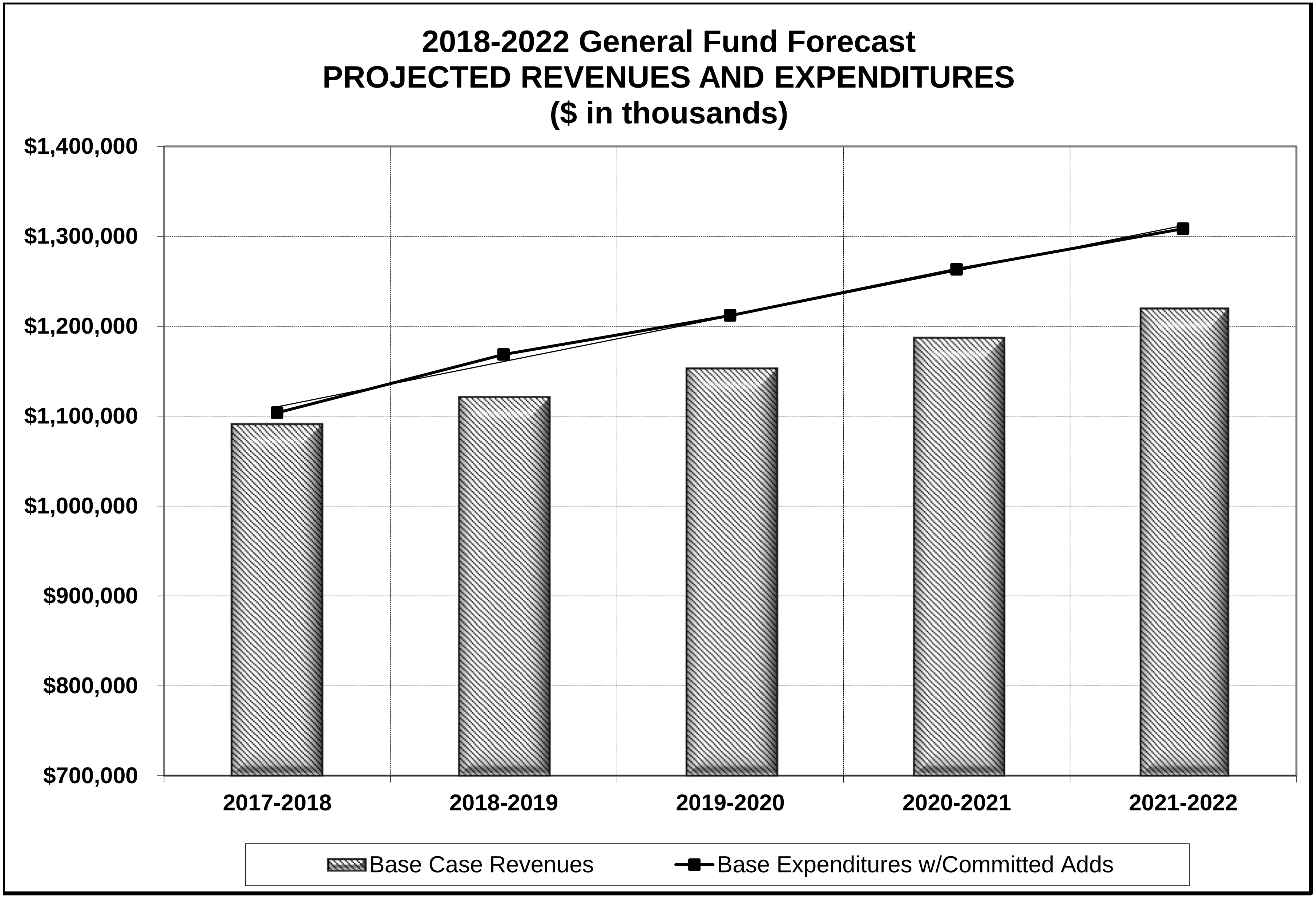
BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	MODIFIED BUDGET 2016-2017	FORECAST 2018	2019	2020	2021	2022
GRAND TOTAL REVENUE	1,350,208,930	1,091,337,000	1,121,271,000	1,153,119,000	1,187,076,000	1,219,578,000
GROWTH RATE		(19.17%)	2.74%	2.84%	2.94%	2.74%
TOTAL BASE EXPENDITURES (w/o COMMITTED ADDITIONS)	1,350,208,930	1,103,316,000	1,167,137,000	1,210,260,000	1,261,337,000	1,306,459,000
GROWTH RATE		(18.29%)	5.78%	3.69%	4.22%	3.58%
OPERATING MARGIN CHANGE *From Prior Year*		**(11,979,000)**	**(33,887,000)**	**(11,275,000)**	**(17,120,000)**	**(12,620,000)**

BASE CASE

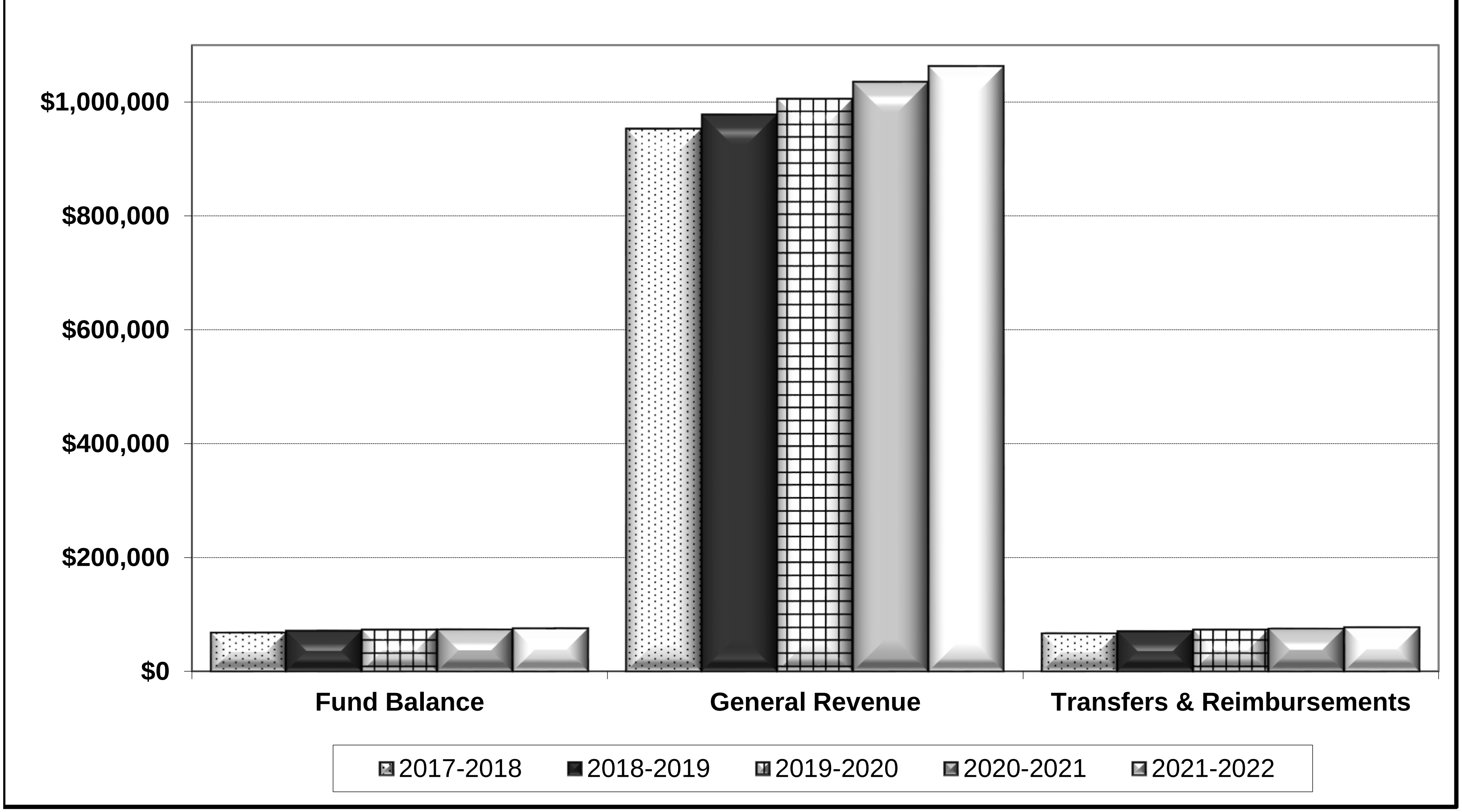
February 2017 Forecast EXPENDITURE SUMMARY	MODIFIED BUDGET 2016-2017	FORECAST 2018	2019	2020	2021	2022
COMMITTED ADDITIONS:						
New Parks and Recreation Facilities Maintenance and Operations		257,000	493,000	676,000	875,000	997,000
New Traffic Infrastructure Assets Maintenance and Operations		55,000	59,000	61,000	81,000	87,000
Measure P (Parks) Maintenance and Operations		121,000	782,000	827,000	873,000	913,000
TOTAL COMMITTED ADDITIONS	**0**	**433,000**	**1,334,000**	**1,564,000**	**1,829,000**	**1,997,000**
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	**1,350,208,930**	**1,103,749,000**	**1,168,471,000**	**1,211,824,000**	**1,263,166,000**	**1,308,456,000**
		(18.25%)	**5.86%**	**3.71%**	**4.24%**	**3.59%**

OPERATING MARGIN

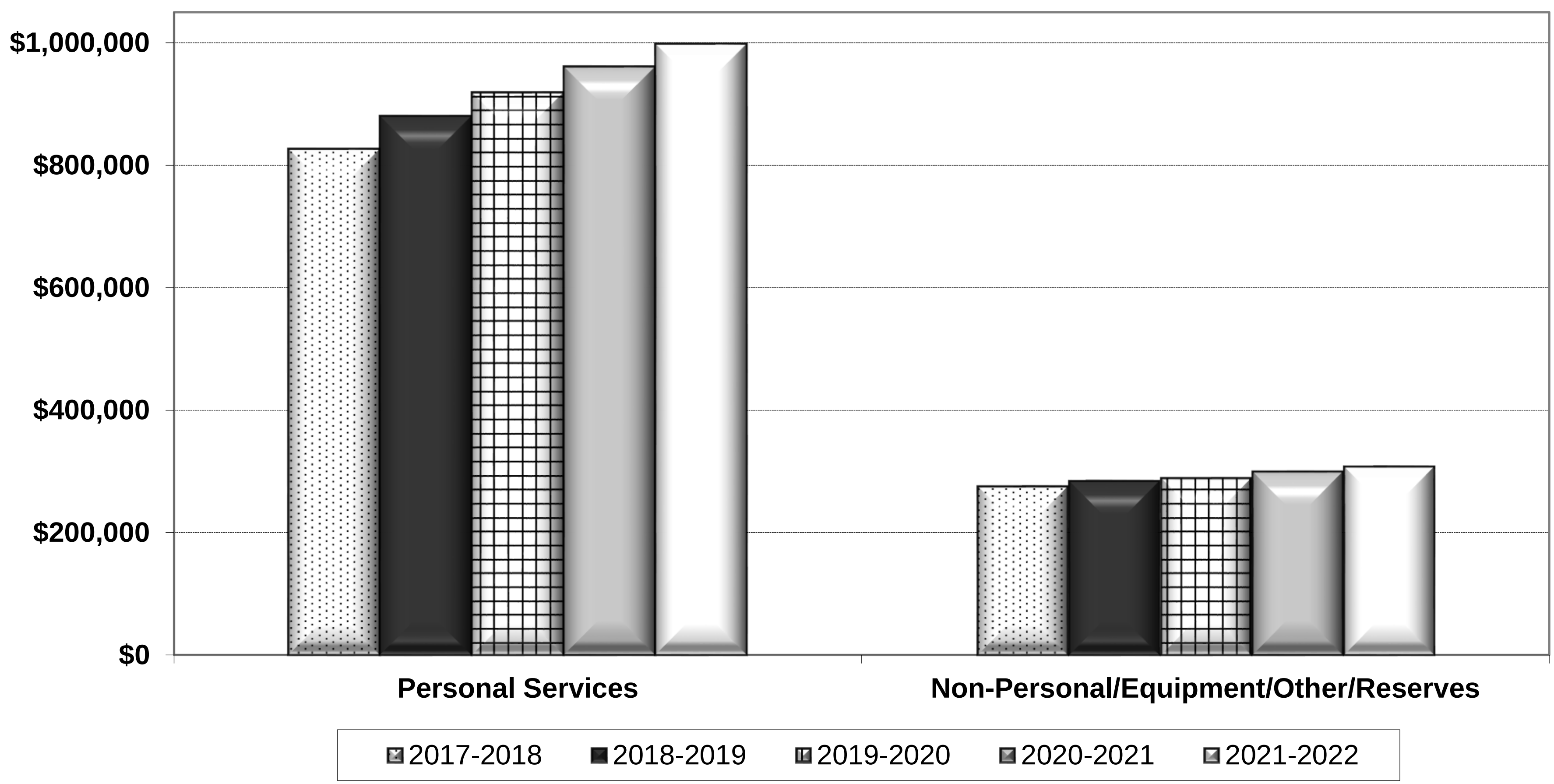
BASE EXPENDITURES (w / COMMITTED ADDITIONS)	MODIFIED BUDGET 2016-2017	FORECAST 2018	2019	2020	2021	2022
GRAND TOTAL REVENUE	1,350,208,930	1,091,337,000	1,121,271,000	1,153,119,000	1,187,076,000	1,219,578,000
GROWTH RATE		(19.17%)	2.74%	2.84%	2.94%	2.74%
TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS)	1,350,208,930	1,103,749,000	1,168,471,000	1,211,824,000	1,263,166,000	1,308,456,000
GROWTH RATE		(18.25%)	5.86%	3.71%	4.24%	3.59%
ONGOING OPERATING MARGIN CHANGE		**(12,412,000)**	**(34,788,000)**	**(11,505,000)**	**(17,385,000)**	**(12,788,000)**
From Prior Year						


2018-2022 General Fund Forecast
PROJECTED REVENUES AND EXPENDITURES
($ in thousands)
$1,400,000
$1,300,000
$1,200,000
$1,100,000
$1,000,000
$900,000
$800,000
$700,000
2017-2018
2018-2019
2019-2020
2020-2021
2021-2022
Base Case Revenues
Base Expenditures w/Committed Adds

2018-2022 General Fund Forecast
FIVE-YEAR SOURCE OF FUNDS COMPARISON
($ in thousands)



2018-2022 General Fund Forecast
FIVE-YEAR USE OF FUNDS COMPARISON
($ in thousands)



Note: Committed Additions ranging from $400,000 to $2.0 million annually during this Forecast are not displayed.

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Five-Year Economic Forecast and Revenue Projections

2018-2022

Section 3

Committed Additions to the Base General Fund Forecast

Committed Additions To The Base General Fund Forecast

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

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

A summary of the committed additions included in this Forecast is provided below and detailed in Chart A at the end of this section. In addition, based on the City Council's adoption of Budget Principle #8 during the 2008-2009 budget process, a **General Fund Capital Operating and Maintenance/Budget Principle #8** discussion is included in this section. Capital projects with maintenance and operating costs over $100,000 that have been previously certified by the City Council, or are recommended for certification in the future, are identified in Chart A of this section. Certification for potential new projects or modifications to existing projects identified after the release of this Forecast, that have not been previously approved by the City Council, may be recommended for certification as part of the 2018-2022 Proposed Capital Improvement Program. If certified by the City Council, the maintenance and operating costs associated with these facilities would then be included in subsequent General Fund Five-Year Forecast documents.

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

Committed Additions Summary

New Parks and Recreation Facilities Maintenance and Operations – This category reflects the projected additional costs of maintaining and operating new and expanded parks and recreation facilities included in the City's Five-Year Capital Improvement Program. Several parks are scheduled to come online over the next five years include, but are not limited to, Alum Rock Avenue and 31st Street Park, Cannery Park, Communications Hill II – Hillsdale Fitness Staircase and Turnkey Park, Elaine Richardson Park, iStar Turnkey Park, Japantown Square Turnkey Park, Pellier Park, Pueblo De Dios, Rincon South Park, Tramien Park Phase II, and Vista Montana Park. The forecast also includes operating cost estimates for the Agnews Property Development (storm pump), trail sections for Lower Silver Creek Trail and the Five Wounds Trail. Funding continues to be set aside for Future Trail Projects to help meet the City's goal to expand the City's trail system to 100 miles by the year 2022. The City currently has approximately 57 miles of trails.

2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
257,000	493,000	676,000	875,000	997,000

COMMITTED ADDITIONS TO THE BASE GENERAL FUND FORECAST

New Traffic Infrastructure Assets Maintenance and Operations – This category reflects the anticipated additional costs that will be necessary to operate and maintain transportation-related projects included in the City's Five-Year Capital Improvement Program. Funding to operate and maintain new traffic signals, landscaping, street lighting, pavement markings, and other traffic infrastructure is assumed in this category. Many projects are related to traffic safety enhancements for pedestrians and bicyclists, such as the Autumn Street Expansion and St. John Bike/Pedestrian Improvements. This category also includes funding for the maintenance of streetscape improvements related to BART's extension to the Berryessa Station.

2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
55,000	59,000	61,000	81,000	87,000

Measure P (Parks) Maintenance and Operations – This category reflects the projected maintenance and operations costs of new and expanded parks and community facilities that were included as part of a bond measure approved by the voters in November 2000. The only project included in this forecast is the Arcadia Softball Complex scheduled to open in the spring of 2018 with an annualized net operating expenditure of $782,000 beginning in 2018-2019. It should be noted that the maintenance costs for the Arcadia Softball Complex are fairly aligned with prior reported Forecasts, adjusted for the revised completion date.

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

2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
121,000	782,000	827,000	873,000	913,000

General Fund Capital Operating and Maintenance/Budget Principle #8

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

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

Chart A details a list of all project maintenance and operations costs assumed in this Forecast. Funding for these projects has been included as part of the approved Capital Improvement Program, approved by the City Council in 2016-2017, or align with previous City Council direction. All capital projects that were previously approved for certification by the City Council with annual maintenance and operating costs in the General Fund greater than $100,000 have been denoted in the chart with an asterisk. As denoted by a double asterisk in the chart, the maintenance and operations costs for the Arcadia Softball Complex (previously titled Softball Complex) were established prior to the adoption of Budget Principle #8 and did not need to be certified by City Council. By 2021-2022, the costs to maintain and operate all City Council approved projects expected to come online during the five-year period are estimated at approximately $2.0 million annually, of which approximately $913,000 is related to the Arcadia Softball Complex.

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

CHART A - 2018-2022 GENERAL FUND FORECAST
Net Operating Impact of Committed Additions

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS					
Future Trail Projects*	0	66,000	132,000	198,000	264,000
Agnews Property Development (Storm Pump)	36,000	37,000	38,000	39,000	40,000
Alum Rock Avenue and 31st Street Park Phase I	48,000	48,000	49,000	50,000	51,000
Alum Rock Avenue and 31st Street Park Phase II	0	8,000	33,000	33,000	34,000
Branham Park Courts (Branham Park Improvements)	0	4,000	7,000	7,000	8,000
Cannery Park	0	0	23,000	35,000	36,000
Communications Hill II - Hillsdale Fitness Staircase	0	0	0	58,000	78,000
Communications Hill II - Turnkey Park	0	33,000	50,000	51,000	52,000
Elaine Richardson Park	67,000	71,000	73,000	75,000	77,000
Happy Hollow Park and Zoo Animals	11,000	11,000	11,000	11,000	11,000
iStar Turnkey Park	0	0	0	39,000	54,000
Japantown Square Turnkey Park	0	29,000	30,000	32,000	33,000
Pellier Park	0	20,000	20,000	21,000	21,000
Pueblo De Dios (Council District 1 Land Acquisition)	37,000	38,000	38,000	39,000	40,000
Rincon South Park	0	13,000	31,000	32,000	33,000
Santana Park	0	0	0	9,000	16,000
Tamien Park Phase II	0	33,000	58,000	60,000	62,000
TRAIL: Blossom River Ramp (Guadalupe River Trail)	1,000	1,000	1,000	1,000	1,000
TRAIL: Lower Silver Creek (Alum Rock Ave to Highway 680)	19,000	39,000	39,000	41,000	41,000
TRAIL: Five Wounds (William Ave to Whitton Rd)	10,000	14,000	14,000	15,000	15,000
Vista Montana Park (1.0 acre park not maintained by develope	28,000	28,000	29,000	29,000	30,000
TOTAL NEW PARKS AND RECREATION FACILITIES MAINTENANCE AND OPERATIONS	**257,000**	**493,000**	**676,000**	**875,000**	**997,000**
NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS					
Autumn Street Expansion Phase I	10,000	10,000	11,000	11,000	11,000
BART Design and Construction	32,000	33,000	34,000	35,000	36,000
Radar Speed Display Signs	5,000	5,000	5,000	6,000	6,000
Renascent Place at Senter Bike/Ped Improvements (AHSC)	0	0	0	6,000	6,000
Senter Road Pedestrian Safety Improvements (HSIP)	0	0	0	2,000	2,000
St. James Station at Basset Bike/Ped Improvements (AHSC)	0	0	0	9,000	11,000
St. John Bike/Pedestrian Improvements (OBAG)	5,000	7,000	7,000	7,000	7,000
St. John Multimodal Improvements Phase I	3,000	4,000	4,000	4,000	4,000
White Road Pedestrian Safety Improvements	0	0	0	1,000	1,000
W. San Carlos Urban Villages (OBAG)	0	0	0	0	3,000
TOTAL NEW TRAFFIC INFRASTRUCTURE ASSETS MAINTENANCE AND OPERATIONS	**55,000**	**59,000**	**61,000**	**81,000**	**87,000**
MEASURE P (PARKS) MAINTENANCE AND OPERATIONS					
Arcadia Softball Complex**	121,000	782,000	827,000	873,000	913,000
TOTAL MEASURE P (PARKS) MAINTENANCE AND OPERATIONS	**121,000**	**782,000**	**827,000**	**873,000**	**913,000**
TOTAL OPERATING IMPACT OF COMMITTED ADDITIONS	**433,000**	**1,334,000**	**1,564,000**	**1,829,000**	**1,997,000**

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

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

Five-Year Economic Forecast and Revenue Projections

2018-2022

Section 4

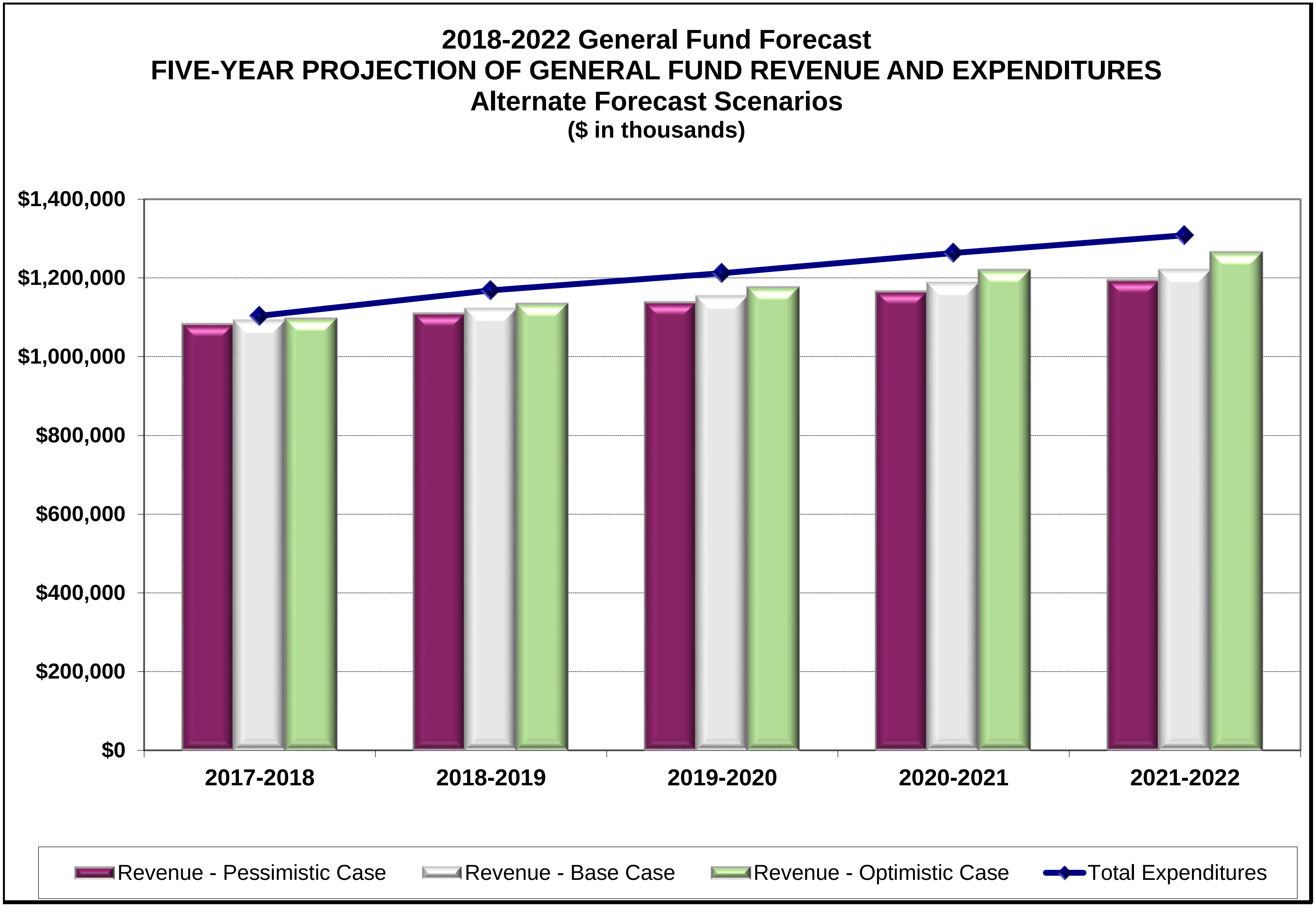
Alternate Forecast Scenarios

2018-2022 General Fund Forecast
PROJECTED FIVE-YEAR OPERATING MARGINS
Alternate Forecast Scenarios

BASE CASE					
	2018	**2019**	**2020**	**2021**	**2022**
TOTAL REVENUES ($)	1,091,337,000	1,121,271,000	1,153,119,000	1,187,076,000	1,219,578,000
GROWTH RATE		2.74%	2.84%	2.94%	2.74%
TOTAL EXPENDITURES ($)	1,103,749,000	1,168,471,000	1,211,824,000	1,263,166,000	1,308,456,000
GROWTH RATE		5.86%	3.71%	4.24%	3.59%
OPERATING MARGIN - BASE	**(12,412,000)**	**(34,788,000)**	**(11,505,000)**	**(17,385,000)**	**(12,788,000)**

OPTIMISTIC CASE					
	2018	**2019**	**2020**	**2021**	**2022**
TOTAL REVENUES ($)	1,096,253,000	1,133,637,000	1,175,787,000	1,220,101,000	1,264,342,000
GROWTH RATE		3.41%	3.72%	3.77%	3.63%
TOTAL EXPENDITURES ($)	1,103,749,000	1,168,471,000	1,211,824,000	1,263,166,000	1,308,456,000
GROWTH RATE		5.86%	3.71%	4.24%	3.59%
OPERATING MARGIN - OPTIMISTIC	**(7,496,000)**	**(27,338,000)**	**(1,203,000)**	**(7,028,000)**	**(1,049,000)**

PESSIMISTIC CASE					
	2018	**2019**	**2020**	**2021**	**2022**
TOTAL REVENUES ($)	1,082,559,000	1,109,156,000	1,138,359,000	1,165,745,000	1,194,087,000
GROWTH RATE		2.46%	2.63%	2.41%	2.43%
TOTAL EXPENDITURES ($)	1,103,749,000	1,168,471,000	1,211,824,000	1,263,166,000	1,308,456,000
GROWTH RATE		5.86%	3.71%	4.24%	3.59%
OPERATING MARGIN - PESSIMISTIC	**(21,190,000)**	**(38,125,000)**	**(14,150,000)**	**(23,956,000)**	**(16,948,000)**


2018-2022 General Fund Forecast
FIVE-YEAR PROJECTION OF GENERAL FUND REVENUE AND EXPENDITURES
Alternate Forecast Scenarios
($ in thousands)
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
2017-2018
2018-2019
2019-2020
2020-2021
2021-2022
Revenue - Pessimistic Case
Revenue - Base Case
Revenue - Optimistic Case
Total Expenditures

Five-Year Economic Forecast and Revenue Projections

2018-2022

MAJOR CAPITAL REVENUES

Overview

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

Construction and property resale-related Capital Program revenues are anticipated to increase from the estimates provided in the 2017-2021 Adopted Capital Improvement Program (CIP). Activity in these areas in 2016-2017 is exceeding expectations and the continuation of this performance is reflected in the 2018-2022 revenue estimates. There is a projected increase of 10% over the 2017-2021 Adopted CIP from $330.5 million to $364.9 million in the 2018-2022 Forecast. The Construction-Related Revenue chart included at the end of this section provides a year-by-year comparison of this Forecast with the 2017-2021 Adopted CIP.

FORECAST COMPARISON SUMMARY
($ in Thousands)

	2017-2021 CIP	2018-2022 Forecast	Difference	% Change
Construction and Conveyance Tax	$176,000	$176,000	$0	0%
Building and Structure Construction Tax	65,000	78,000	13,000	20%
Construction Excise Tax	84,000	105,000	21,000	25%
Municipal Water System Fees	500	375	(125)	(25%)
Residential Construction Tax	875	1,000	125	14%
Sanitary Sewer Connection Fee	3,250	3,500	250	8%
Storm Drainage Connection Fee	875	1,000	125	14%
TOTAL	**$330,500**	**$364,875**	**$34,375**	**10%**

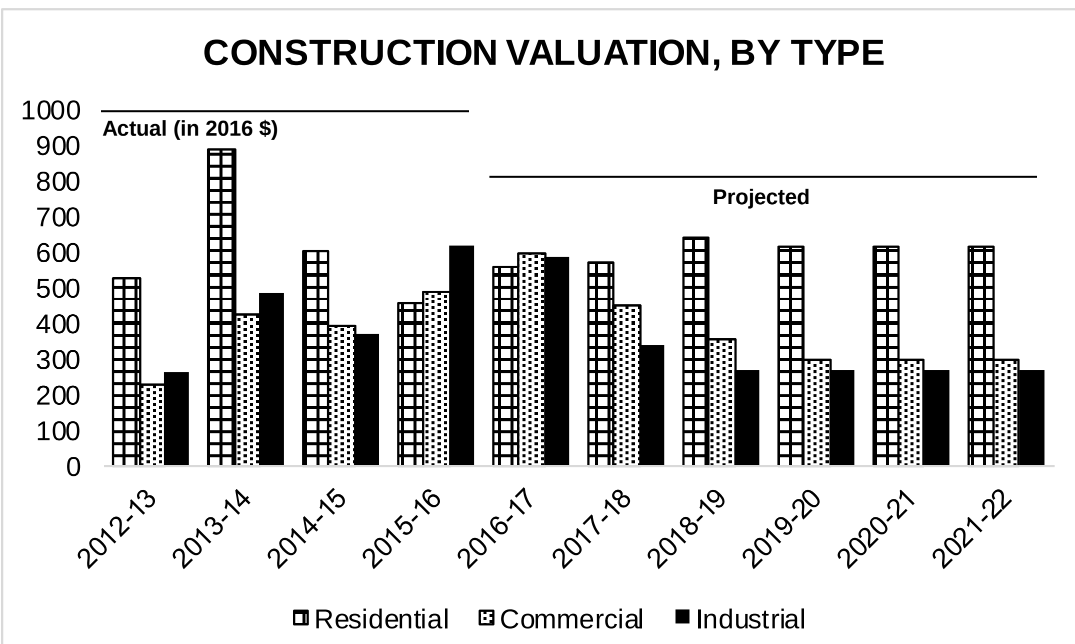
A discussion of major construction activity trends and each of the revenue categories are included in more detail on the following pages.

CONSTRUCTION ACTIVITY PROJECTIONS

With the exception of the Construction and Conveyance Tax Fund, the capital revenues described in this Forecast are construction-related taxes and fees. Revenue projections are derived from actual revenue collection patterns and construction activity estimates provided by the Planning, Building and Code Enforcement (PBCE) Department. Each year the PBCE Department provides projections of construction activity related to residential, commercial, and industrial development. The valuation figures have been adjusted to 2016 dollars per Bureau of Labor Statistics Consumer Price Index, San José-San Francisco-Oakland all items index. A more complete discussion of these estimates is provided in a technical report prepared by PBCE entitled "Development Activity Highlights and Five-Year Forecast (2018-2022)", which is included as Appendix C.

Based on projections provided by the PBCE Department, construction activity valuation is anticipated to be higher than the prior year: $1.7 billion for 2016-2017, a 12% increase compared to $1.6 billion in 2015-2016. This level of activity is expected to decrease to $1.4 billion in 2017-2018 due to a decrease in new commercial construction and alterations activity, $1.3 billion in 2018-2019 and drop to approximately $1.2 billion annually, in 2019-2022 of the forecast as anticipated projects are completed.

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



CONSTRUCTION ACTIVITY PROJECTIONS

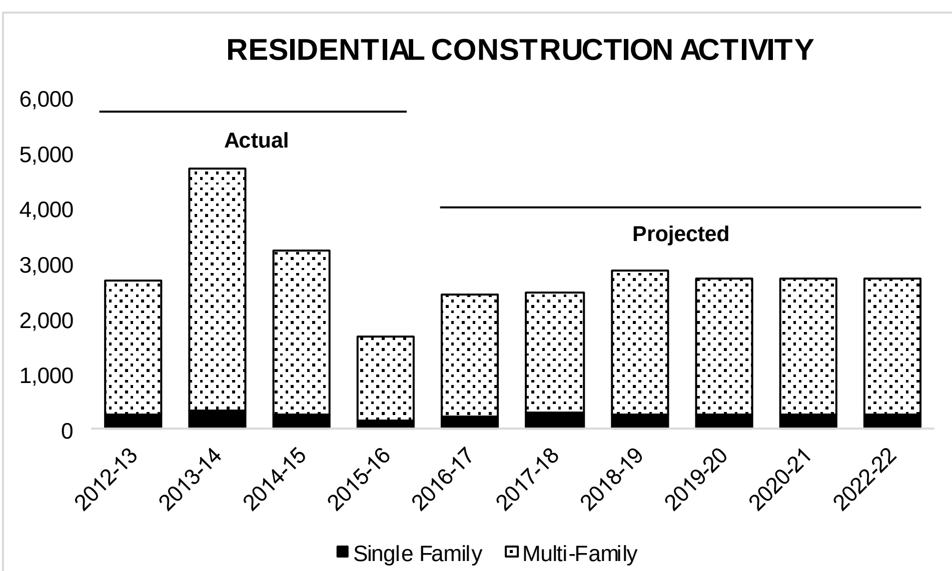
A summary of the PBCE Department construction activity projections and the corresponding revenue estimates are provided below. It should be noted that due to the highly volatile nature of the construction market, the reliability of the estimates can be expected to change over the period of the forecast. As new information becomes available, these estimates will be refined.

A. Residential Construction Activity

A significant portion of development-related revenue in San José has traditionally been generated by residential construction. New construction activity peaked in 2013-2014 in this sector with a total of 4,724 dwelling units, decreased to 1,692 dwelling units in 2015-2016, and is expected to rebound to 2,450 new dwelling units in 2016-2017, a significant increase from the prior year of 45%.

The total value of residential construction activity projected in this Forecast is $3.1 billion, an increase of 14% from the projected valuation included in the 2017-2021 Forecast. The PBCE Department expects residential construction activity to generate an estimated 2,500 new units in 2017-2018, 2,875 new units in 2018-2019, and 2,725 new units, annually, in 2019-2020 through 2021-2022. This represents an average of 2,710 units per year or 13,550 units over the forecast period. While this activity level has decreased by 10% compared to the 15,000 units included in the 2017-2021 Forecast, the overall residential construction valuation has increased over the forecast period due to a higher assumed value per square foot.

This forecast expects a total of 12,150 multi-family dwelling units or approximately 90% of all dwelling units (single-family and multi-family) to be constructed. This represents a 13% decrease compared to the projections in the 2017-2021 Forecast. New single-family dwelling units are anticipated at 1,400 during this forecast period, which is 40% higher than the projections in the 2017-2021 Forecast. The following chart shows the number of new units, by housing type, anticipated in San José through 2021-2022.



CONSTRUCTION ACTIVITY PROJECTIONS

B. Commercial Construction Activity

In 2015-2016, commercial construction activity totaled $491 million, an increase of 25% from 2014-2015. In 2016-2017, the PBCE Department expects commercial activity to increase 21% to $595 million in total permit valuation due to strong construction activity in the first half of the fiscal year. Going forward, commercial activity is expected to decrease as projects move through the development pipeline and construction is completed.

The total commercial construction valuation projected in this Forecast is $1.7 billion, an increase of 55% from the previous five-year forecast at $1.1 billion primarily driven by new commercial construction. As discussed in the attached report provided by the PBCE Department, construction began on the iStar Costco in Edenvale, Homewood Suites hotel in North San José, and various retail projects, including continued construction at Almaden Ranch (Bass Pro) shopping center. It is projected that new commercial construction activity will taper off somewhat in the out years partly due to the lack of large vacant sites available and the recent influx of new commercial development that has reduced the demand for large commercial shopping centers. Information provided by real estate trade groups for the 4th Quarter 2016 indicated that the San José office and research and development (R&D) vacancy rate was 15.2% and the retail vacancy rate was 4.7%[1].

C. Industrial Construction Activity

In 2015-2016, industrial activity surged with total valuation of $615 million, an increase of 65% from 2014-2015 due to new industrial construction. The PBCE Department expects valuation to decrease to $590 million in 2016-2017, then drop to $340 million in 2017-2018, and further decrease to $270 million annually for the remainder of the forecast, to reflect a more moderate level of activity. Information provided by real estate trade groups for the 4th Quarter 2016 indicated that the San José vacancy rate for industrial space was 4.9%[1].

It should be noted that the City Council has undertaken several actions to reduce the cost of new development in San José to create a predictable and competitive environment that supports the City's economic development goals of filling industrial buildings and encouraging new workplace development. In December 2016, the Downtown High-Rise Residential Development Incentive Program was extended and waives 50% of construction taxes for any residential tower in the downtown area that breaks ground by July 2018 and is completed by December 2020. The Downtown Commercial High Rise Development Incentive Program, approved by the City Council in December 2014 suspended the collection of the Building and Structure Construction Tax and the Construction Excise Tax for a single commercial high rise development project that obtained a building permit by December 31, 2016. Though the deadline was subsequently modified, this incentive has been applied to the Trammel Crow office building scheduled for construction on the southwest corner of W. Santa Clara Street and Delmas Avenue. In addition, a partial suspension

[1] Cushman and Wakefield, MarketBeat Reports, Q4 2016

CONSTRUCTION ACTIVITY PROJECTIONS

is currently in effect for construction taxes for building projects that fall under the land use definition of Office, Research and Development. How these incentive programs are applied to the Building and Structure Construction Tax and the Construction Excise Tax are discussed in the following pages.

Major Development Activity Data

As part of the attached Development Activity Highlights and Five-Year Forecast (2018-2022) document prepared by the PBCE Department, information is provided on development activity that serves as the foundation for their forecast. Data is provided on "major" projects (residential projects greater than 50 units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet), and is broken down by the three major land use categories – residential, commercial, and industrial. The projects are further subdivided into four categories based on their status (completed, under construction, approved but construction not yet commenced, and pending City approval). In addition, the City is divided into 15 planning areas and individual maps that show the projects in all status categories submitted since January 1, 2008 are provided, except for the Calero, Coyote, and San Felipe planning areas as no major development activity has occurred and/or these areas are outside the City's Urban Service Area and Urban Growth Boundary. These maps can be used in conjunction with the activity data to help analyze the rate, type, and location of major development activity in San José.

CONSTRUCTION AND CONVEYANCE TAX

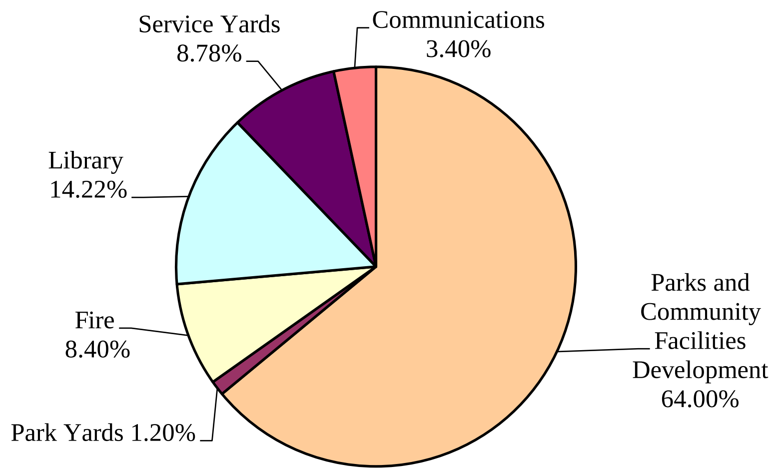
The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from $75 per unit located in a building containing at least 20 dwelling units to $150 for a single-family residence. The commercial and industrial rate is eight cents per square foot of floor area constructed. The Construction Tax accounts for a very small portion (approximately 1%) of the total Construction and Conveyance Taxes collected.

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

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

CONSTRUCTION AND CONVEYANCE TAX

CONSTRUCTION AND CONVEYANCE TAX DISTRIBUTION



Under the current City ordinance, the combined proceeds from the Construction and Conveyance Tax may be used for facility acquisition, construction, equipment, furnishings, and limited operating and maintenance expenses.

Consistent with the Construction and Conveyance Tax Task Force recommendations adopted by the City Council in June 1989, the Parks and Community Facilities Development portion of the estimated revenues, less non-construction costs and transfers to the General Fund, is allocated for all years of the forecast using a two-to-one ratio, with two-thirds of the proceeds going to neighborhood/district park projects and one-third to city-wide park projects. Per the current City Council policy, 20% of funds for neighborhood/district projects are set aside and equally allocated to meet special needs. The balance of the funds is then distributed to district funds based on a formula using the following criteria:

- neighborhood and community-serving park acres per 1,000 population;
- developed neighborhood and community-serving park acres per 1,000 population;
- square feet of neighborhood and community-serving center space per 1,000 population; and
- developed park acres and/or facilities in good condition per 1,000 population.

The five-year projection for Construction and Conveyance Tax revenue totals $176 million, which is consistent with the estimate of $176 million used to develop the 2017-2021 Adopted CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market.

Historically, Construction and Conveyance Tax revenues have been very volatile, reflecting the impacts of the ups and downs of the local economy and particularly the real estate market. After

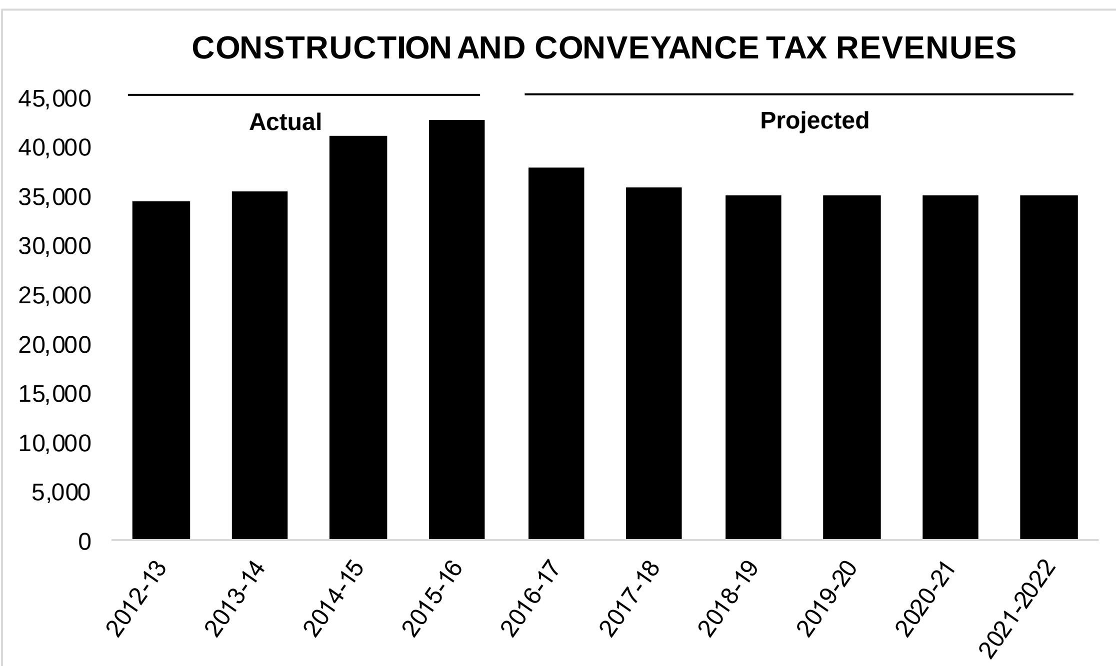
CONSTRUCTION AND CONVEYANCE TAX

reaching a record setting high of $49 million in 2005-2006, tax collections continuously fell for several years following the real estate slowdown and financial market crisis, dropping to $20.5 million in 2008-2009. However, collections have rebounded in recent years with revenues reaching $42.7 million in 2015-2016.

The local real estate market, however, is beginning to see declines compared to prior year levels in property transfers (sales), which is a key driver of this revenue category. The December 2016 number of property transfers totaled 561, a decrease of 17.6% from the 681 property transfers experienced in December 2015. The number of new listings for single-family and multi-family dwellings has also decreased 27% compared to prior year levels. However, the median single-family home price in December 2016 was $863,000, which represents a 4.6% increase from the December 2015 price of $825,000. In addition, it took less time to sell these homes, with the average days on the market for single-family and multi-family dwellings in December 2016 totaling 34 days, a 12.8% decrease from the 39 days experienced in December 2015.

Due to increased home prices coupled with lower inventory and property transfers, collections in 2016-2017 are projected to end the year at $38 million. This collection level is 11% below the actual receipts received in 2015-2016 ($42.7 million), but is slightly higher than the $36 million estimated in the 2017-2021 Adopted CIP. Based on recent collection trends and real estate activity, collections in this extremely volatile revenue category are anticipated to drop slightly to $36 million in 2017-2018, decrease to $35 million in 2018-2019, and remain constant through the remainder of the forecast period

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



BUILDING AND STRUCTURE CONSTRUCTION TAX

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

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

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

As discussed above, the partial suspension of construction taxes for building projects that fall under the land use definition of Office, Research and Development and the Downtown Residential High Rise Development Incentive Programs impact the Building and Structure Construction Tax. The partial suspension for building projects categorized as Office, Research and Development acts to reclassify development projects that were previously identified as commercial use, such as research and development facilities that resemble traditional offices and data centers, and treats them as industrial uses, which results in projects moving from a tax rate of 1.5% to 1.0%. This exemption is due to expire March 31, 2017. The City administration is developing recommendations regarding the partial suspension of the tax, which take into consideration the underlying challenges related to implementation, the need to sufficiently fund transportation projects, and the goal of encouraging job growth. The Downtown High-Rise Residential Development Incentive Program waives 50% of construction taxes for any residential tower in the downtown area that breaks ground by July 2018 and is completed by December 2020. It is anticipated that several major residential projects in Downtown will be started in 2017-2018.

In 2016-2017, Building and Structure Construction Tax receipts through January totaled $14.5 million, up 59% from the $9.1 million collected through the same period last year, and already above the 2016-2017 Adopted Budget estimate of $13 million. Based on strong collections through January, tax receipts are anticipated to end the fiscal year at $24 million, exceeding the current budget estimate by $11 million.

Based on the construction activity forecasts supplied by the PBCE Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax collections totals $78 million, an increase of $13 million (20%) from the estimate included in the 2017-2021 Adopted Capital Improvement Program (CIP). It is projected that collections will drop from the 2016-2017 estimate of $24 million to $18 million in 2017-2018 and to $15 million for the remainder of the forecast period as projects are completed and activity levels slightly decrease.

BUILDING AND STRUCTURE CONSTRUCTION TAX

In 2005, the City Council adopted the North San José Area Development Policy (Policy), which established a policy framework to guide the ongoing development of the area as an important employment center for San José. In order to provide public infrastructure requirements and to fund roadway improvements to mitigate the impacts of increased traffic generated by new development under the Policy, the City Council adopted the North San José Traffic Impact Fee to fund these improvements. In January 2012, the City Council adopted the North San José Traffic Impact Fee Incentive Program which reduced the traffic impact fee imposed on industrial development projects. This Program was amended in February 2013 and again in December 2013, further reducing the traffic impact fee to entice commercial/job-oriented development in North San José. With the lowering of the impact fees and the loss of San Jose Redevelopment Agency contributions, a large traffic infrastructure funding gap was created. In June 2014, as part of the Mayor’s June Budget Message for Fiscal Year 2014-2015, as approved by the City Council, Manager’s Budget Addendum #8 described a new funding strategy to address the funding gap. The approved funding strategy dedicates future Building and Structure Construction Tax revenues generated from new development in North San José to be held in reserve for North San José transportation projects. It is anticipated that there will be several new major projects under construction in the North San José area during the 2018-2022 forecast period. As the budget for the 2018-2022 Traffic Capital Program is developed, an estimate of the tax revenue from these projects will be set aside so that funding is available for the construction of North San José transportation improvement projects. A comparison of the five-year forecast with actual collections in previous years for the Building and Structure Construction Tax is shown in the chart that follows the discussion of Construction Excise Tax performance.

CONSTRUCTION EXCISE TAX

The Construction Excise Tax (also referred to as the Commercial-Residential-Mobile Home Park Building Tax) is imposed upon the construction, alteration, repair or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. This general purpose tax may be used for any “usual current expenses” of the City. However, the City Council has historically used the majority of these funds for traffic improvements. The current rates are:

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

As mentioned above, this tax is a general purpose tax; however, the majority of the proceeds have generally been used for a variety of essential Traffic Capital projects that cannot be funded by the Building and Structure Construction Tax or grants. Typical projects funded with this tax include street maintenance and resurfacing, streetlights, bicycle and pedestrian facilities, and most strategic planning programs, which improve the City’s ability to obtain State and federal grants for transportation projects. A portion of these taxes has also been used as a budget balancing solution to address General Fund shortfalls in prior years.

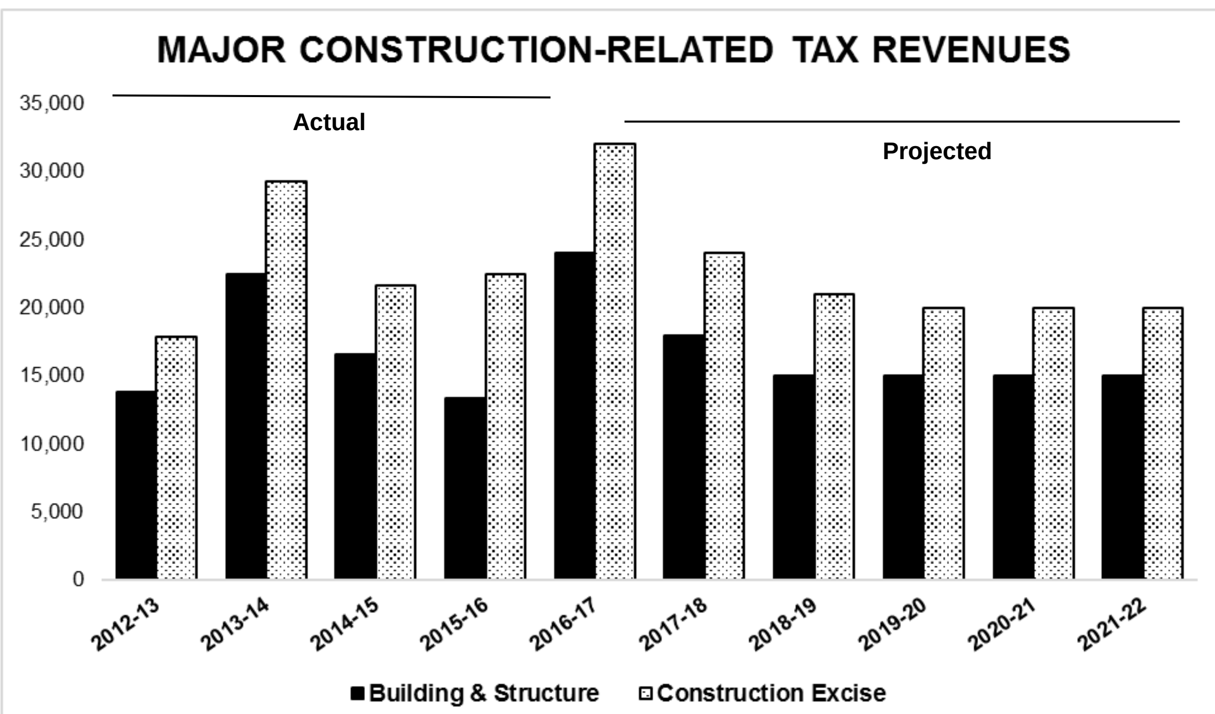
Unlike the Building and Structure Construction Tax, this tax does not apply to industrial development. As a result, changes in industrial building activity do not affect these tax receipts.

CONSTRUCTION EXCISE TAX

It is important to note that the partial suspension of construction taxes reclassifies building projects under the land use definition of Office, Research and Development from commercial use to industrial use. As the Construction Excise Tax does not levy a tax on industrial uses, these facilities are exempt, resulting in the partial suspension of the tax having a larger impact on the Construction Excise Tax than the Building and Structure Construction Tax. The Downtown High-Rise Residential Development Incentive Program waives 50% of construction taxes for any residential tower in the downtown area that breaks ground by July 2018 and is completed by December 2020. It is anticipated that several major residential projects in Downtown will start in 2017-2018.

In 2016-2017, tax receipts through January for the Construction Excise Tax Fund totaled $19.3 million, 79% above the $10.8 million collected through the same period last year and already exceeds the 2016-2017 Adopted Budget estimate of $17 million. Based on the extremely high collections through January, collection levels are anticipated to end the fiscal year at $32 million, exceeding the current budgeted estimate by $15 million.

Based upon the construction projections provided by the PBCE Department and actual collections on this tax, Construction Excise Tax collections are projected to total $105 million over the five-year forecast period, with proceeds estimated at $24 million in 2017-2018, then dropping to $21 million in 2018-2019, and decreasing to $20 million in 2019-2020 through 2021-2022. This collection level represents a significant increase of $21 million (25%) from the 2017-2021 Adopted CIP. A comparison of the five-year forecast with actual collections in previous years for the Construction Excise Tax is shown in the chart that follows.



MUNICIPAL WATER SYSTEM FEES

Various Municipal Water System fees are charged for connecting to the City's water system. These fees include the Advance System Design Fee, Meter Installation Fee, and Service Connection Fee. Advance System Design Fees are charged to developers to cover engineering and inspection costs for water facilities required in new developments. Meter Installation Fees are charged to developers to recover costs based on the size of the meter and/or fire hydrant installation necessary. Service Connection Fees are charged to developers to recover the actual costs associated with the construction of water main or fire hydrant installations when improvements are constructed by the City.

Based on projected activity and collection trends, the Municipal Water System fees are projected to decrease to $375,000 over the Forecast period. These fees are detailed in the chart below.

MUNICIPAL WATER SYSTEM FEES

($ in Thousands)

	2017-2021 CIP	2018-2022 Forecast	Difference	
Advance System Design Fee	125	125	-	0%
Meter Installation Fee	125	125	-	0%
Service Connection Fee	250	125	(125)	(50%)
TOTAL	500	375	(125)	(25%)

RESIDENTIAL CONSTRUCTION TAX

The Residential Construction Tax is imposed upon the construction of residential dwelling units and mobile home lots in the City. The rates are imposed on each dwelling unit and differ according to the number of units located in the building. Rates vary from $99 for each unit in a building of at least 20 dwelling units to $180 for a single-family residence.

This tax is collected and placed in the Residential Construction Tax Contribution Fund and is used to reimburse developers that have constructed a wider arterial street than their residential development required. The funds are also used to construct median island landscaping and other street improvements.

In 2016-2017, receipts are projected to total $275,000 based on year-to-date activity levels. This collection level is higher than the budget of $175,000 as a result of strong residential development activity. Based upon construction estimates by the PBCE Department and the actual collection pattern for this tax, collections are expected to drop to $200,000 in the forecast as a result of development activity returning to more moderate levels. A total of $1 million is expected over the five-year period of this forecast, which is slightly higher than the total in the 2017-2021 Adopted CIP of $875,000.

SANITARY SEWER CONNECTION FEE

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

In 2016-2017, receipts are projected to total $800,000 based on year-to-date activity levels, which is above the budgeted estimate of $650,000. Annual collections are expected to drop to $700,000 in the forecast. The 2018-2022 Forecast projection for this fee is $3.5 million, which is an 8% increase from the 2017-2021 Adopted CIP estimate of $3.3 million.

STORM DRAINAGE CONNECTION FEE

The Storm Drainage Connection Fee is charged to developers as a connection fee for any project that will discharge storm water, surface water or ground water runoff into the City's storm drainage system. The fees are charged by acreage or lot and vary by land use and by the number of units located in the development. Storm Drainage Connection Fees may only be used for the construction, reconstruction, land acquisition and maintenance of the San José storm drainage system.

In 2016-2017, receipts are projected to total $250,000 based on year-to-date activity levels, which is above the budgeted estimate of $175,000. The five-year forecast for Storm Drainage Connection Fees totals $1 million, with annual receipts of $200,000 for the period from 2017-2018 to 2021-2022. This collection level is higher than the estimate included in the 2017-2021 Adopted CIP of $875,000.

ATTACHMENT A

CONSTRUCTION-RELATED REVENUE
2018-2022 FORECAST
(in $ thousands)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	5 Yr Total
Construction and Conveyance Tax							
2017-2021 Adopted CIP	36,000	35,000	35,000	35,000	35,000	N/A	176,000
2018-2022 FORECAST	38,000	36,000	35,000	35,000	35,000	35,000	176,000
Difference	2,000	1,000	-	-	-	N/A	-
Building and Structure Construction Tax							
2017-2021 Adopted CIP	13,000	13,000	13,000	13,000	13,000	N/A	65,000
2018-2022 FORECAST	24,000	18,000	15,000	15,000	15,000	15,000	78,000
Difference	11,000	5,000	2,000	2,000	2,000	N/A	13,000
Construction Excise Tax							
2017-2021 Adopted CIP	17,000	17,000	17,000	17,000	16,000	N/A	84,000
2018-2022 FORECAST	32,000	24,000	21,000	20,000	20,000	20,000	105,000
Difference	15,000	7,000	4,000	3,000	4,000	N/A	21,000
Municipal Water Advance System Design Fee							
2017-2021 Adopted CIP	25	25	25	25	25	N/A	125
2018-2022 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Municipal Water Meter Installation Fee							
2017-2021 Adopted CIP	25	25	25	25	25	N/A	125
2018-2022 FORECAST	25	25	25	25	25	25	125
Difference	-	-	-	-	-	N/A	-
Municipal Water Service Connection Fee							
2017-2021 Adopted CIP	50	50	50	50	50	N/A	250
2018-2022 FORECAST	25	25	25	25	25	25	125
Difference	(25)	(25)	(25)	(25)	(25)	N/A	(125)
Residential Construction Tax							
2017-2021 Adopted CIP	175	175	175	175	175	N/A	875
2018-2022 FORECAST	275	200	200	200	200	200	1,000
Difference	100	25	25	25	25	N/A	125
Sanitary Sewer Connection Fee							
2017-2021 Adopted CIP	650	650	650	650	650	N/A	3,250
2018-2022 FORECAST	800	700	700	700	700	700	3,500
Difference	150	50	50	50	50	N/A	250
Storm Drainage Connection Fee							
2017-2021 Adopted CIP	175	175	175	175	175	N/A	875
2018-2022 FORECAST	250	200	200	200	200	200	1,000
Difference	75	25	25	25	25	N/A	125
TOTAL							
2017-2021 Adopted CIP	67,100	66,100	66,100	66,100	65,100	N/A	330,500
2018-2022 FORECAST	95,400	79,175	72,175	71,175	71,175	71,175	364,875
Difference	28,300	13,075	6,075	5,075	6,075	N/A	34,375
% Change from 2017-2021 CIP	42%	20%	9%	8%	9%	N/A	10%

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Five-Year Economic Forecast and Revenue Projections

2018-2022

Appendix A

Service Restoration Decision Making Framework
Guiding Principles for Restoring City Service Levels
City of San José Budget Principles

CITY OF SAN JOSE BUDGET PRINCIPLES

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

1) STRUCTURALLY BALANCED BUDGET

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

2) PROPOSED BUDGET REVISIONS

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

3) USE OF ONE-TIME RESOURCES

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

4) BUDGET REQUESTS DURING THE YEAR

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

5) RESERVES

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

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

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

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

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

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

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

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

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

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

Guiding Principles for Restoring City Service Levels

Ensure the Fiscal Soundness of the City

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

Choose Investments that Achieve Significant Outcomes

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

Improve the Efficiency and Effectiveness of Service Delivery

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

Approved by the City Council on March 20, 2012

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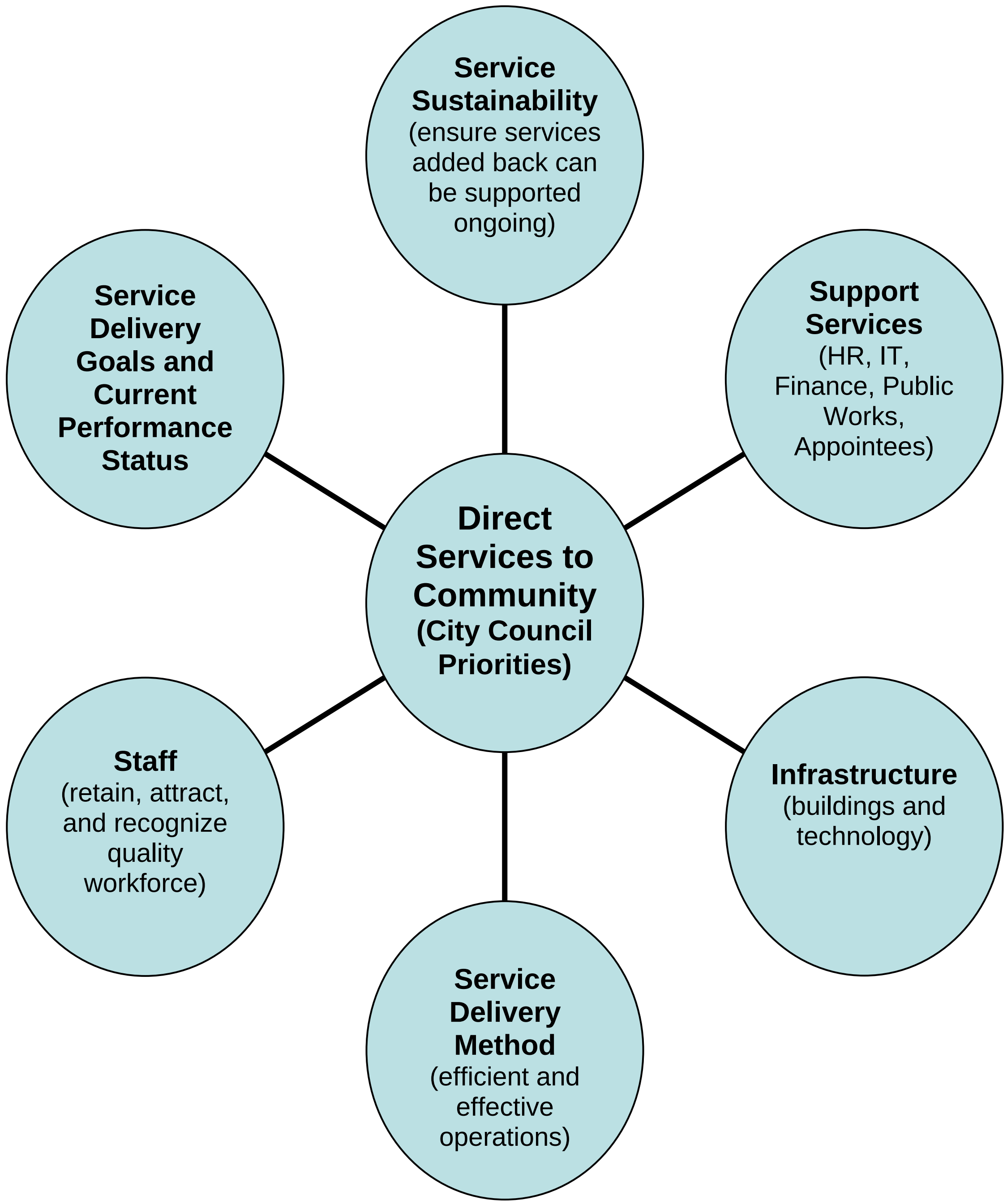
Service Restoration Decision Making Framework



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Five-Year Economic Forecast and Revenue Projections

2018-2022

Appendix B

General Fund Revenue Descriptions

PROPERTY TAX

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

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

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

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

SALES AND USE TAX

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

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

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

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

* Includes the 1/2 percent VTA increase approved in November 2016 that is effective April 2017.

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

SALES AND USE TAX

Proposition 163, which partially repealed the prior action, re-establishing the exemption for snack food, candy, and bottled water effective December 1, 1992.

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

TRANSIENT OCCUPANCY TAX

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

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

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

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

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

The General Fund portion, or 40%, of the Transient Occupancy Tax was enacted as a general tax. The other 60% of the Transient Occupancy Tax is restricted for use in cultural development, supporting a convention and visitors bureau, and supporting the convention and cultural facilities of San José. Although not specifically related to the Transient Occupancy Tax, many hotels in San José also belong to the Convention Center Facilities District, which assesses an additional special tax on

TRANSIENT OCCUPANCY TAX

daily room rates of 4%. Revenues from the Convention Center Facilities District are restricted for debt service payments or capital improvements related to the Convention Center. Of the approximately 14% total tax assessed on room rates at most hotels, only the 4% portion of the Transient Occupancy Tax is deposited into the General Fund.

FRANCHISE FEES

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

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

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

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

FRANCHISE FEES

On October 19, 2010, the City Council amended the CSW fee to a fee for franchises based on geographic collection districts rather than volume. The base fee of $5.0 million per year for each of two geographic collection districts plus a supplemental fee of $1.0 million for the right to conduct CSW services in both the North District and the South District became effective July 1, 2012, and is subject to an annual Consumer Price Index (CPI) adjustment. The CSW fee is authorized by Title 9 of the Municipal Code, Chapter 9.08. For 2016-2017, CSW fees are estimated to total $11.4 million: $5.16 million per year for each of the two geographic collection districts plus a supplemental fee of $1.03 million once adjusted for the 0.12% CPI increase that was approved.

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

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

UTILITY TAX

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

TELEPHONE LINE TAX

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

BUSINESS TAXES

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

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

In addition to the rates listed above, City Ordinance number 21518 specifies the assessment of taxes by grouping taxed businesses (each at a different rate) in the following categories: Rental or Lease of Residential or Non-Residential property, Mobile Home Parks, and Water Companies. Rented or leased properties (if three or more residential rental units) are subject to the $150 minimum tax, but are also assessed $5/rental unit over 30 units for residential properties and $0.01 per square foot in excess of 15,000 square feet for non-residential properties. Taxes for both residential and non-residential properties are limited to a maximum of $5,000. Mobile home parks are treated as residential properties. Water companies are assessed by a schedule that assigns an amount (from $200 to $20,000) depending on the number of active metered connections. In November 1996, the rates were increased to reflect an annual inflation factor as part of the New Realities Task Force recommendations contingent on voter approval. Because the voters did not approve the continuation of the increase in November 1998, the rates (as reflected) were returned to the levels prior to November 1996.

There are several exclusions (by federal or State regulations) or exemptions (by the City Council) from the General Business Tax. The major types of exempt organizations include banks and insurance companies, charitable and non-profit organizations, interstate commerce, and low revenue generation businesses. On June 8, 1993, the City Council deleted the sunset provision of a business tax exemption for certain artists and craftpersons selling their wares at one location. The Business Tax is authorized by Title 4 of the Municipal Code, Chapter 4.76.

Modernization of the San José business tax was approved by San José voters on November 8, 2016 (Measure G). The approved changes will take effect July 1, 2017. The adjustments to the business tax that will take effect on July 1, 2017 include:

BUSINESS TAXES

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

The charts that follow present the structure of the current and voter-approved business tax rates effective July 1, 2017.

Employee Count

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

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

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

Residential Rental Property Units

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

*Maintains the exemption for rental housing owned by nonprofit organizations

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

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

BUSINESS TAXES

Commercial (Non-Residential) Rental Property Units

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

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

Mobile Home Parks Rental Units

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

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

Water Meter Connections

Water Companies	Current	Effective July 1, 2017
Base Tax*	n/a	$195
Flat Incremental Tax**	$0.10-0.30 per connection	$1.00 per connection
Cap	$20,000	$150,000

*Apply the Base Tax.

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

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

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

BUSINESS TAXES

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

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

LICENSES AND PERMITS

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

FINES, FORFEITURES, AND PENALTIES

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

FINES, FORFEITURES, AND PENALTIES

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

USE OF MONEY AND PROPERTY

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

REVENUE FROM LOCAL AGENCIES

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

REVENUE FROM THE STATE OF CALIFORNIA

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

On November 23, 1998, the attorneys general of most states and the major United States tobacco companies signed a Master Settlement Agreement (MSA) to settle more than 40 pending lawsuits brought by states against the tobacco industry. In exchange for the states dropping their lawsuits, and agreeing not to sue in the future, the tobacco companies agreed to pay, in perpetuity, various annual payments to the states to compensate them for some of the medical costs of caring for persons with smoking-related illnesses. Further, the companies have restricted their marketing

REVENUE FROM THE STATE OF CALIFORNIA

activities and established new efforts to curb tobacco consumption. The City, along with the other states and local government entities, joined in the settlement. In the MSA, the Original Participating Manufacturers agreed to pay a minimum of $206 billion over the first twenty-five years of the agreement.

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

REVENUE FROM THE FEDERAL GOVERNMENT

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

FEES, RATES, AND CHARGES

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

OTHER REVENUE

This revenue category contains revenue received from a variety of miscellaneous sources. Significant sources of revenue include SAP Center rental, parking, suite, and naming revenues and cost reimbursements related to Finance Department staff in the Investment Program. The remaining revenues represent one-time and/or varied levels of reimbursements, sale of surplus property receipts, and miscellaneous revenues associated with the Office of the City Attorney.

TRANSFERS AND REIMBURSEMENTS

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

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

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

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

STATE GAS TAX

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

STATE GAS TAX

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

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

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

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Five-Year Economic Forecast and Revenue Projections

2018-2022

Appendix C

Development Activity Highlights

Prepared by the Planning, Building and Code Enforcement Department

Development Activity Highlights and Five-Year Forecast (2018-2022)

Prepared by:

City of San Jose
Department of Planning, Building and Code Enforcement
March 2017

Development Activity Highlights and Five-Year Forecast (2018-2022)

For more information, please contact:

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Department of Planning, Building and Code Enforcement
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(408) 535-3555

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

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

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Development Activity Highlights and Five-Year Forecast (2018-2022)

I. PURPOSE

The *Development Activity Highlights and Five-Year Forecast (2018-2022)* is a report issued annually by the Department of Planning, Building and Code Enforcement. The report serves three important functions, as follows:

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

II. SUMMARY

While new residential development slowed in fiscal year 2015/2016, new industrial development significantly outpaced totals from the prior two fiscal years. New commercial development also remained strong for the third year in succession.

After two historic years of residential development in fiscal years 2013/2014 and 2014/2015, construction of new units in fiscal year 2015/2016 considerably declined. Building permits issued for new residential units in fiscal year 2015/2016 were down approximately 50 percent from the previous fiscal year, and represented a six year low.

New residential units are forecasted to rebound during the forecast period based on building permits issued during the first half of the current fiscal year (2016/2017) and existing project approvals. During the first six months of fiscal year 2016/2017, over 1,400 building permits were issued for new residential units. Additionally, as of February 2017, there were approximately 8,500 new residential units that have received entitlements, but have not yet started construction. The City Council also approved a secondary unit ordinance in November 2016 that loosened existing zoning code regulations and incorporated 2016 changes made to state law, which is expected to lead to an increase in the construction of "granny" units.

Valuation of new commercial construction, $239 million, in fiscal year 2015/2016 nearly kept pace with the 14 year high reached last fiscal year of $246 million. Various retail and hotel projects accounted for a strong year of commercial growth.

Retail vacancy rates in San Jose have remained low. As of the third quarter of 2016, the overall retail vacancy rate in San Jose was approximately 5.4%, slightly less than the San José Metro Area (approximately 5.6%). During the first six months of the current fiscal year (2016/2017) valuation of new commercial construction has reached over $270 million, and is forecasted to reach $375 million. Additionally, over 1.2 million square feet of commercial projects have been entitled but have not yet started construction. Due to these factors commercial construction activity is forecasted to remain relatively strong over the next couple fiscal years. Lack of available land for large retail centers and national retail trends, however, may result in a decline in new commercial construction in the future.

New industrial development surpassed a 10 year high with building permits issued for over 2 million square feet of industrial space. This is reflective of overall vacancy rates in Silicon Valley, which are lower than they have been since 2001. Projects breaking ground included the Coleman Highline, a 683,000 square foot office project adjacent to San José International Airport, and Equinix, a 386,000 square foot data center in Edenvale.

The office vacancy rate in San José in the third quarter of 2016 was 12.8%, compared to the overall office vacancy rate of 9.6% in Silicon Valley. Research and development (R&D) vacancy rates were also higher in San José, 15.9%, than the overall Silicon Valley vacancy rate of 9.8%. However, industrial/manufacturing and warehouse vacancy rates remain low in San José, at 2.1% and 2.6%, respectively. As result, new construction of industrial uses is estimated to remain robust over the next couple years.

The following summary discusses current development activity and trends for each major land use category (residential, commercial, and industrial), providing some insight as to what may occur over the forecast period (2018-2022).

Residential Development

- *New residential development significantly declined in fiscal year 2015/2016 (1,692 new units). The trough in 2015/2016 may be attributed to a cycle of projects approved during the economic recession and recovery years beginning construction, while a new wave of projects continue to be processed and entitled.*

- *Following multiple years of steep increases, rents in Silicon Valley have leveled off and began falling. However, residential inventory and vacancy rates still remain low for the Bay Area overall. Currently, there are over 8,500 residential units with approved entitlements in San José that have not yet started construction. Because the market has largely absorbed new homes, it is anticipated that the number of new units and associated valuations will remain relatively strong over the forecast period.*

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

<u>**Commercial Development**</u>

- *New commercial construction remained strong in fiscal year 2015/2016, accounting for three straight years of producing more than one million square feet of new commercial space. In the last year, construction began on the iStar Costco (148,000 square feet) in Edenvale, Homewood Suites hotel in North San José, and various retail projects, including continued construction at Almaden Ranch (Base Pro) shopping center. Total valuation for new commercial construction in 2015/2016 was $239 million, compared to the average of $131 million over the preceding decade. Valuation for new construction in 2016/2017 is estimated to reach $375 million based on the first six months of the current fiscal year, which have been particularly strong.*

- *Commercial alterations also remained strong in fiscal year 2015-2016, and accounted for approximately half of the total valuation for the year. This reflects the low retail vacancy rates in the south bay, and strong economy overall.*

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

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

- *The five-year forecast reflects regional and national trends. New commercial construction is estimated to remain above average for the next two fiscal years, and then modestly decline over the last half of the forecast period. Based on approved entitlements, the hotel market will be a primary driver of commercial development over the next five years.*

Industrial Development

- *Industrial construction activity was particularly strong for new construction in fiscal year 2015/2016. Building permits were issued for over 2 million square feet of new industrial space, over double the previous fiscal year. Valuation of new construction reached 300 million, supported by development of new office and warehouse/data center space. For comparison, the average valuation of new industrial construction over the preceding 10 fiscal years was $105 million.*

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

- *New industrial development is forecasted to remain relatively strong over the next couple years compared to historical averages, but is to some degree reliant on the groundbreaking of several large projects. Over 5.5 million square feet of industrial space have entitlements but have not started construction. However, there are some indications that office vacancy rates will rise over the next several years. This would result in fewer new office projects breaking ground.*

- *Based on the first half of the current fiscal year (2016/2017), valuation for industrial alterations are forecasted to reach $400 million, which would surpass a ten year high. Consistent with previous Development Activity Highlights and Five-Year Forecast reports, industrial valuations are estimated to return closer to historical averages over the remaining forecast period (2017/2018 – 2021/2022).*

III. FIVE-YEAR FORECAST (2018-2022)

The Department of Planning, Building and Code Enforcement’s five-year forecast of development activity is summarized in Tables 1 and 2 (next page). Construction valuation in fiscal year 2016/2017 is expected to exceed the previous two years, aided by a particularly strong year in new commercial construction and industrial alterations. Future development is predicted to be driven by mixed-use residential projects, and certain commercial and industrial sectors as described above. San José is poised to capitalize on on-going demand for office and warehouse space for expanding companies that has led to low vacancy rates and high rents in neighboring cities.

Additional connectivity with the expansion of the BART (Bay Area Rapid Transit) into the Berryessa area and with plans for future expansion to Downtown is another positive indication for future development in San José.

Table 1
Construction Valuation: FY 11/12 to FY 21/22

Fiscal Year	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
	Actual Valuation[1] (in millions)					Projected Valuation (in millions)					
New Construction											
Residential	$472	$439	$774	$478	$339	$466	$475	$546	$518	$518	$518
Commercial	82	74	187	246	248	375	250	175	125	125	125
Industrial	12	64	276	195	310	190	190	120	120	120	120
Subtotal	$566	$577	$1237	$920	$897	$1031	$915	$841	$763	$763	$763
Alterations											
Residential	$93	$90	$114	$123	$117	$95	$95	$95	$95	$95	$95
Commercial	183	151	236	147	243	220	200	180	175	175	175
Industrial	137	199	210	177	305	400	150	150	150	150	150
Subtotal	$412	$439	$561	$447	$665	$715	$445	$425	$420	$420	$420
Grand Total (Taxable)	**$979**	**$1016**	**$1798**	**$1367**	**$1562**	**$1746**	**$1360**	**$1266**	**$1183**	**$1183**	**$1183**

[1]Valuation figures adjusted to 2016 dollars, per Bureau of Labor Statistics Consumer Price Index (CPI), San Jose-San Francisco-Oakland, all items index.

Table 2
Residential Units and Non-Residential Square Footage: FY 11/12 to FY 21/22

Fiscal Year	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
	Actual[1]					Projected					
Residential (Units)											
Single-Family	140	284	341	254	152	250	300	275	275	275	275
Multi-Family	2,833	2,418	4,383	2,987	1,540	2,200	2,200	2,600	2,450	2,450	2,450
TOTAL	2,973	2,702	4,724	3,241	1,692	2,450	2,500	2,875	2,725	2,725	2,725
Non-Residential (sq.ft., in thousands)											
Commercial	800	500	1,400	2,000	1,854	2,200	2,000	1,400	1,000	1,000	1,000
Industrial	200	790	1,200	1,000	2,068	1,400	1,400	1,000	1,000	1,000	1,000
TOTAL	1,000	1,290	2,600	3,000	3,922	3,600	3,400	2,400	2,000	2,000	2,000

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

IV. CONSTRUCTION TAXES

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

Building and Structure Construction Tax

The Building and Structure Construction Tax is imposed upon the construction, repair, or improvement of any building or structure where a building permit is required (except for authorized exemptions- see below). The proceeds from this tax are restricted in use to the provision of traffic capital improvements on major arterials and collectors, the acquisition of lands and interest in land, and the construction, reconstruction, replacement, widening, modification and alteration (but not maintenance) of City streets.

Construction Excise Tax

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

Residential Construction Tax

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

V. MAJOR DEVELOPMENT ACTIVITY DATA

Planning staff has collected a significant amount of data on development activity, which is the foundation for the five-year forecast contained in Section III of this report. This data focuses on recent “major” projects with the highest likelihood to have the most significant impact on the forecast. Major projects are defined as residential projects greater than 50 dwelling units, commercial projects greater than 25,000 square feet, and industrial projects greater than 75,000 square feet. This data collection effort has identified approximately 28,000 dwelling units and approximately 25 million square feet of commercial and industrial space submitted for Planning approval since January 1, 2008 that have been constructed or are likely to develop in the near future.

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

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

Projects Completed

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
H07-008	2/16/07	Centerra Apts	259-35-007	SW/c N. Almaden & W. St. John	Central	MF	347	MS	12/7/07
H09-004	2/11/09	Donner Lofts	467-20-018	SE/c E. St. John & N. 4th	Central	MF	156	SZ	10/9/09
H12-022	1/9/13	One South Market Apts	259-40-093	SW/c Market & Santa Clara	Central	MF	312	SD	3/1/13
H13-021	5/28/13	The Pierce Apts	264-32-087	SW/c S. Market & Pierce	Central	MF	234	RB	11/1/13
H13-023	6/7/13	San Jose Student Apts	467-57-080	E/s N. 6th, 100' nly Santa Clara	Central	MF	119	KT	11/22/13
PD04-103	5/10/04	San Carlos Senior Apts	274-14-142	NW/c W. San Carlos & N. Willard	Central	MF	95	EM	8/25/04
PD07-025	3/26/07	Race Street	264-09-064	Race Street and Auzerias Avenue	Central	MF	386	RR	8/6/07
PD07-033	4/13/07	The Verdant/Latitude Apts	097-07-086	NW/c Zanker & Tasman	North	MF	704	JB	11/30/07
PD07-036	4/13/07	Enzo Apts	097-07-031	W/s Baypointe, 370' nly Tasman	North	MF	183	JB	11/30/07
PD07-088	10/9/07	Morrison Park Apts	261-01-054	SW/c Cinnabar & Stockton	Central	MF	250	LM	8/1/08
PD07-090	10/23/07	Riverview Apts	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	MF	1,579	JB	4/4/08
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	MF	371	RM	10/10/08
PD08-015	2/11/08	Japantown Senior Apts	249-39-011	W/s N. 6th, 200' sly E. Taylor	Central	MF	85	SZ	5/7/10
PD08-023	3/11/08	121 Tasman Apts	097-07-072	NE/c Baypointe & Tasman	North	MF	174	JB	8/1/08
PD08-027 / AD12-1006	4/4/08	Berryessa Crossing (Phase 1)	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	SF	242	LX	12/15/10
PD08-056	8/29/08	Epic Apts	097-15-026	SE/c River Oaks & Seely	North	MF	769	ES	1/23/09
PD08-071	12/17/08	Santana Row (Levare)	277-40-011	NW/c Olin & Hatton	West Valley	MF	118	SZ	4/23/10
PD09-001	1/20/09	Brookwood Terrace Apts	472-05-075	S/s E. San Antonio, opp. S. 28th	Central	MF	84	SZ	6/15/09
PD09-006	2/27/09	Meridian Mixed Use	277-20-006	SW/c W. San Carlos & Meridian	Central	MF	218	ES	6/8/09
PD09-030	10/2/09	Westmount Homes	249-09-009	SE/c E. Mission & N. 10th	Central	SF	60	SZ	11/30/09
PD09-033	10/21/09	Ford Apts	678-53-004	N/s Ford, 550' ely Monterey	Edenvale	MF	95	LX	7/16/10
PD09-039	11/23/09	Edwards Mixed Use	264-37-060	SW/c Edwards & S. 1st	Central	MF	50	SZ	7/2/10
PD10-024	11/2/10	Brookside Homes	575-02-027	W/s Guadalupe Mines, 2000' sly Camden	Almaden	SF	89	LX	9/16/11
PD10-026	11/5/10	Celadon Townhomes (Phase 2)	254-06-037	SW/c N. Capitol & Mabury	Alum Rock	MF	77	JN	6/10/11
PD11-003	1/21/11	Cottages at Mirassou	659-57-010	SW/c Ruby & Aborn	Evergreen	SF/MF	104	LX	7/29/11
PD11-008	3/7/11	Westbury Homes	464-22-030	N/s Blossom Hill, 250' ely Cahalan	Edenvale	SF	86	LX	9/7/11
PD11-009	3/9/11	Vicino Townhomes	277-38-006	W/s S. Monroe, 450' nly Hwy 280	West Valley	SF	104	LX	9/30/11
PD11-023	7/21/11	Centered on Capitol Townhomes	589-19-063	NE/c N. Capitol & Sierra	Berryessa	MF	94	LX	11/18/11
PD11-025	3/11/11	Rosemary Family/Senior Apts	235-05-012	SE/c N. 1st & Rosemary	North	MF	290	LX	8/26/11
PD11-026	7/28/11	The Meridian at Willow Glen	447-05-012	NE/c Hillsdale & Yucca	Willow Glen	SF	51	ME	11/18/11
PD11-030 / PD07-091	9/8/11	Tasman Apts	097-52-013	NW/c Vista Montana & W. Tasman	North	MF	554	JH	10/14/11
PD11-031	9/8/11	Domain Apts	097-52-028	W/s N. 1st, both sides Vista Montana	North	MF	444	JH	10/14/11
PD12-002	1/17/12	Anton La Moraga Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	275	JB	5/4/12
PD12-007	2/16/12	River Oaks Apts (East)	097-33-102	N/s River Oaks, 200' ely Research	North	MF	438	LX	5/25/12
PD12-031	7/1812	Berryessa Crossing (Phase 2)	254-17-052	N/s of Berryessa Road, wly of UP railroad	Berry./Alum Rock	SF	494	LX	3/8/13

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
PD12-036	8/14/12	North Tenth Street Apts	249-08-004	W/s N. 10th, bet Vestal & E. Mission	Central	MF	166	JR	2/8/13
PD12-039 / PD14-010	10/11/12	South Village (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	845	JB	12/20/12
PD12-040	9/14/12	Orvieto Family/Senior Apts[1]	455-09-064	W/s Monterey, 300' sly Umbarger	South	MF	198	LX	1/11/13
PD13-044	10/25/13	Lexington Luxury Apt	706-04-013	NE/c Cottle & Hwy 85	Edenvale	SF/MF	543	PK	3/12/14
PD13-048	12/11/13	Century Center Mixed Use	230-29-022	SW/c N. 1st & Century Center	North	MF	378	RB	6/4/14
PDA04-071-01	9/29/10	Mayfair Court Apts	481-18-013	W/s McCreery, 230' sly Alum Rock	Alum Rock	MF	93	JN	3/15/11
PDA04-076-02	12/16/11	Ajisai Gardens Apts	249-37-006	SE/c E. Taylor & N. 7th	Central	MF	103	LX	6/1/12
PDA05-066-01	11/3/11	Santana Row (Misora)	277-46-001	SE/c Winchester & Stevens Creek	West Valley	MF	220	LX	2/3/12
PDA07-006-03	12/12/08	Crescent Village Apts	097-33-113	SE/c Zanker & River Oaks	North	MF	1,750	MD	1/15/09
PDA07-013-01	3/26/12	Parc 22 Townhomes	472-01-021	S/s William, 350' wly McLaughlin	Central	SF	67	LX	7/9/12
PDA08-036-01	11/4/08	River Oaks Apts (West)	097-33-036	NE/c Zanker & River Oaks	North	MF	293	MD	12/19/08
PDA08-039-01	7/7/09	University Villas Apts	230-14-026	N/s Campbell, 250' ely El Camino Real	West Valley	MF	138	LX	4/26/10
PDA11-007-02	8/8/12	Orchard Park	237-03-070	SW/c E. Brokaw & Oakland	Berryessa	SF	240	LX	11/20/12
Total							**14,765**		

Projects Under Construction

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
H13-041	10/31/13	Silvery Towers Apts	259-32-004	SW/c W. St. James & N. San Pedro	Central	MF	643	KT	2/26/14
H14-010	2/28/14	Marshall Square	467-21-018	SE/c 1st & E St. John	Central	MF	190	RB	2/25/15
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	MF	256	SM	3/21/08
PD11-011	3/14/11	Metropolitan Apts	477-23-021	E/s Monterey, 700' nly Tully	South	MF	102	LX	7/15/11
PD12-008	3/1/12	Murano at Montecito Vista	455-09-060	W/s Monterey, 300' sly Umbarger	South	SF	100	JR	6/7/13
PD12-028	6/26/12	Cottle Station Mixed Use (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	234	JB	11/19/12
PD13-023	6/25/13	Newbury Park Mixed Use	254-04-076	NW/c King & Dobbin	Alum Rock	MF	230	EL	1/2/13
PD14-012	2/28/14	Fairfield at West San Carlos	264-15-062	SE/c W San Carlos & Sunol	Central	MF	315	EL	10/28/14
PD14-022	4/17/14	505 Lincoln	264-09-063	W/s Lincoln 500' sly Auzerais	Central	MF	190	LS	11/5/14
PD14-029	6/23/14	Onyx	254-04-080	Nly/s Dobbin, 800' ely N King	Alum Rock	MF	131	ES	1/21/15
PD14-031	6/27/14	Balbach Condos	264-30-067	S/s Balbach, 100' ely Almaden	Central	MF	101	RB	12/27/14
PD14-051	10/30/14	777 Park Ave	261-36-062	NE/C Laurel Grove & Park	Central	MF	182	LS	3/18/15
PD15-003	1/27/15	787 Modera The Alameda	261-01-003	N/s The Alameda, 400' wly Stockton	Central	MF	168	JT	6/23/15
PD15-004	2/2/15	Hanover Cannery	249-09-001	NW/c N 10th & E Taylor	Central	MF	403	JP	12/15/15
PDA07-094-01	1/13/15	2nd Street Studio	477-01-082	SE/c S 2nd Street & Keyes	Central	MF	135	JP	3/4/15
PDA08-029-01	9/13/12	Virginia Terrace Apts	472-18-063	E. Virgina, Martha St, S 5th Street and S. 6th	Central	MF	238	RM	1/14/09
PDA12-035-01	3/18/13	Ascent Apts (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	MF	650	JB	5/3/13
PDA14-035-01	8/21/14	Communication Hill (Phase 1)	455-28-017	Comm Hill & CalTrain Railway	South	SF	314	MD	3/18/15
Total							**4,582**		

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

Approved Projects (Construction Not Yet Commenced)

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
CPA11-034-01	5/10/11	North San Pedro Apts	259-23-016	NE/c Hwy 87 & Bassett	Central	MF	135	LX	12/14/11
H12-020	1/16/13	San Pedro Square	259-32-044	SE/c Bassett & Terraine	Central	MF	406	BR	2/24/14
H14-009	2/18/14	Parkview Tower	467-01-008	NE/c 1st & St James	Central	MF	220	EL	5/13/15
H14-034	10/2/14	First and Reed	472-26-030	N/s Reed, 167' ely 1st	Central	MF	105	EL	10/7/15
H14-037	11/5/14	NSP3 Tower	259-24-008	Block W/ Terraine Street btwen Basset & Julian	Central	MF	313	ES	8/5/15
H15-007	1/23/15	Modera	259-35-042	W/s N San Pedro, 300' nly Santa Clara	Central	MF	204	ES	5/20/15
H15-046	9/25/15	363 Delmas Avenue	264-26-006	Wly/s Delmas, 290' nly Auzerias	Central	MF	120	JP	6/21/16
H15-047	9/28/15	Gateway Tower	264-30-089	NE/c S Market & E William	Central	MF	300	TT	12/616
H15-055	11/17/15	6th Street Project	467-19-059	SW/c of N 6th & St. John	Central	MF	126	LS	6/29/16
HA14-023-01	6/9/14	Post & San Pedro Tower	259-40-088	NW/c San Pedro & Post	Central	MF	202	EL	11/9/15
PD12-013	3/29/12	Ohlone Mixed Use (Block A)	264-14-131	SW/c W. San Carlos & Sunol	Central	MF	263	LX	12/16/15
PD13-027	7/1/13	Vicenza at Montecito Vista	455-09-062	W/s Monterey, 300' sly Umbarger	South	MF	162	AA	11/22/13
PD14-044	9/3/14	King & Dobbin Transit Vilage Lot E	254-04-079	N/s Dobbin, 600' ely N King	Alum Rock	MF	67	ES	7/29/15
PD14-054	11/12/14	King & Dobbin Transit Vilage Lot H	254-55-010	N/s Dobbin, 718' ely King	Alum Rock	SF	105	ES	7/29/15
PD14-055	1/13/15	Lee Ave Apartments	284-32-014	SE/c Southwest & Leigh	Willow Glen	MF	64	JP	3/18/15
PD15-013	4/3/15	Arcadia/Evergreen Part 1	670-29-002	S/s Quimby, 1200' wly of Capitol Expway	Evergreen	SF	250	LS	11/30/15
PD15-014	4/16/15	1807 Almaden Rd	455-21-050	W/s Almaden, 660' Sly Willow Glen	South	MF	96	ES	10/7/15
PD15-035	7/9/15	Ohlone Block C	264-14-024	NW/c Auzerais & Sunol	Central	MF	268	JT	12/16/15
PD15-036	7/9/15	Ohlone Block C	264-14-024	W/s Sunol, 340' SW/c W San Carlos & Sunol	Central	MF	253	JT	12/16/15
PD15-042	9/11/15	Montgomery 7	259-47-068	NE/c Int of S Montgomery and W San Carlos	Central	MF	54	JT	6/21/16
PD15-044	9/11/15	Sparta	467-16-076	Nely/c of E. Santa Clara & N 11th	Central	MF	85	LH	9/20/16
PD15-055	11/4/15	Japantown Corp. Yard	249-39-039	Bounded by N 6th, E Taylor, 7th, Jackson	Central	MF	520	LS	5/25/16
PD15-061	12/4/15	Diridon TOD	259-38-036	SW/c of W. Santa Clara & Delmas	Central	MF	325	JT	5/24/16
PD15-066	12/21/15	Santana Row Lot 12	277-40-017	NW/c of Hatton & Olsen	West Valley	MF	258	JT	8/16/16
PD15-067	12/22/15	The Reserve	299-26-059	NW/c of S. Winchester Blvd & Williams Rd	West Valley	MF	640	LH	4/27/2016
PD15-068	12/22/15	Santana Row Lot 17	277-38-003	NE/c of Dudley and Tisch	West Valley	MF	110	JT	5/25/16
PD16-001	1/15/16	Scotia Apartments	455-21-043	W/s of Almaden, 410' s of Willow Glen Wy	South	MF	68	PK	5/17/16
PD16-002	1/21/16	Berryessa Flea Market (KB)	241-04-011	N/s Berryessa Road, W of Railroad Tracks	Berryessa	SF	162	JT	5/18/16
PD16-005	2/4/16	Istar/Great Oaks	706-08-008	W/s of Great Oaks Blvd, 1,000' nwly of Hwy 85	Edenvale	MF	301	RB	5/18/2016
PD16-006	2/5/16	Vespasi @ Diridon (Residential)	259-28-004	NE/s Stockton Ave, 300' N of W Santa Clara St	Central	MF	164	JT	5/25/2016
PD16-013	4/7/16	777 West San Carlos St	261-39-045	E/s Sunol St. 120' N of W San Carlos Street	Central	MF	149	PD	6/21/16
PD16-025	8/16/16	The Orchard (Residential)	254-06-042	SW/c of N. Capitol Ave & Gimelli Way	Alum Rock	MF	188	JT	1/24/17
PDA12-031-01	11/13/15	Berryessa Flea Market (Market Park)	241-04-011	N/s Berryessa Road, W of Railroad Tracks	Berryessa	MF	551	JT	4/13/16
PDA14-035-03	10/2/15	Communication Hill (Phase 2)	455-28-017	Junction Communication Hill and Casselino	South	SF/MF	648	ES	3/16/16
PDC13-009	3/15/13	Communication Hill*	455-09-040	Hill bet Hwy 87 & Monterey, nly Hillsdale	South	SF/MF	590	MD	10/21/14

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
SP16-016	3/8/16	Park Delmas	259-46-040	S/s Park Ave, btwn Sonoma St & Delmas Ave	Central	MF	123	TT	6/29/16
Total							**8,595**		

Projects Pending City Approval

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Housing Type	No. of Units	Proj. Mgr	Approval Date
H15-062	12/22/15	SJSC Towers	467-20-086	Nwly/c E Santa Clara & N 5th	Central	MF	637	TT	---
H16-017	4/5/16	Rail Yard Place (Residential)	259-23-020	SW/c of Ryland st & Santa Teresa St	Central	MF	476	EL	---
H16-024	6/30/16	Museum Place (Residential)	259-42-023	NW/C of W San Carlos St & S. Market St	Central	MF	334	LS	---
H16-033	9/13/16	Block Three	467-22-160	Sly/s of 3rd St, 410' ely of E San Fernando St	Central	MF	393	LH	---
H16-036	10/4/16	The Graduate	467-46-005	SW/c of S 2nd St & E San Carlos St	Central	MF	260	EL	---
PD15-022	5/19/15	740 W San Carlos	264-15-024	S/s W San Carlos, 500' ely Sunol	Central	MF	95	RBS	---
PD15-059	6/23/16	Volar (Residential)	277-33-003	E/s of S Winchester, 590' sly Stevens Creek	West Valley	MF	330	LS	---
PD16-026	8/11/16	7th & Empire	249-38-042	W/c of N 7th St & Empire St	Central	MF	92	EL	---
PD16-031	9/27/16	750 West San Carlos	264-15-003	S/s of W San Carlos St, 500' E of Sunol St	Central	MF	56	TT	---
SP16-021	4/11/16	Greyhound Residential	259-40-012	SE/c of Post St & S Alamaden Ave	Central	MF	781	LS	---
Total							**3,454**		
GRAND TOTAL							**31,396**		

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

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
Projects Completed									
CP08-057	6/26/08	Brokaw Commons	237-03-074	NW/c Oakland & Brokaw	Berryessa	102,000		ES	10/22/08
CP08-071	8/29/08	Hyatt House	097-03-138	SE/c N. 1st & Hwy 237	North	116,000	160	CB	12/10/08
CP10-059	11/9/10	Courtyard Marriott @ First	097-14-108	SE/c N. 1st & Hwy 237	North	99,000	157	JN	4/20/11
CP13-059	08/08/13	Villa Sport	245-05-017	Betwn N Capitol & Hwy 680, 300' nly Berryesa	Berryessa	88,000		KT	5/7/14
CP13-081	11/05/13	Oakmont of San José	282-06-023	W/s Thorton, 260' nly Maywood	Willow Glen	60,000		EL	2/26/14
H13-008	2/20/13	Orchard Supply Hardware	264-15-028	SW/c W. San Carlos & Royal	Central	49,000		RB	5/31/13
H14-011	3/7/14	Homewood Suites	015-39-053	NW/c Hwy 237 & N 1st	Alviso	106,000	145	RB	9/24/14
H14-029	8/14/14	2890 North 1st Street Office	101-30-006	Bound N 1st, Daggett, Zanker & Plumeria	North	42,000		RB	12/10/14
HA13-013-01	12/6/13	AC Hotel	259-39-111	SE/c W. Santa Clara & Hwy 87	Central	128,000	210	RB	5/19/14
PD07-033	4/13/07	The Verdant/Latitude Apts	097-07-086	NW/c Zanker & Tasman	North	25,000		JB	11/30/07
PD07-049	12/28/11	Coleman Landings	230-46-068	NW/c Coleman & Newhall	North	245,000		SD	2/3/12
PD07-055	6/6/07	SBIA Evergreen Center/Mosque	652-13-001	E/s Ruby, 250' nly Murillo	Alum Rock	28,000		JB	3/21/08
PD07-090	10/23/07	Riverview Mixed Use	097-06-038	W/s N. 1st, 450' sly Rio Robles	North	45,000		JB	4/4/08
PD08-054	8/12/08	Samaritan Medical Center	421-37-012	NE/c Samaritan & S. Bascom	Cambrian/Pioneer	75,000		ES	3/24/09
PD08-069	11/26/08	Berryessa Crossing Retail (North)	241-04-006	Both sides Berryessa, wly UP railroad	Berry./Alum Rock	119,000		PK	11/6/13
PD09-016	4/23/09	Regional Medical Center (Phase 2A)	481-05-021	SW/c McKee & N. Jackson	Alum Rock	161,000		SD	11/4/09
PD09-018	5/7/09	Lincoln Office/Retail	429-06-070	SE/c Lincoln & Willow	Willow Glen	41,000		SZ	5/21/10
PD09-021	6/11/09	Bellarmine (Academic Building)	261-11-005	NE/c Elm & Emory	Central	55,000		SD	11/13/09
PD09-040	12/2/09	Valley Christian Schools	684-05-019	Ely term. Skyway	Edenvale	50,000		JC	8/25/10
PD10-011	6/15/10	Bellarmine (Life Center/Gym)	261-11-005	NE/c Elm & Emory	Central	40,000		JN	1/14/11
PD10-025	11/5/10	M8trix Casino/Hotel (Phase 1)	230-29-065	SE/c Airport & Old Bayshore	North	89,000		JH	3/18/11
PD10-027	11/22/10	Chinmaya Mission	612-53-046	NE/c Clayton & Hickerson	Alum Rock	26,000		JC	3/21/11
PD11-002	1/20/11	Earthquakes Soccer Stadium	230-46-055	SW/c Coleman & Newhall	North	219,000		LX	2/22/12
PD11-013	5/5/11	Foxworthy Retail	451-06-066	NW/c Almaden & Hillsdale	Willow Glen	25,000		JN	7/15/11
PD11-024	7/20/11	Almaden Ranch / Bass Pro	458-17-018	SE/c Almaden & Chynoweth	Cambrian/Pioneer	377,000		LX	5/19/12
PD11-027	9/2/11	Sun Garden Grocery	477-07-018	E/s Monterey, 300' sly E. Alma	Central	51,000		JC	11/2/11
PD12-015	4/13/12	Village Oaks (Hitachi)	706-04-013	NE/c Cottle & Hwy 85	Edenvale	308,000		JB	9/27/12
PD12-016	6/23/08	Residence Inn/SpringHill Suites	230-29-109	SW/c N. 1st & Skyport	North	216,000	321	JD	2/10/09
PD12-017	4/27/12	Whole Foods Market	261-01-098	NW/c The Alameda & Stockton	Central	33,000		JB	2/26/13
PD12-048	12/20/12	Aloft Hotel	015-45-026	NW/c Hwy 237 & Gold	Alviso	82,000	175	SD	4/12/13
PD13-015	4/19/13	Sun Garden Retail Center	477-07-013	E/s Monterey, 300' sly E. Alma	Central	206,000		JB	5/17/13
PD15-008	2/24/15	1040 E Brokaw Road	237-03-080	SW/c E Brokaw & Old Oakland	Berryessa	145,000		ES	6/24/15
Total						**3,451,000**	**1,168**		

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
Projects Under Construction									
H13-039	10/4/13	San José Airport Terminals	230-03-101	Mineta Airport	North	278,500		PK	1/17/14
H14-006	1/22/14	Hyatt Place	101-05-002	Sly term. Karina	North	206,000	329	EL	5/7/14
HA06-027-02	6/10/13	Valley Fair Shopping Center	274-43-035	NW/c Hwy 17 & Stevens Creek	West Valley	525,000		RB	10/30/13
PD07-007	1/10/07	Fruitdale Station (Phase 2)	284-02-008	SE/c Southwest Expwy & Fruitdale	Willow Glen	30,000		SM	3/21/08
PD13-049	12/13/13	Bay 101 Casino/Hotel	235-01-020	NE/c N 1st & Matrix	North	245,000	174	RB	9/2/15
PD15-002	1/27/15	iStar Costco	706-08-023	W/s Greak Oak 1000' nly Hwy 85	Edenvale	148,000		RB	7/15/15
SP14-032	7/24/14	Capitol Toyota	459-05-019	NE/c Capitol Expy & Pearl	South	261,286		LS	1/28/15
Total						**1,693,786**	**503**		
Approved Projects (Construction Not Yet Commenced)									
CP15-078	11/16/15	2500 Senter Road	497-41-098	Ely Side of Senter, 560' sly Tully	South	98,575		JP	4/27/16
H13-048	12/16/13	Hampton Inn/Holiday Inn	237-17-067	E/s N. 1st, opp. Karina	North	173,000	284	PK	9/3/16
H15-023	5/4/15	Holiday Inn	497-38-013	600' NW/c Monterey & Umbarger	South	48,100	81	JT	7/13/16
H16-010	2/29/16	Boutique Hotel	277-34-014	SE/c of Stevens Creek Blvd & S. Clover Ave	West Valley	173,043	175	RB	12/7/16
PD08-001	1/7/08	Pepper Lane Mixed Use	254-15-072	SE/c Berryessa & Jackson	Alum Rock	30,000		RM	10/10/08
PD14-035	3/15/13	Communications Hill	455-09-040	Hill bet Hwy 87 & Monterey, nly Hillsdale	South	68,000		BR	11/21/14
PD15-013	4/3/15	Evergreen Square	670-29-020	W/s Capitol, 1500' sly Quimby	Evergreen	310,000		LS	11/30/15
PD15-064	12/16/15	Sun Garden (Restaurant)	477-07-018	E/s of Monterey RD, 300' s of E Alma Ave	Central	25,045		PK	1/20/16
PD16-006	2/5/16	Vespaio @ Diridon (Commercial)	259-28-004	NE/s of Stockton Ave, 300' n of W Santa Clara	Central	37,500		JT	5/25/16
PD16-015	4/7/16	Fairfield Inn & Suites	015-45-013	E of nly terminus of American Center Crt	Alviso	161,112	261	LS	6/21/16
PD16-017	5/23/16	Santana Row Commercial (Lot 9)	277-40-030	Sly/s of Olsen Drive	West Valley	30,000		LS	11/9/16
PD16-025	8/16/16	The Orchard (Commercial)	254-06-042	SW/c of N. Capitol Ave & Gimelli Way	Alum Rock	38,000		JT	1/24/17
PDA12-031-01	11/13/15	Berryessa Flea Market (Market Park)	241-04-011	N/s Berryessa Road, W of Railroad Tracks	Berryessa	37,000		JT	4/13/16
Total						**1,229,375**	**801**		
Projects Pending City Approval									
CP16-029	6/16/16	Oakmond Residential Care	659-04-015	Ely/s of San Felipe Road, 360' nly of Folwer Rd	Evergreen	91,714		EL	---
CP16-048	8/31/16	Enzo Behavioral Hospital	678-05-063	NW/s of Enzo Dr & Eden Park Pl	Edenvale	80,000		SF	---
H15-014	3/30/15	Tropicana Shopping Center	486-10-091	SW/c Story & S King	Alum Rock	31,744		RB	---
H15-021	5/11/15	Reed Hotel	472-26-070	SW/c S 2nd & E Reed	Central	101,688	76	TT	---
H15-059	12/4/15	Scandinavia	359-34-006	SW/c of S. De Anza & Rollingdell	West Valley	39,410		DF	---
H16-024	6/30/16	Museum Place	259-42-023	NW/c of W San Carlos St and S Market St	Central	150,375	143	LS	---

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Hotel Guest Rooms	Proj Mgr	Approval Date
H16-032	9/7/16	Hampton Inn (De Anza Blvd)	372-25-015	NE/c of Via Vico and S De Anza Blvd	West Valley	51,279	90	RR	---
H16-040	10/17/16	Holiday Inn Express & Suites (Bark Ln)	372-24-033	Nly/s of Bark Lane, 200' ely of S De Anza Blvd	West Valley	45,306	86	JT	---
PD15-059	6/23/16	Volar (Commercial)	277-33-003	E/s of S Winchester, 590' sly Stevens Creek	West Valley	49,234		LS	---
PDA14-037-02	8/22/16	Almaden Ranch Hotel	458-17-032	SE/c of Almaden Expyway & Cherry Ave	Cambrian/Pioneer	56,032	115	JP	---
SP16-034	6/28/16	North Hotel	235-09-021	E/s of N 4th St, 320' nly of E Younger Ave	Central	30,612	60	JT	---
Total						**727,394**	**570**		
GRAND TOTAL						**7,101,555**	**3,042**		

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

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
Projects Completed								
H09-002	1/14/09	Brocade (Phase 1)	097-03-139	SE/c N. 1st & Hwy 237	North	580,000	CB	10/9/09
H09-002	1/14/09	Brocade (Phase 2)	097-03-139	SE/c N. 1st & Hwy 237	North	420,000	CB	10/9/09
H12-008	5/17/12	101 Tech	101-03-007	Wly term. Atmel, 200' nly Hwy 101	North	666,000	SD	10/22/12
H13-001	1/3/13	Samsung Semiconductor	097-53-026	NW/c N. 1st & Tasman	North	680,000	SD	3/25/13
H13-024	6/17/13	A-1 Self Storage (Phelan)	477-49-026	SW/c Phelan & Senter	South	107,000	RB	10/30/13
H14-008	2/14/14	A-1 Self Storage (10th St)	235-16-001	SE/c N 10th Street & Horning	Central	84,000	AA	6/25/14
H14-020	5/20/14	SuperMicro (Phase 1)	237-05-036	SW/c Ridder Park & Schallenberger	Berryessa	182,000	RB	9/13/2014
H14-029	8/14/14	2890 North 1st Street Office	101-30-006	Bound N 1st, Daggett, Zanker & Plumeria	North	42,000	RB	12/10/14
PD07-081	9/18/07	Legacy on 101 Office	101-02-015	W/s Orchard, 750' nly Charcot	North	398,000	JB	12/21/07
PD12-014	4/4/12	Splunk at Santana Row	277-40-052	SE/c Winchester & Olsen	West Valley	230,000	LX	12/13/12
PD13-012	3/20/13	237 At First Street	015-39-006	NW/c N. 1st & Hwy 237	Alviso	615,000	RB	12/4/13
PD13-039	9/16/13	Trammel Crow (R&D/ Office Buildings)	015-44-011	NW/c Nortech & Disk	Alviso	415,000	RB	4/23/14
PD14-005	1/31/14	HGST Great Oaks Campus	706-07-020	Bound Cottle, Monterey, Hwy 85 & Manassas	Edenvale	335,000	RB	6/4/14
PD14-007	2/14/14	Trammel Crow (Manufacture Buildings)	015-44-011	NW/c Nortech & Disk	Alviso	563,760	RB	6/17/14
SP08-046	8/14/08	Equinix (Phase 1)	706-09-102	NW/c Great Oaks & Hwy 85	Edenvale	125,000	SD	10/9/09
SP09-057	9/16/09	Zero Waste Facility	015-38-005	N/s Los Esteros, term Grand	Alviso	283,000	RB	12/22/11
SP11-046	11/29/11	Public Storage (Tully)	477-22-028	SW/c Tully & Old Tully	South	115,000	JB	3/29/12
Total						**5,840,760**		
Projects Under Construction								
H14-027	7/2/14	Silicon Valley Industrial Center	678-08-051	W/s Piercy, 2070' nly Silicon Valley	Edenvale	243,000	RB	12/17/14
H15-005	1/9/15	Storage Pro	254-02-065	W/c N King & Plumas	Alum Rock	101,625	PK	9/16/15
H15-036	8/12/15	2701 Orchard Parkway	101-18-001	Wly/c Orchard and W Plumeria	North	99,000	LS	11/24/16
HA13-040-01	4/23/15	Peery Arrillaga	237-16-071	SE/c Brokaw and N 1st	North	117,440	RB	12/16/15
PD12-019	7/19/12	Coleman Highline Office	230-46-062	NW/c Coleman & Newhall	North	683,000	JB	6/10/13
PD15-031	7/1/15	Equinix (iStar)	706-09-117	W/s Greak Oak, 1000' nwly of HW 85	Edenvale	386,000	RB	3/9/16
PD15-046	9/18/15	Skyport Kaiser	230-29-115	SW/c Technology and Skyport	North	153,112	LS	6/21/16
PD15-063	12/11/15	Oakland Rd Storage	237-03-064	W/s of Oaklad, 235' Nwly of McKay	Berryessa	74,640	JP	4/20/16
PDA05-095-02	12/21/15	Veteran Affairs Outpatient Clinic	678-07-040	SW/c of Silver Creek Rd & Silver Creek Pl	Edenvale	95,000	ES	4/6/16
Total						**1,952,817**		
Approved Projects (Construction Not Yet Commenced)								
H15-010	2/12/15	SAF Keep Storage	237-08-084	SE terminus of Junction Ct	North	120,432	DF	12/9/15
H15-012	2/17/15	SuperMicro (Phase 2)	237-05-036	Swly/C Ridder Park & Schallenberger	Berryessa	750,000	RB	12/16/15

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

File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
H15-026	5/29/15	1850 Stone Avenue	455-23-108	E/s Stone, 650' nly Cimino	South	102,000	RS	1/27/16
H15-037	8/25/15	Boston Properties Innovation Place	097-33-116	NE/c Zanker and Montague	North	536,949	RB	2/2/15
H16-013	3/16/16	River Corp Center III	259-24-036	Nwly/c W Julian Street & CA 87 Hwy	Central	191,397	LS	12/7/16
H16-018	4/27/16	335 West San Fernando St	259-39-116	N/s of W San Fernando, 370' wly of Almaden Blvd	Central	700,000	RB	11/9/16
H16-022	6/1/16	Public Storage (Lenfest Rd)	254-02-032	Ely/s of Lenfest Rd, 260' sly of Mabury Rd	Alum Rock	85,386	RS	9/7/16
H16-031	9/10/16	SuperMicro (Phase 3)	237-05-063	Swly/C Ridder Park & Schallenberger	Berryessa	209,320	RB	10/26/16
PD15-061	12/4/15	Diridon TOD (Office)	259-38-036	SW/c of W. Santa Clara & Delmas	Central	1,040,000	JT	5/24/16
PD15-062	12/9/15	Bay 101 Casino & Mixed Use	235-01-020	SE/c N. 1st & Matrix	North	234,192	RB	12/7/16
PD16-016	4/28/16	Winchester Commercial Mixed Use	279-01-017	E/s of S Winchester Blvd, 180' n of Magiocco	West Valley	84,000	JT	11/9/16
PD16-017	4/23/16	Santana Row (Lot 9)	277-40-030	Sly/s of Olsen Drive	West Valley	290,000	LS	11/9/16
PD16-025	8/16/16	The Orchard (Self-Storage)	254-06-042	SW/c of N. Capitol Ave & Gimelli Way	Alum Rock	70,000	JT	1/24/17
PDC13-050	11/13/13	Santana Row (balance)	277-40-015	SE/c Winchester & Stevens Creek	West Valley	654,641	KT	11/15/15
SP15-031	7/1/15	Equinix	706-02-053	W/s Via Del Oro btw San Ignacio and Great Oaks	Edenvale	579,000	RB	1/25/17
Total						**5,647,317**		

Projects Pending City Approval

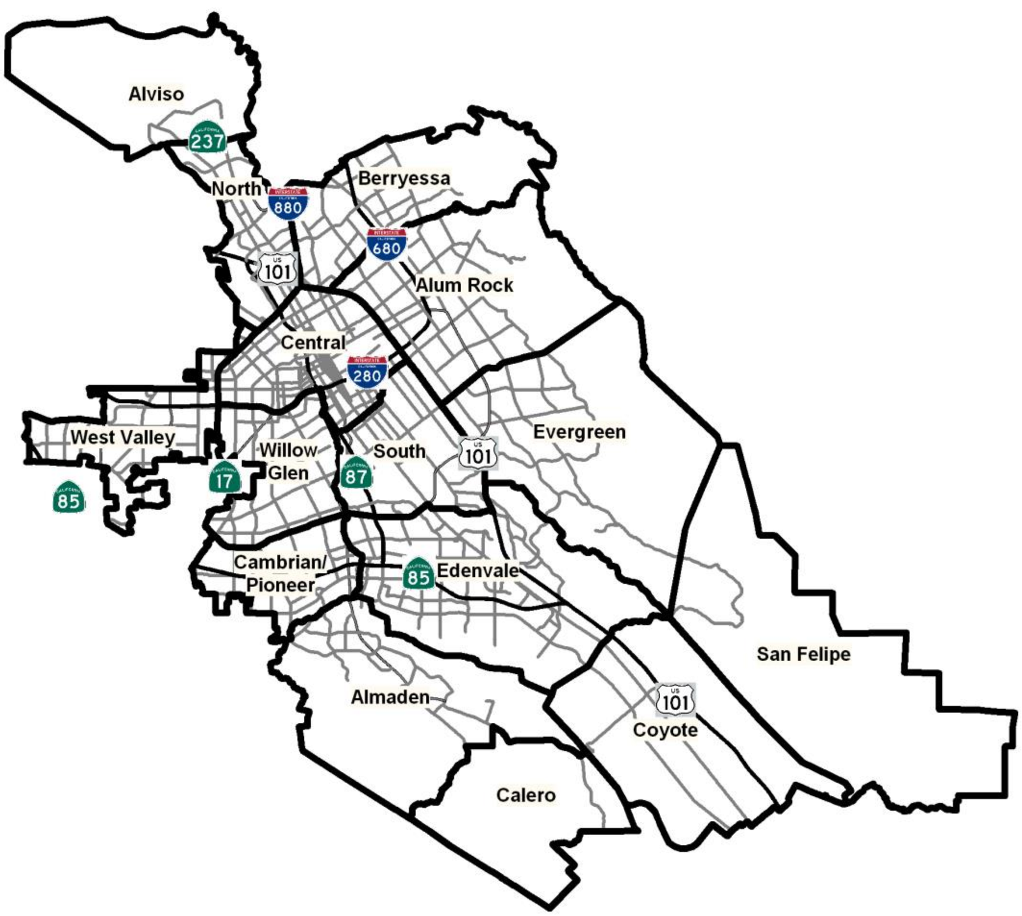
File Number	Filing Date	Project Name	Tracking APN	Street Location	Planning Area	Square Footage (approx.)	Proj. Mgr	Approval Date
H15-058	11/23/15	Senter/Alma Ministorage	477-38-014	Senter Btwn E Alma & Phelan	Central/South	91,885	ES	---
H15-061	12/18/15	Panattoni Distribution Center	708-25-005	SW/c of Blanchard Road & Monterey	Coyote	414,000	PK	---
H16-017	4/5/16	Rail Yard Place (Office)	259-23-020	SW/c of Ryland St & Santa Teresa St	Central	226,885	EL	---
H16-024	6/30/16	Museum Place (Office)	259-42-023	NW/c of W San Carlos St and S Market St	Central	213,820	LS	---
H16-029	8/5/16	Self-Storage (Monterey Rd)	455-36-009	SE/c of Monterey Rd & Goble Lane	South	256,600	LS	---
H16-035	9/27/16	Edenvale Self Storage Facility	678-93-005	N of Silver Creek Valley Rd, 210' n of Hellyer	Edenvale	155,550	LS	---
H16-039	10/17/16	Self-Storage (Cinnabar St)	259-27-017	SW/c of Cinnabar St & N Montgomery St	Central	76,955	LS	---
PD14-013	3/4/14	Samaritian Court Medical Office	421-38-007	S/s terminum Samaritan	Cambrian/Pioneer	69,000	LS	---
PD15-053	10/29/15	America Center	015-45-047	NW/c of HW 237 & Gold	Alviso	192,350	LS	---
PD16-023	7/22/16	Samaritian Medical Phase 1	421-37-001	N of Samaritan Dr, 700' e of Bscome Dr	Cambrian/Pioneer	350,000	LS	---
PD16-027	8/29/16	Tropicana	235-18-001	NW/c of Horning St and Oakland Rd	Central	91,875	JT	---
PD16-037	11/29/16	Self-storage (King Rd)	670-12-006	W/s of S King Rd, 840' n of Aborn Rd	Evergreen	198,000	SF	---
SP16-053	11/4/16	Cilkrer	015-31-054	NW of Hwy 237 & McCarthy Blvd	Alviso	426,093	TT	---
Total						**2,763,013**		
GRAND TOTAL						**16,203,907**		

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

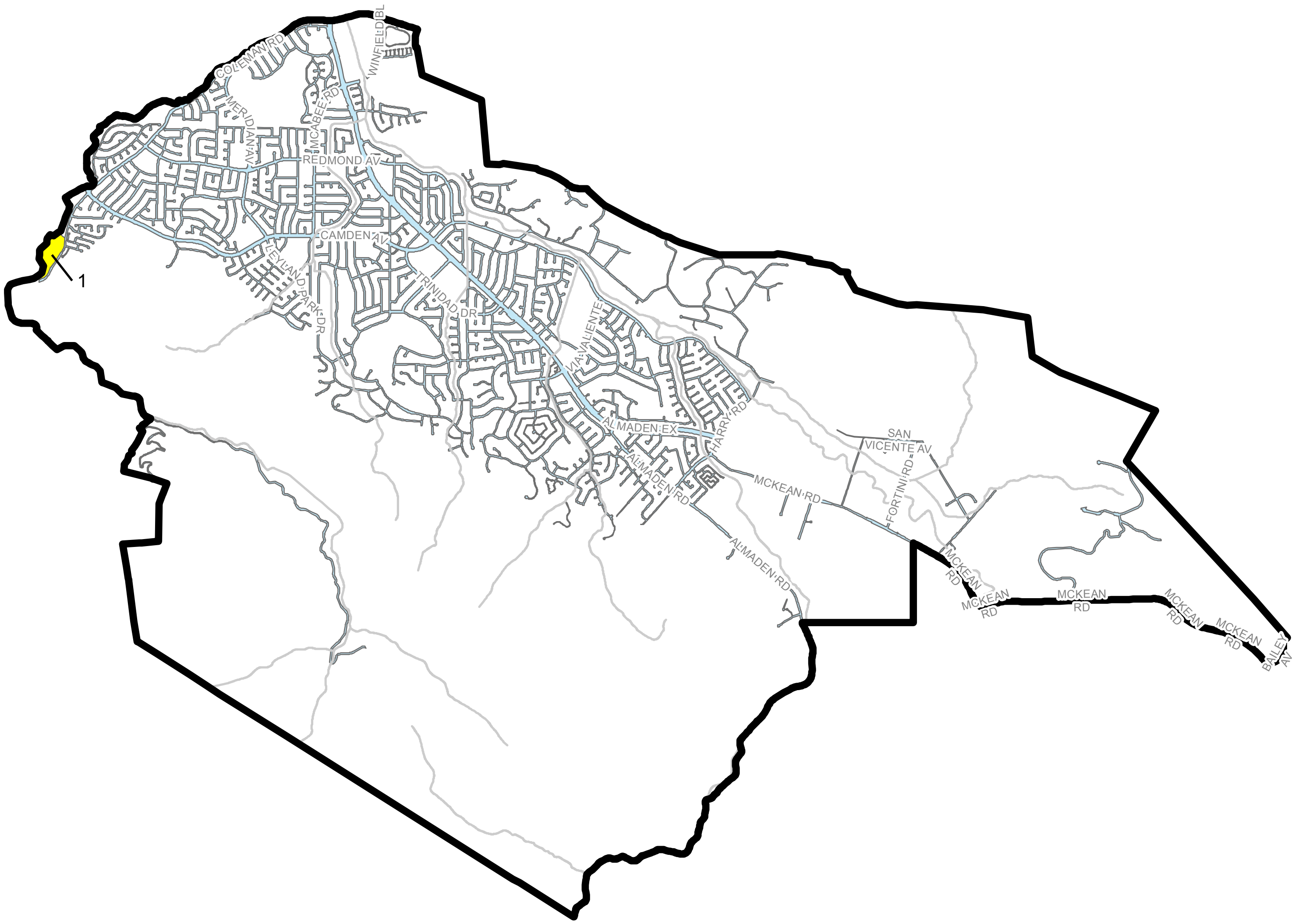
VI. MAJOR DEVELOPMENT ACTIVITY MAPS (PLANNING AREAS)

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

Figure 1: San Jose Planning Areas



Almaden Planning Area
Major Development Activity

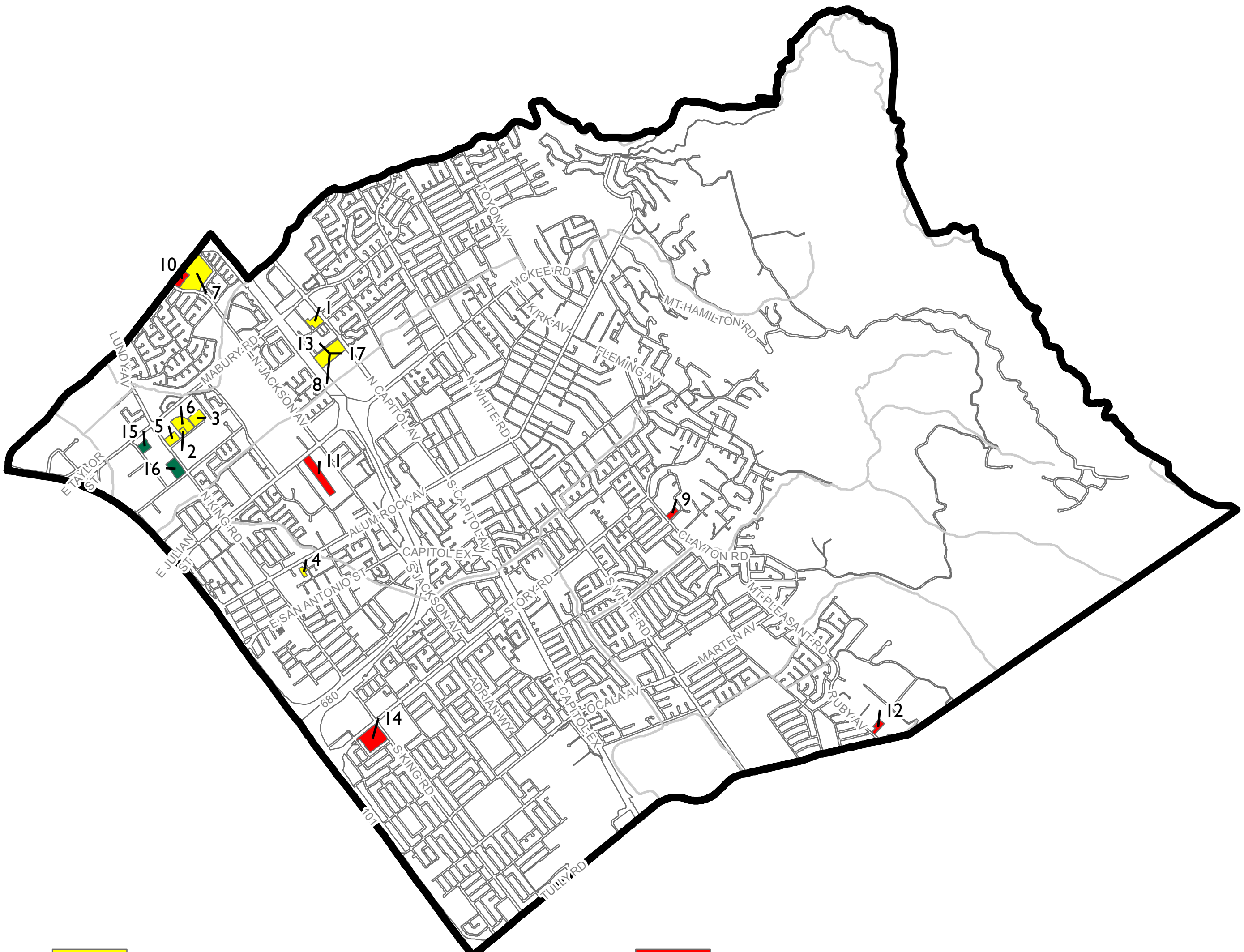


Residential Projects

1 Brooksides Home

Total Dwelling Units = 89

Alum Rock Planning Area
Major Development Activity



Residential Projects

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

Total Dwelling Units: 1,262

Commercial Projects

9 Chinmaya Mission
10 Pepper Lane Mixed Use
11 Regional Medical Center (Phase 2A)
12 SBIA Evergreen Center/Mosque
13 The Orchard (Commercial)
14 Tropicana Shopping Center

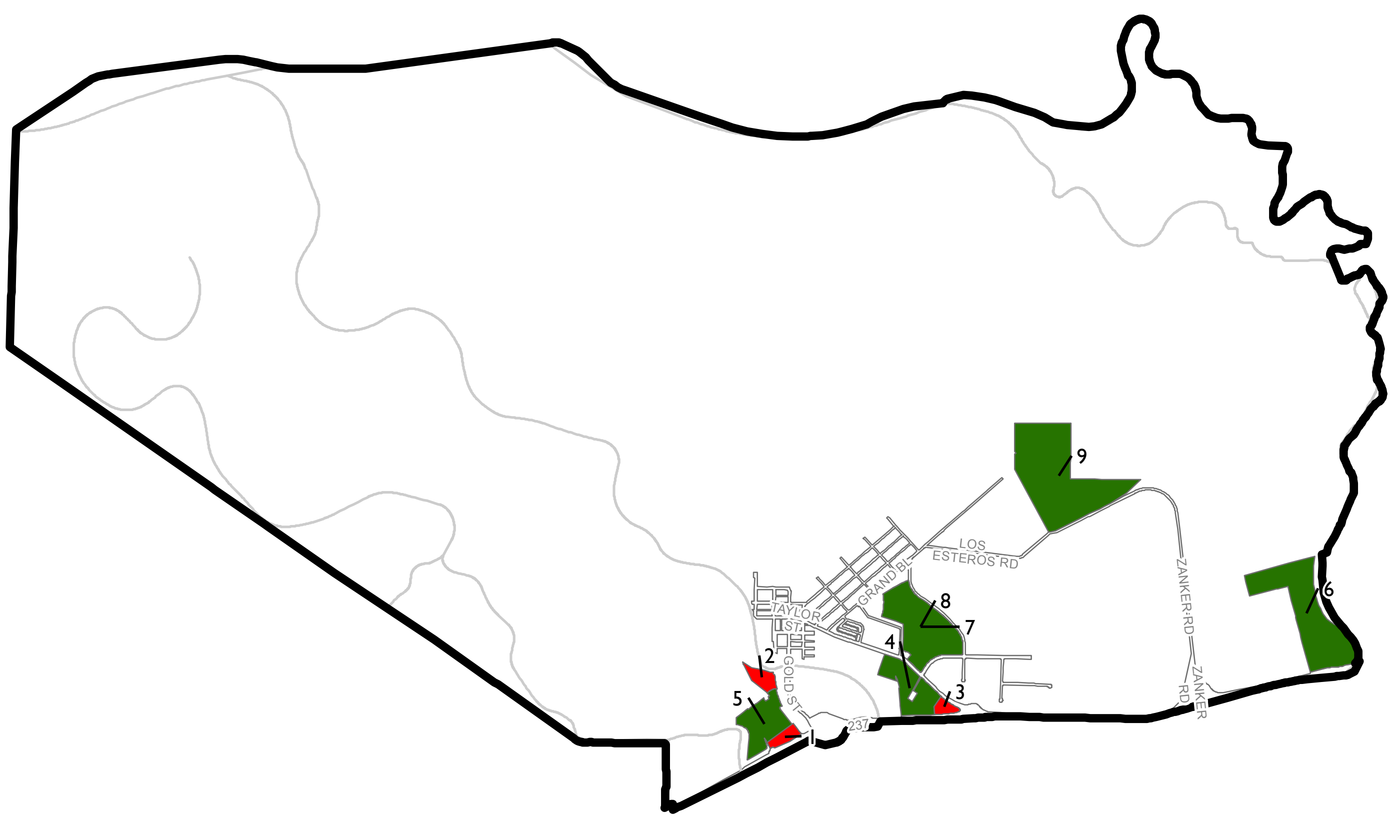
Total Commercial Sq. Feet = 314,744

Industrial Projects

15 Public Storage (Lenfest Rd)
16 Storage Pro
17 The Orchard (Self-Storage)

Total Industrial Sq. Feet = 257,011

Alviso Planning Area
Major Development Activity



Commercial Projects

1 Aloft Hotel
2 Fairfield Inn & Suite
3 Homewood Suites Hotel

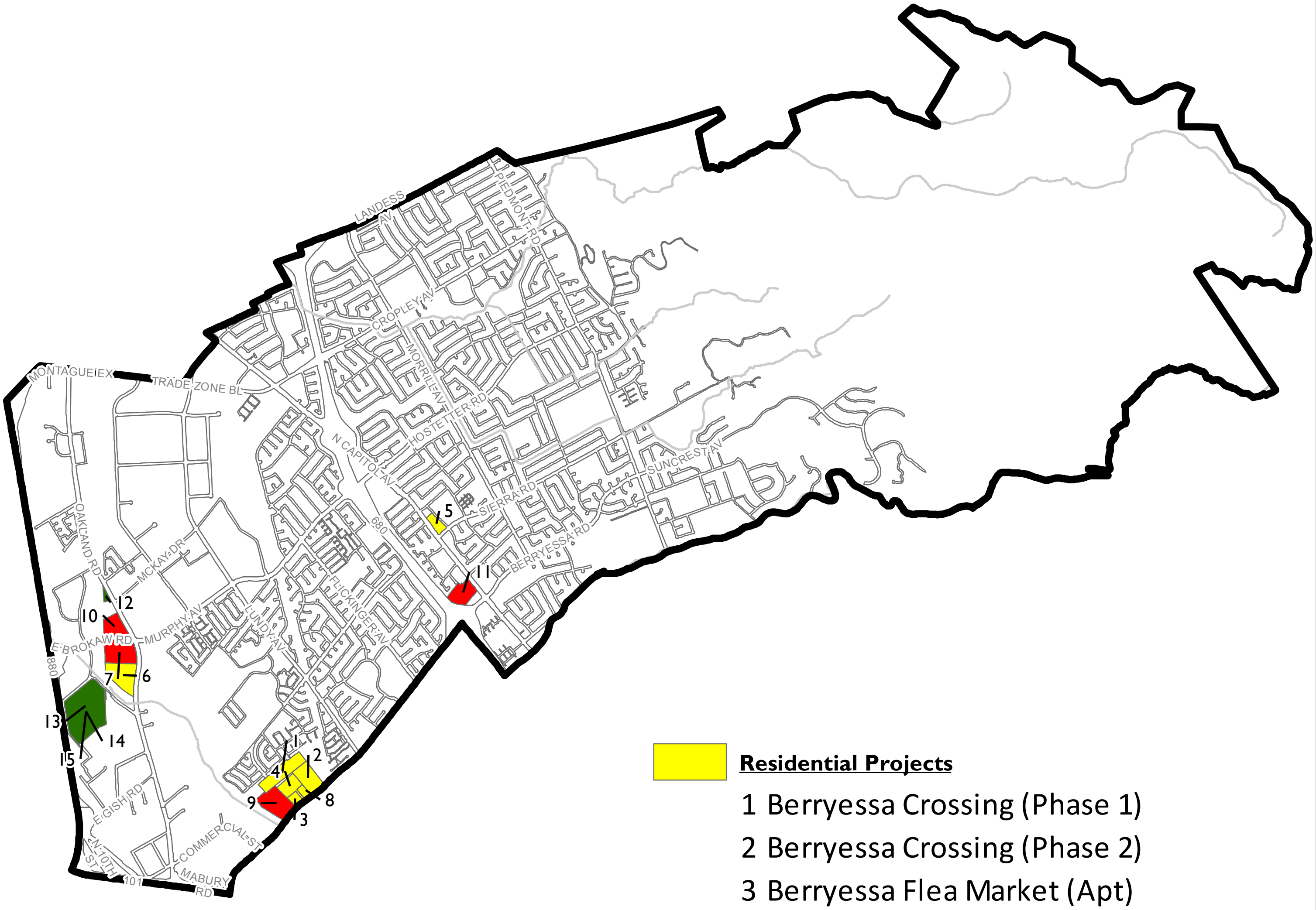
Total Commercial Sq. Feet = 349,112

Industrial Projects

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

Total Industrial Sq. Feet = 2,495,203

Berryessa Planning Area
Major Development Activity



Residential Projects

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

Total Dwelling Units = 1,783

Commercial Projects

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

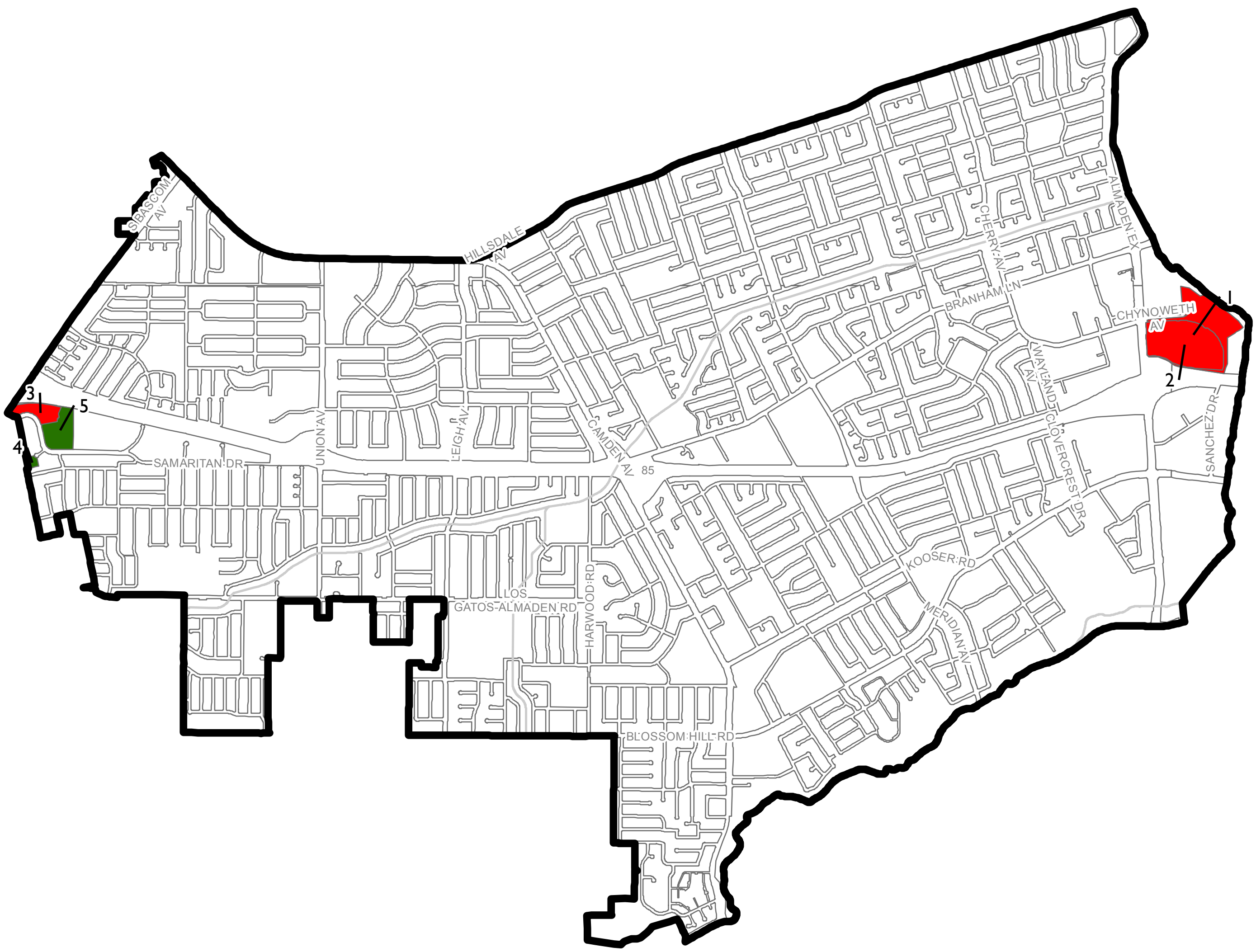
Total Commercial Sq. Feet = 491,000

Industrial Projects

12 Oakland Rd Storage
13 SuperMicro (Phase 1)
14 SuperMicro (Phase 2)
15 SuperMicro (Phase 3)

Total Industrial Sq. Feet = 1,215,960

Cambrian/Pioneer Planning Area
Major Development Activity



Commercial Projects

1 Almaden Ranch / Bass Pro
2 Almaden Ranch Hotel
3 Samaritan Medical Center

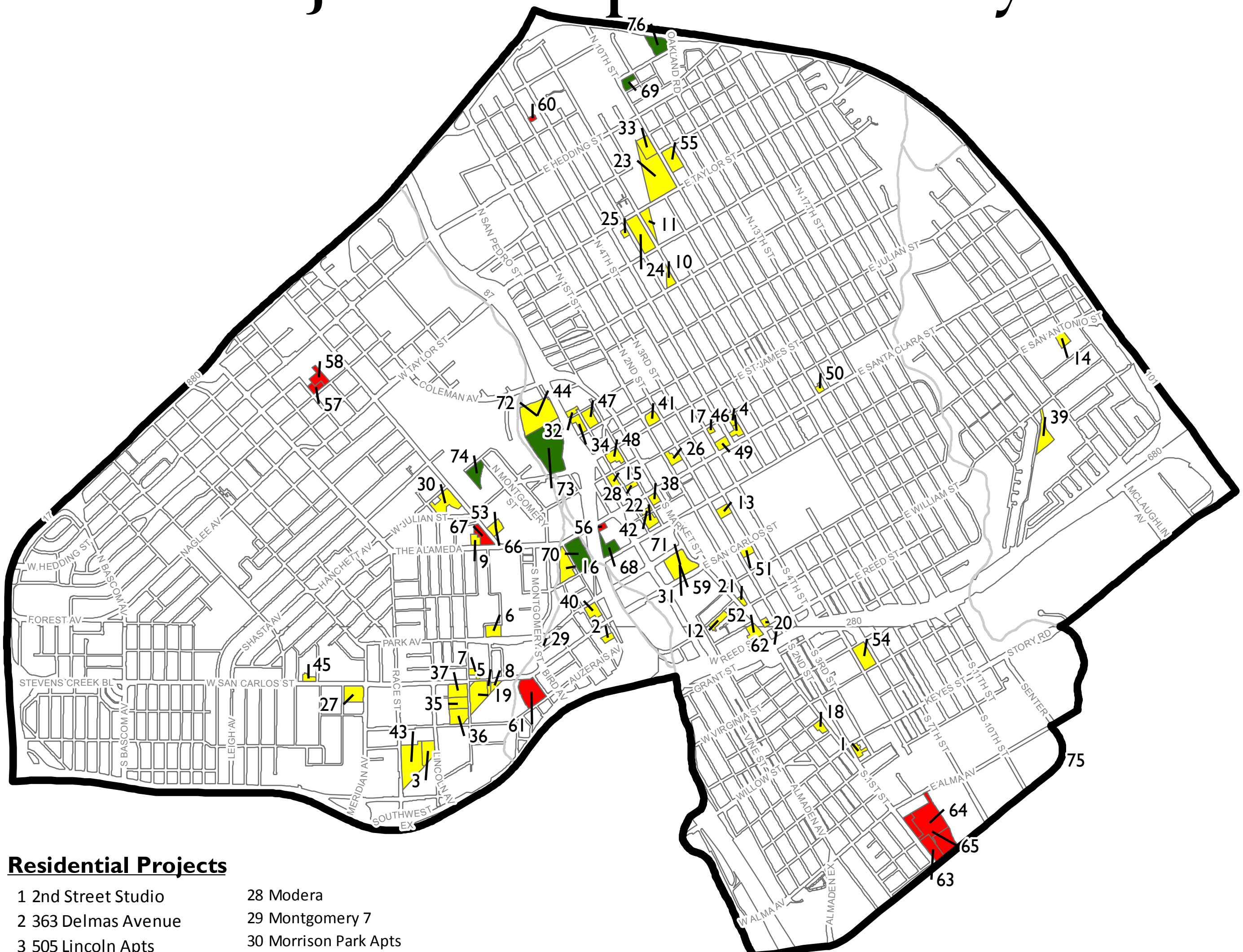
Total Commercial Sq. Feet = 508,032

Industrial Projects

4 Samaritan Court Medical Office
5 Samaritian Medical Phase 1

Total Industrial Sq. Feet = 419,000

Central Planning Area
Major Development Activity



Residential Projects

1 2nd Street Studio
2 363 Delmas Avenue
3 505 Lincoln Apts
4 6th Street Project
5 750 West San Carlos
6 777 Park Ave
7 740 W San Carlos St
8 777 W San Carlos St
9 787 Modera The Alameda
10 7th & Empire
11 Ajisai Gardens Apts
12 Balbach Condos
13 Block Three
14 Brookwood Terrace Apts
15 Centerra Apts
16 Diridon TOD
17 Donner Lofts
18 Edwards Mixed Use
19 Fairfield at West San Carlos
20 First and Reed
21 Gateway Tower
22 Greyhound Residential
23 Hanover Cannery
24 Japantown Corp Yard
25 Japantown Senior Apts
26 Marshall Squares
27 Meridan Mixed Use
28 Modera
29 Montgomery 7
30 Morrison Park Apts
31 Museum Place (Residential)
32 North San Pedro Apts
33 North Tenth Street Apts
34 NSP3 Tower
35 Ohlone Block B
36 Ohlone Block C
37 Ohlone Mixed Use (Block A)
38 One South Market Apts
39 Parc 22 Townhomes
40 Park Delmas
41 Park View Towers
42 Post & San Pedro Tower
43 Race Street
44 Rail Yard Place (Residential)
45 San Carlos Senior Apts
46 San Jose Student Apts
47 San Pedro Square
48 Silvery Towers Apts
49 SJSC Towers
50 Sparta
51 The Graduate
52 The Pierce Apts
53 Vespasi @ Diridon (Residential)
54 Virginia Terrace Apts
55 Westmount Homes

Total Dwelling Units = 12,451

Commercial Projects

56 AC Hotel
57 Bellarmine (Academic Building)
58 Bellarmine (Life Center/Gym)
59 Museum Place (Commercial)
60 North Hotel
61 Orchard Supply Hardware
62 Reed Hotel
63 Sun Garden (Restaurant)
64 Sun Garden Grocery
65 Sun Garden Retail Center
66 Vespaio @ Diridon
67 Whole Foods Market

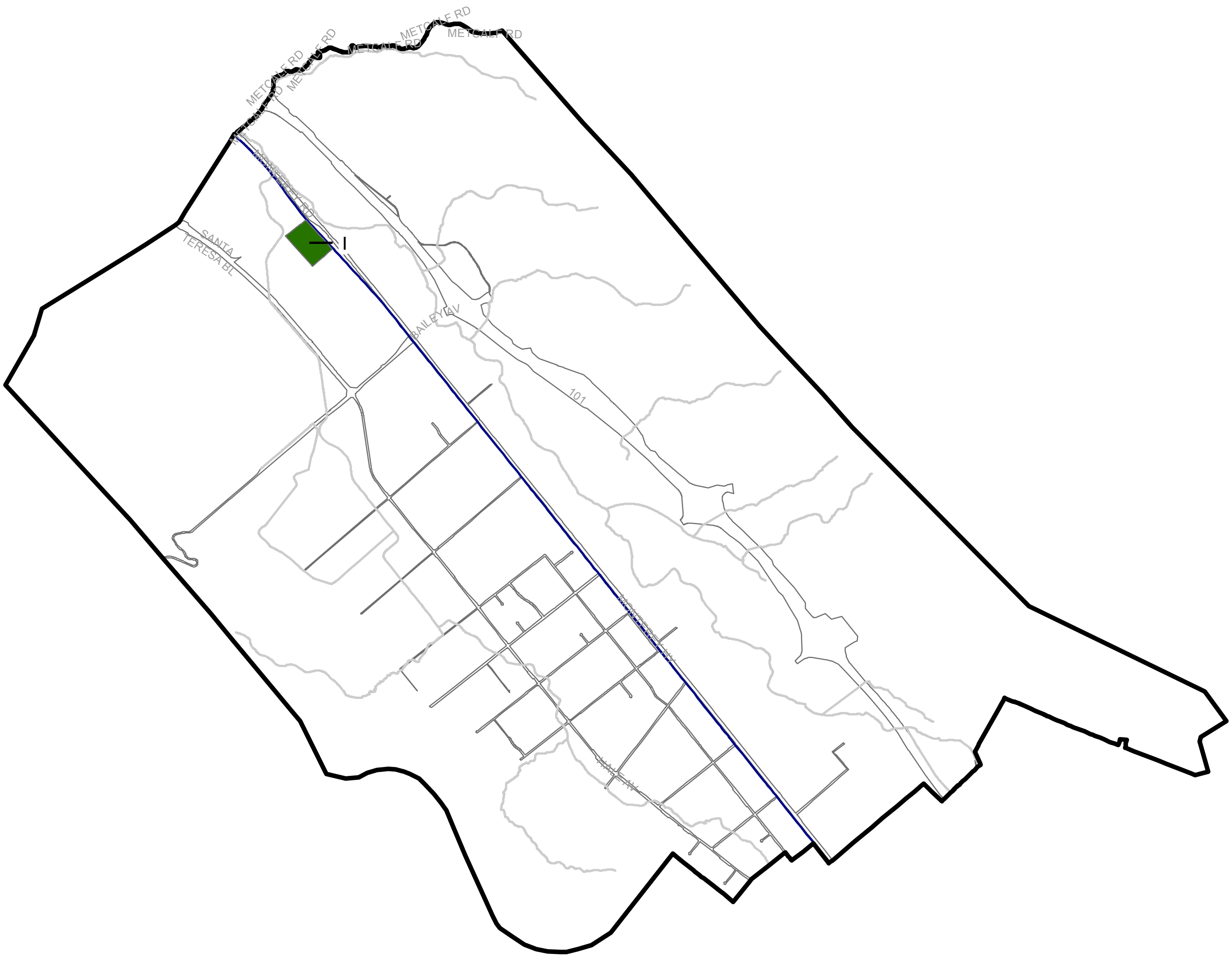
Total Commercial Sq. Feet = 907,220

Industrial Projects

68 335 West San Fernando St
69 A-1 Self Storage (10th St)
70 Diridon TOD (Office)
71 Museum Place (Office)
72 Raill Yard Place
73 River Corp Center III
74 Self Storage (Cinnabar St)
75 Senter/Alma Ministorage
76 Tropicana

Total Industrial Sq. Feet = 2,716,817

Coyote Planning Area
Major Development Activity



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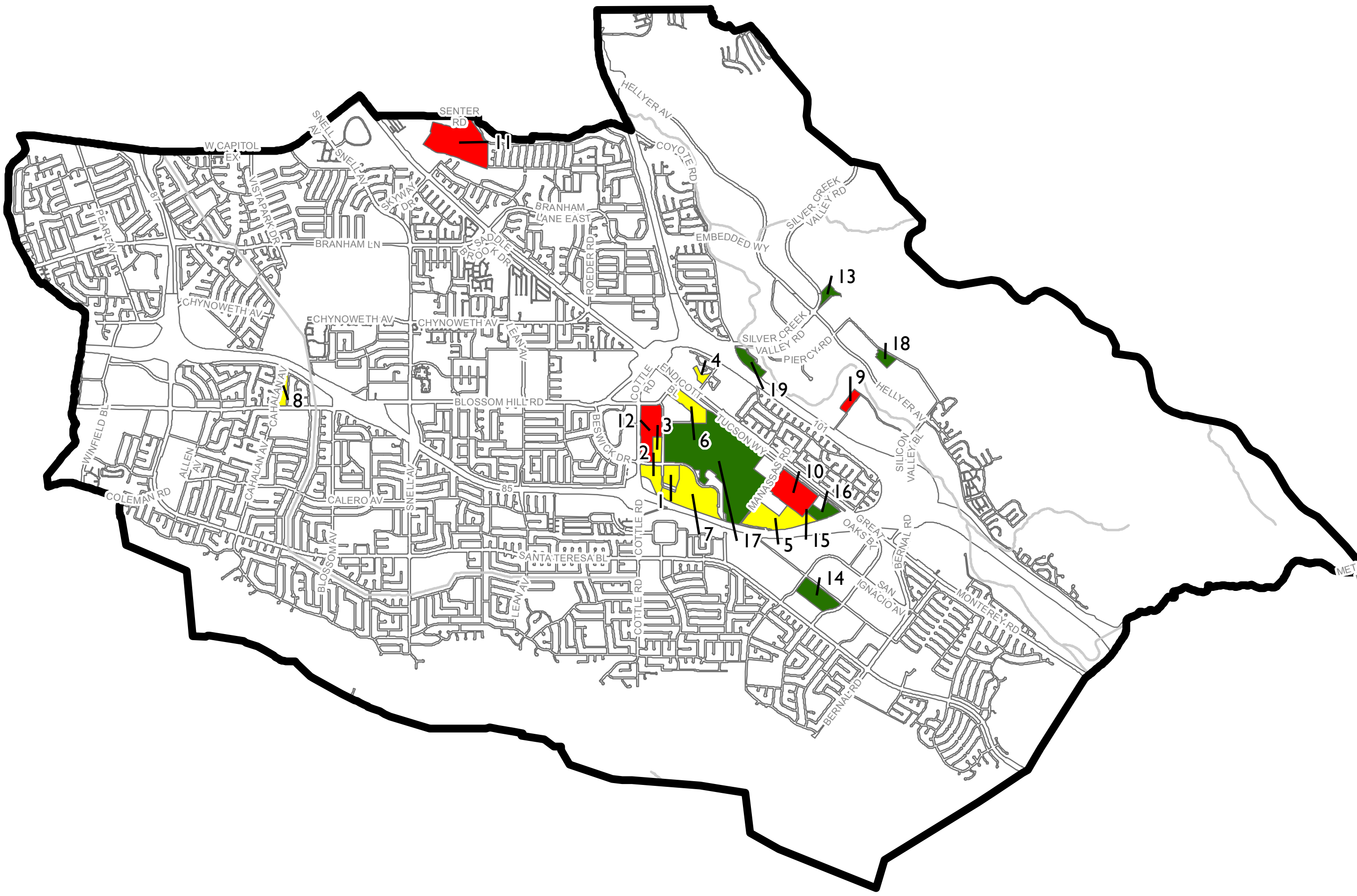
Industrial Projects

1 Panattoni Distribution Center

Total Industrial Sq. Feet = 414,000

Edenvale Planning Area
Major Development Activity



Residential Projects

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

Total Dwelling Units = 3,029

Commercial Projects

9 Enzo Behavioral Hospital
10 iStar Costco
11 Valley Christian Schools
12 Village Oaks (Hitachi)

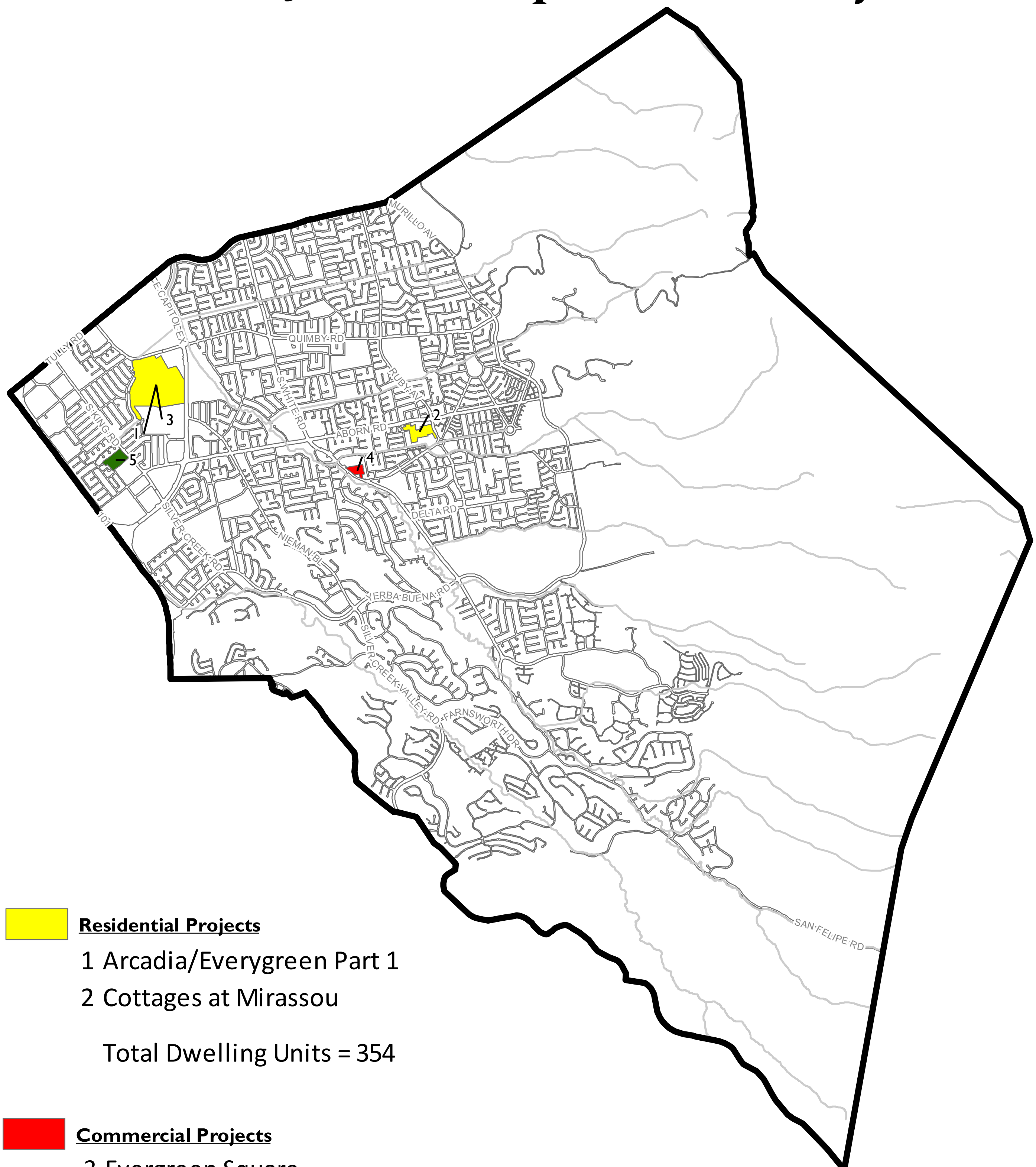
Total Commercial Sq. Feet = 586,000

Industrial Projects

13 Edenvale Self Storage Facility
14 Equinix
15 Equinix (iStar)
16 Equinix (Phase 1)
17 HGST Greak Oaks Campus
18 Silicon Valley Industrial Center
19 Veteran Affairs Outpatient Clinic

Total Industrial Sq. Feet = 1,918,550

Evergreen Planning Area
Major Development Activity



Residential Projects

1 Arcadia/Everygreen Part 1

2 Cottages at Mirassou

Total Dwelling Units = 354

Commercial Projects

3 Evergreen Square

4 Oakmond Residential Care

Total Commercial Sq. Feet = 401,714

Industrial Projects

5 Self-Storage (King Rd)

Total Industrial Sq. Feet = 198,000

North Planning Area
Major Development Activity

Residential Projects

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

Total Dwelling Units = 7,556

Commercial Projects

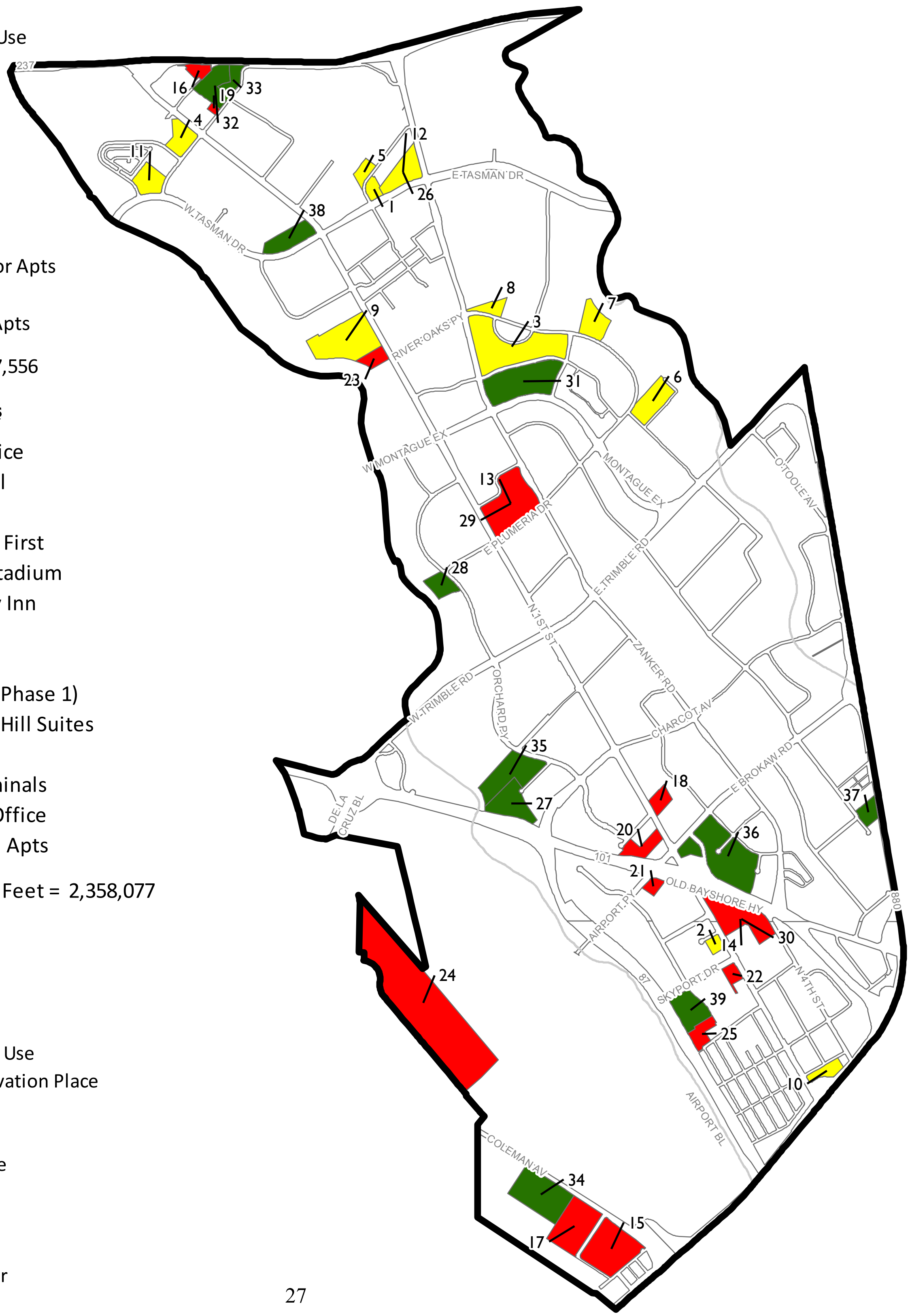
13 2890 N. 1st Street Office
14 Bay 101 Casino / Hotel
15 Coleman Landings
16 Courtyard Marriott @ First
17 Earthquakes Soccer Stadium
18 Hampton Inn/Holiday Inn
19 Hyatt House
20 Hyatt Place
21 M8trix Casino/Hotel (Phase 1)
22 Residence Inn/SpringHill Suites
23 Riverview Mixed Use
24 San Jose Airport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

Total Commercial Sq. Feet = 2,358,077

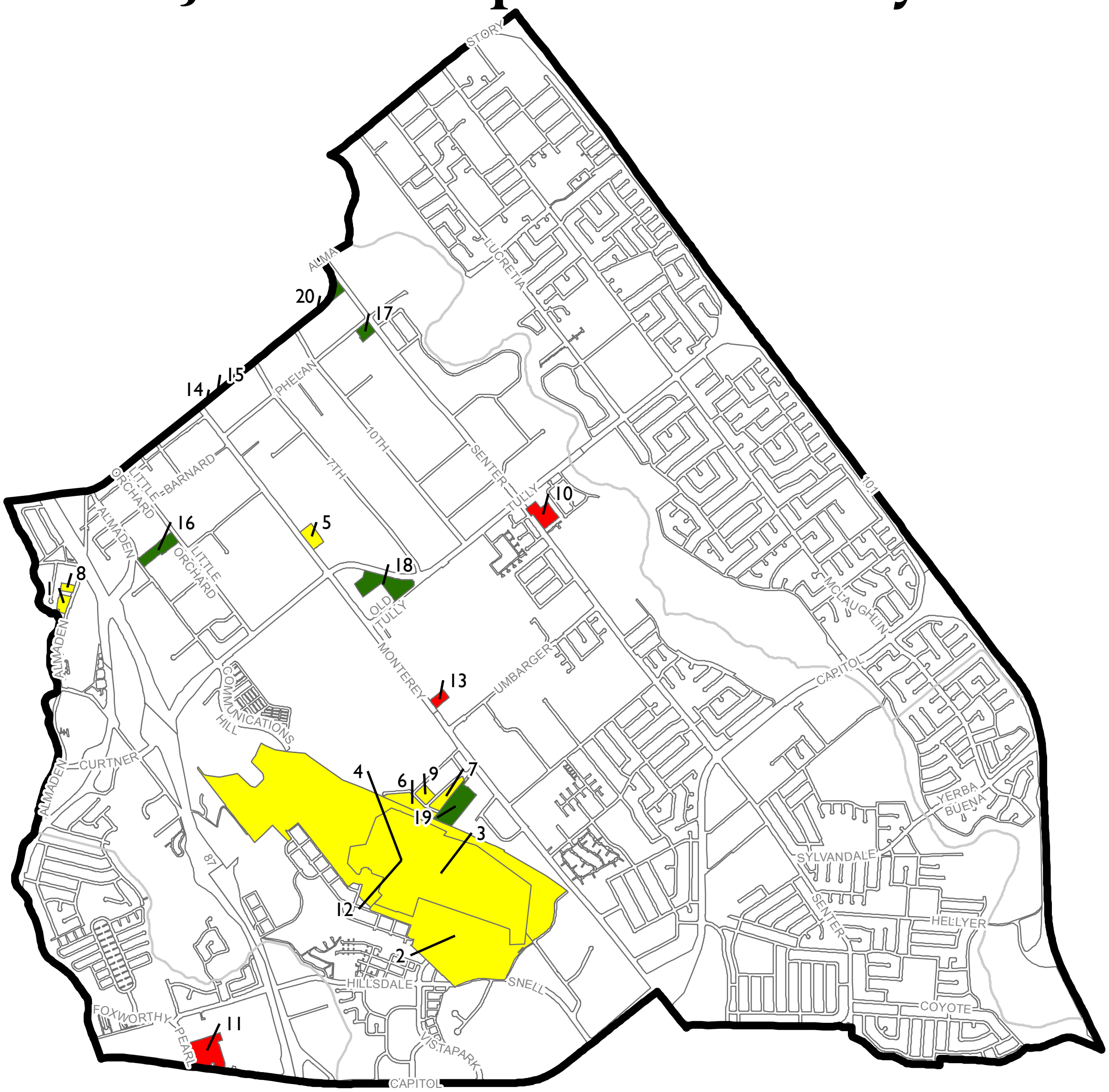
Industrial Projects

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

Total Industrial Sq. Feet = 4,737,997



South Planning Area
Major Development Activity



Residential Projects

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

Total Dwelling Units = 2,278

Commercial Projects

10 2500 Senter Road
11 Capitol Toyota
12 Communications Hill
13 Holiday Inn
14 Sun Garden (Restaurant)
15 Sun Garden Retail Center

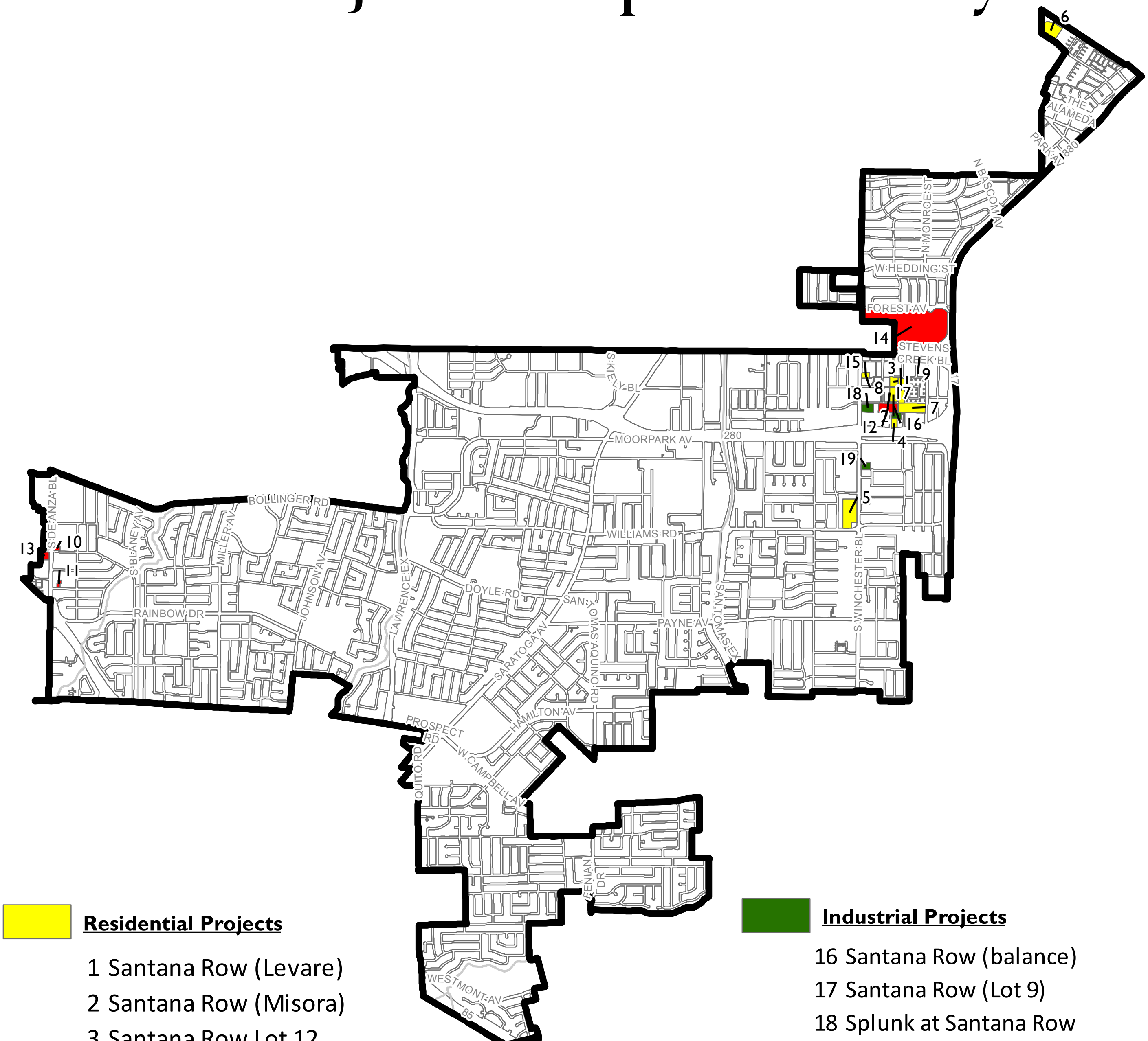
Total Commercial Sq. Feet = 707,006

Industrial Projects

16 1850 Stone Avenue (Storage)
17 A-1 Self Storage (Phelan)
18 Public Storage (Tully)
19 Self-Storage (Monterey Rd)
20 Senter/Alma Ministorage

Total Industrial Sq. Feet = 672,545

West Valley Planning Area
Major Development Activity



Residential Projects

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

Total Dwelling Units = 1,990

Commercial Projects

9 Boutique Hotel
10 Hampton Inn (De Anza Blvd)
11 Holiday Inn Express (Bark Ln)
12 Santana Row Commercial (Lot 9)
13 Scandinavia
14 Valley Fair Shopping Center
15 Volar (Commercial)

Total Commercial Sq. Feet = 913,272

Industrial Projects

16 Santana Row (balance)
17 Santana Row (Lot 9)
18 Splunk at Santana Row
19 Winchester Commercial Mixed Use

Total Industrial Sq. Feet = 1,013,000

Willow Glen Planning Area
Major Development Activity

Residential Projects

1 Fruitdale Station (Phase 2)
2 Lee Ave Apartments
3 The Meridian at Willow Glen

Total Dwelling Units = 371

Commercial Projects

4 Foxworthy Retail
5 Fruitdale Station (Phase 2)
6 Lincoln Office/Retail
7 Oakmont of San Jose

Total Commercial Sq. Feet = 156,000

VII. APPENDIX: SOURCES

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

Data Collection and Analysis

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

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

Review of Publications

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

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