

GENERAL FUND REVENUE ESTIMATES

OVERVIEW

For 2016-2017, General Fund revenue estimates (excluding fund balance) total \$977.9 million, representing a 6.1% increase from the 2015-2016 Adopted Budget level. When Fund Balance-Carryover is included, General Fund resources total \$1.227 billion, which is 4.4% above the prior year.

Estimates for the 2016-2017 Beginning Fund Balance and for over 450 separate General Fund revenue accounts were formulated as part of the 2017-2021 Five-Year Forecast prepared in February 2016. These estimates have been reviewed continually since the Forecast document was released and have been revised, as appropriate, in this Adopted Budget based on more recent information. Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2015-2016, an estimate for the increase or decrease in activity, and receipts anticipated for 2016-2017. Each source of revenue can be influenced by external (outside of the City's control) and/or internal factors. The 2016-2017 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

| Revenue Category | 1 2014-2015 Actuals | 2 2015-2016 Adopted | 3 2016-2017 Forecast | 4 2016-2017 Adopted | 2 to 4 % Change | % of Total |
|-----------------------------------|---------------------------|---------------------------|----------------------------|---------------------------|-----------------------|---------------|
| Property Tax | 247,258,146 | 255,210,000 | 270,625,000 | 271,737,000 | 6.5% | 22.1% |
| Sales Tax | 180,406,911 | 190,260,000 | 194,695,553 | 224,695,553 | 18.1% | 18.3% |
| Transient Occupancy Tax | 14,734,573 | 14,700,000 | 17,821,000 | 16,952,000 | 15.3% | 1.4% |
| Franchise Fees | 46,908,555 | 47,582,232 | 48,903,200 | 48,916,811 | 2.8% | 4.0% |
| Utility Taxes | 91,547,670 | 93,825,000 | 95,749,500 | 95,749,500 | 2.1% | 7.8% |
| Telephone Tax | 21,097,282 | 21,000,000 | 21,614,000 | 21,614,000 | 2.9% | 1.8% |
| Business Taxes | 47,344,824 | 44,425,000 | 48,800,000 | 48,800,000 | 9.8% | 4.0% |
| Licenses and Permits | 47,508,875 | 48,721,223 | 50,632,528 | 51,572,553 | 5.9% | 4.2% |
| Fines, Forfeitures and Penalties | 14,491,423 | 15,356,042 | 14,910,600 | 14,910,600 | (2.9%) | 1.2% |
| Rev. from Money and Property | 3,580,694 | 3,414,999 | 3,863,935 | 3,863,935 | 13.1% | 0.3% |
| Rev. from Local Agencies | 39,858,774 | 23,909,616 | 22,875,000 | 24,811,281 | 3.8% | 2.0% |
| Rev. from State Government | 12,024,115 | 11,370,763 | 10,619,429 | 11,328,516 | (0.4%) | 0.9% |
| Rev. from Federal Government | 10,626,611 | 9,083,802 | 2,526,566 | 4,161,294 | (54.2%) | 0.3% |
| Departmental Charges | 41,704,532 | 40,923,558 | 39,782,190 | 41,731,974 | 2.0% | 3.4% |
| Other Revenue | 154,598,297 | 26,259,638 | 15,128,362 | 17,752,381 | (32.4%) | 1.4% |
| Transfers and Reimbursements | 74,985,995 | 75,763,879 | 78,164,169 | 79,337,731 | 4.7% | 6.5% |
| Subtotal | 1,048,677,277 | 921,805,752 | 936,711,032 | 977,935,129 | 6.1% | 79.6% |
| Fund Balance-Carryover (1) | - | 252,826,392 | 65,825,927 | 248,958,239 | (1.5%) | 20.4% |
| Total General Fund Sources | 1,048,677,277 | 1,174,632,144 | 1,002,536,959 | 1,226,893,368 | 4.4% | 100.0% |

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

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Economic Performance

The 2016-2017 revenue estimates were built on the assumption of moderate continued economic growth, which will have a modest positive impact on the City's economic performance.

The following is a discussion of both the national and local economic outlooks used to develop the 2016-2017 revenue estimates. Various economic forecasts are reviewed in the development of the revenue estimates, including the national and State economic forecasts produced by the Anderson School of Management at University of California – Los Angeles (UCLA). The City also uses an economic forecasting consultant to assist in the development of the General Fund revenue estimates. In addition, consultants that focus on particular revenue categories such as Sales Tax and Transient Occupancy Tax were asked to weigh in on the current projections and future outlooks in these areas.

National Outlook

Moderate economic growth appears likely for the next several years, driven by growth across most sectors of the economy, according to the December 2015 UCLA Anderson Business School Forecast.

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 0.2% in June 2016 (seasonally adjusted) and increased 1.0% from June 2015 to June 2016 (before seasonal adjustment)¹. The index for all items less food and energy increased 2.3% for the 12 month period ending June 2016. As the Federal Reserve Board targets a core annual inflation rate of 2%, it continues to signal that it may begin to gradually raise interest rates in 2016, though will be influenced by any changes in economic conditions as they arise.

The UCLA Anderson Business School Forecast anticipates moderate growth, with a GDP growth rate of 2.7% for 2016, and continued growth in employment, as the economy operates at full employment. Further, it is anticipated that the Federal Reserve Board is expected to increase the Fed funds rate; growth will be driven by increases in consumer spending and housing along with the end of the inventory correction currently being experienced.

¹ U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index News Release, July 15, 2016

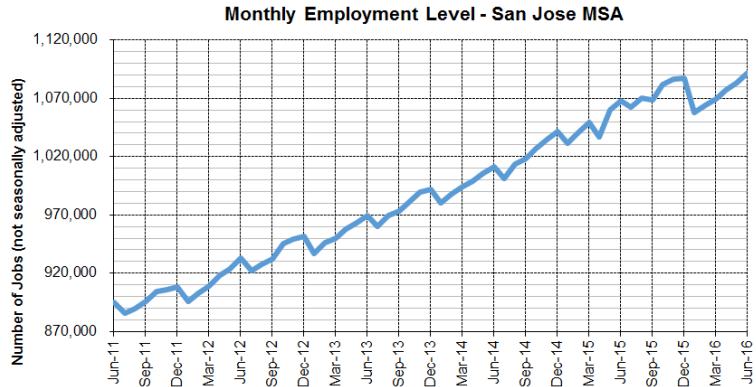
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Economic Performance

City of San José Outlook

The majority of economic indicators continue to show improvement from the same period a year ago. The June 2016 employment level in the San José, Sunnyvale, Santa Clara Metropolitan Statistical Area (MSA) of 1.09 million was 2.2% above the June 2015 level of 1.1 million.



The unemployment rate in the San José metropolitan area continued to improve in 2015-2016, dropping from 4.2% in June 2015 to 4.1% in June 2016. These rates remain well below the double digit levels that had been experienced during the Great Recession. The June 2016 unemployment rate in this region is less than the unadjusted rate for the State (5.7%) and the nation (5.1%).

| | June 2015 | June 2016 |
|---|-----------|-----------|
| San José Metropolitan Statistical Area* | 4.2% | 4.1% |
| State of California | 6.2% | 5.7% |
| United States | 5.5% | 5.1% |
| * San Benito and Santa Clara Counties Source: California Employment Development Department | | |

Overall, construction activity remained strong in 2015-2016 at a valuation of \$1.5 billion, which was 14% above the \$1.3 billion valuation of projects that were received in 2014-2015 but below the peak of \$1.7 billion in 2013-2014. While residential activity was down in 2015-2016 compared to the prior year, both the commercial and industrial categories experienced strong growth.

Residential valuation was down 31.7% and the number of new residential dwelling units permits issued through June 2016 of 1,692 was below the prior year level of 3,241 by 47.8%. Commercial valuation was up 24.7% and industrial valuation was up 65.3% compared to the prior year. Major projects in 2015-2016 were the eBay campus on East Hamilton Avenue, the Samsung Research and Development building on North First Street, a 163,000 square foot warehouse on Piercy Road east of the Highway 101/85 split in South San José, a 144-room hotel located on North First Street south of Highway 237, an office building in the Coleman Highline development, and a new 315-unit apartment building on West San Carlos Street. Private construction activity is a driver for several development related taxes and fees and is an indicator of future activity for several other categories, such as the storm and sanitary sewer system fees.

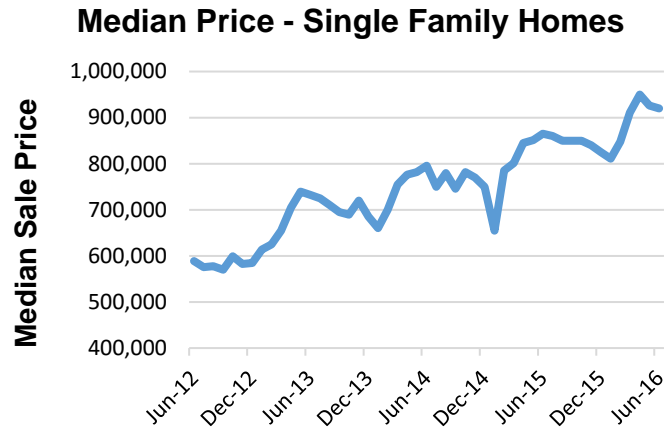
| Private Sector Construction Activity (Valuation in \$ Millions) | | | |
|--|-----------|-----------|--------|
| | 2014-2015 | 2015-2016 | % Chng |
| Residential | \$ 580.9 | \$ 440.9 | -31.7% |
| Commercial | \$ 380.0 | \$ 474.0 | 24.7% |
| Industrial | \$ 359.9 | \$ 594.7 | 65.2% |

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Economic Performance

The housing market also continued to improve in 2015-2016. The median price for single family homes increased in value, with a median home price in June 2016 of \$920,000, up 6.4% from the June 2015 price of \$865,000. The number of home sales (single-family and multi-family dwelling units), increased over the past year (2.9%) from 7,992 in 2014-2015 to 8,223 sales in 2015-2016. However, the amount of time it takes to sell a home (single-family and multi-family dwelling units) has increased slightly in the past year from 17 days in June 2015 to 19 days in June 2016.



Non-Economically Sensitive Revenue Drivers

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

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Revised General Fund Forecast

Between the issuance of the Five-Year Forecast in February 2016 and the adoption of the budget in June 2016, staff continued to review and update the estimated revenue collections for 2016-2017. Based on this analysis, a number of the revenue estimates presented in the February Forecast were revised in this budget to reflect more recent information. The net result of these revisions is an upward adjustment of \$773,000 to the Forecast from \$1.002 billion to \$1.003 billion.

Following is a summary table and descriptions of the changes incorporated into the Revised Forecast that was used as the starting point in preparing the 2016-2017 Adopted Budget.

2016-2017 Revised Forecast Changes

| <u>Category</u> | <u>\$ Change</u> |
|-------------------------------------|-------------------|
| Sales Tax | \$ 500,000 |
| Departmental Charges | 454,460 |
| Business Taxes | 350,000 |
| Other Revenue | 300,000 |
| Revenue from the State | 177,748 |
| Revenue from the Federal Government | 87,870 |
| Licenses and Permits | (185,408) |
| Transfers and Reimbursements | (911,945) |
| Total | \$ 772,725 |

A brief discussion of these changes follows.

Sales Tax

- An increase of \$500,000 to the General Sales Tax revenue estimate (\$194.2 million to \$194.7 million) to reflect higher than anticipated collections for the second quarter of 2015-2016, providing a higher base starting point for 2016-2017 anticipated growth.

Departmental Charges

- An increase of \$270,000 adjusts the Solid Waste Enforcement Fee revenues to costs to maintain 100% cost recovery levels.
- An increase of \$124,000 to the Parks, Recreation and Neighborhood Services Departmental Charges aligns revenues with estimated activity levels at the Happy Hollow Park and Zoo.
- An increase of \$60,000 to the Department of Transportation fees and charges to reflect fee revisions based on estimated activity levels.

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Revised General Fund Forecast

Business Taxes

- An increase of \$200,000 to the estimate for Disposal Facility Tax (\$12.0 million to \$12.2 million) based on current collection trends experienced in 2015-2016, which has seen increased activity from neighboring agencies dumping in San José landfills, consistent with 2014-2015 actual collections.
- An increase of \$150,000 to the estimate for General Business Taxes (\$11.55 million to \$11.70 million) based on current collection trends experienced in 2015-2016.

Other Revenue

- An increase of \$250,000 to the estimate for Senate Bill 90 reimbursements (\$500,000 to \$750,000) based on current collection trend experienced in 2015-2016.
- An increase of \$50,000 to reflect an increase in incentive payments from the City's procurement credit card (P-card) vendor.

Revenue from the State

- An increase of \$150,000 to the estimate for Tobacco Settlement (\$8.75 million to \$8.90 million) based on current collection trend experience in 2015-2016 and prior year actuals.
- An increase of \$28,000 to recognize a one-time grant from the California Department Conservation Sustainability Commission.

Revenue from the Federal Government

- An increase of \$88,000 to recognize a one-time grant received from the Metropolitan Transportation Commission.

Licenses and Permits

- A decrease of \$179,000 to the Multiple Housing Occupancy Permits revenue estimate (from \$5.63 million to \$5.45 million) to align anticipated 2016-2017 program reimbursed costs.
- A net decrease of \$6,200 reflects the realignment of revenues for the Animal Care and Services licensing and permits (-\$5,800) and Auto Dismantler Permit (\$-400).

Transfers and Reimbursements

- A net decrease of \$912,000 to reflect updated overhead reimbursements from capital funds and operating funds based on the final 2016-2017 base budget and final 2016-2017 overhead rates as approved by the Finance Department.

Changes from Forecast to Adopted Budget

From the Revised Forecast of \$1.003 billion, a net increase of \$224.4 million to the General Fund revenue estimates was approved, bringing the 2016-2017 Adopted Budget revenue estimate to \$1.23 billion. The components of this increase include an increase to the estimate for 2015-2016

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Changes from Forecast to Adopted Budget

Ending Fund Balance/2016-2017 Beginning Fund Balance (\$183.1 million) and an increase to various revenue categories (\$41.2 million). These changes are summarized in the following table:

2016-2017 Adopted Budget Changes

| <u>Category</u> | <u>\$ Change</u> |
|--------------------------------------|-----------------------|
| Beginning Fund Balance | \$183,132,312 |
| Sales Tax | 30,000,000 |
| Other Revenue | 2,624,019 |
| Departmental Charges | 1,949,784 |
| Revenue from Local Agencies | 1,936,281 |
| Revenue from the Federal Government | 1,634,728 |
| Transfers and Reimbursements | 1,173,562 |
| Property Tax | 1,112,000 |
| Licenses and Permits | 940,025 |
| Revenue from the State of California | 709,087 |
| Franchise Fees | 13,611 |
| Transient Occupancy Tax | (869,000) |
| Total | \$ 224,356,409 |

Beginning Fund Balance

An increase of \$183.1 million from the Revised Forecast is included, bringing the estimated 2016-2017 Beginning Fund Balance from \$65.8 million to \$249.0 million. This increase primarily reflects the rebudget of funds for expenditure-related items and unexpended reserves in the amount \$141.8 million which were brought to City Council at the end of the budget process. Of this amount \$100,000 was rebudgeted from the Mayor and Council Offices for other purposes including: Mayor's Office Rebudget for Mayor Innovation Fellows Program (\$50,000), Council General rebudget for City-Wide Dues/Memberships (\$25,000), and Council General rebudget for Upgrades to the 18th Floor Conference Rooms and Public Area (\$25,000). The remaining change of \$41.4 million includes:

- Liquidation of various reserves totaling \$16.4 million including: \$5.0 million 2016-2017 Police Department Overtime Reserve, \$4.0 million Development Fee Program Reserves, \$3.7 million Cultural Facilities Capital Maintenance Reserve, \$1.6 million Police Department Staffing/Operations Reserve, \$1.3 million Employee Market Competitiveness Reserve, \$676,000 Staffing for Adequate Fire and Emergency Response (SAFER) 2014 Grant Reserve, \$110,000 2016-2017 Long Range Planning Project Staffing Reserve, and \$50,000 Retiree Healthcare Solutions Reserve.

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Changes from Forecast to Adopted Budget

Beginning Fund Balance (Cont'd.)

- Additional anticipated fund balance of \$25.0 million from increased expectations for additional revenue and expenditure savings in 2015-2016 that will be available for use in 2016-2017. The largest items include a one-time Sales Tax payment of \$12.1 million as a result of the wind-down of the “Triple Flip”², \$5.0 million in personal services savings that will occur in the Police Department due to a higher number of departmental vacancies, and additional Property Tax of \$4.6 million for the distribution of excess 2014-2015 Education Revenue Augmentation Fund (ERAF) funds that are anticipated in 2015-2016.

Sales Tax

- An increase of \$30.0 million reflects additional anticipated revenues to be received in 2016-2017 from a one-quarter percent sales tax measure that was approved by the voters in June 2016. The change in sales tax will be effective October 2016. Beginning 2017-2018, the local sales tax measure is projected to generate \$40.0 million annually.

Other Revenue

- An increase of \$2.6 million reflects the rebudget of the following grants from 2015-2016 to 2016-2017:
 - Energy and Utility Conservation Measures Program (\$2.5 million); St. James Park and Plaza de Cesar Chavez Activation (\$78,000); and San José Public Library Works (\$10,000).
- An increase of \$20,000 for the estimated reimbursement for the Library Grants to deliver San José Public Library (SJPL) Bridge Services to provide access to library resources at FIRST 5 Family Resource Centers.
- An increase of \$18,000 for the estimated reimbursement from the Christmas in the Park Foundation. Part-time City staff hours are needed to transport props to and from the City warehouse. Incurred costs are fully reimbursed by the Christmas in the Park Foundation.
- A decrease of \$1,900 for Department of Transportation new subdivision traffic control signs and pavement markings revenues to reflect fee adjustments to maintain cost recovery levels.

² As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), one-quarter cent of the City’s one cent Bradley Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue. This action, which went into effect on July 1, 2004, remains in effect until the State’s bond obligations have been satisfied. These bonds were paid off and the Triple Flip ceased in 2015-2016. Final payment was made to the City of San José in August 2016.

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Changes from Forecast to Adopted Budget

Departmental Charges

- An increase of \$1.9 million to the Parks, Recreation and Neighborhood Services Department Charges aligns revenues with estimated activity levels. The increase primarily reflects a net increase of \$1.6 million in the fee activity program revenues. Additional adjustments include: a \$236,000 increase in facility rental activities; a \$92,000 increase in Happy Hollow Park and Zoo revenues; an increase of \$40,000 for Viva Calle fees; and a reduction of (\$30,000) in Alum Rock parking permits.
- An increase of \$50,000 reflects an increase in estimated revenue as a result of an increase in the penalty from \$60 to \$70 for non-permitted cars parked and stored in residential permit zones.
- An increase of \$45,000 in the Police Department fees and charges to reflect various fee revisions.
- An increase of \$27,000 to the Transportation Department fees and charges to reflect various fee revisions and maintain cost recovery levels.
- An increase of \$24,000 reflects revisions to the Abandoned Cart Program Fee.
- An increase of \$8,000 adjusts the Solid Waste Enforcement Fee to maintain 100% cost recovery levels.
- An increase of \$2,800 in the City Clerk's Office fees to reflect various revisions and maintain cost recovery levels.
- A decrease of \$132,000 in the Library Department reflects various fee revisions.

Revenue from Local Agencies

- An increase of \$1.5 million in revenue to recognize funding from the County of Santa Clara Department of Aging and Adult Services for Senior Nutrition Program costs in 2016-2017. The County covers two-thirds of the Senior Nutrition Program costs.
- An increase of \$175,000 in revenue to recognize funding from the Santa Clara Valley Water District to extend 2.0 Park Ranger positions through June 2017 to continue patrolling and providing enforcement of homeless encampments along Coyote Creek and Guadalupe River Park corridors.
- An increase of \$172,000 reflects the rebudget of the following grants from 2015-2016 to 2016-2017:
 - Senior Education and Outreach Grant (\$86,000); San José Watershed Community Stewardship and Engagement Project (\$51,000); and Viva CalleSJ (\$35,000).
- An increase of \$68,000 in revenue to recognize grant funding from the Northern California High Intensity Drug Trafficking Area grant for overtime for officers participating in the South Bay Metro Task Force operations.

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Changes from Forecast to Adopted Budget

Revenue from the Federal Government

- An increase of \$1.2 million reflects the rebudget of grants from 2015-2016 to 2016-2017.
 - Rebudgeted funds consist of the following: 2013 Encourage Arrest Policies and Enforcement of Protection Orders Program Grant (\$403,000); National Forum Capacity Building Grant OJJDP 2012-2016 (\$244,000); Northern California Regional Intelligence Center SUASI (\$225,000); Internet Crimes Against Children (\$157,000); Police Urban Area Security Initiative Grant (\$103,000); Metropolitan Transportation Commission Planning (\$69,000); and OJJDP Community-Based Violence Prevention Demonstration Program Grant (\$7,000).
- A one-time increase of \$228,000 reflects the estimated reimbursement from the Metropolitan Transportation Commission to develop plans for several urban villages.
- An increase of \$72,000 recognizes revenue from the 2013 Encourage Arrest Policies and Enforcement of Protection Orders Program which will continue to allow the Police Department's Family Violence Unit to implement a program to investigate and prosecute domestic violence strangulation cases.
- An increase of \$70,000 recognizes revenue from the Urban Areas Security Initiative Grant – Police 2015 to continue funding for an Interoperable Communications System Manager position.
- An increase of \$56,000 recognizes revenue from the California Department of Education Nutrition Services Division, which provides lunches and snacks to qualifying youth at the Bascom, Mayfair, Roosevelt, and Seven Trees Community Centers during the summer.

Transfers and Reimbursements

- A net increase of \$982,000 in anticipated overhead reimbursements to reflect the impact of various budget actions in the 2016-2017 Budget that change the staffing levels funded by special and capital funds.
- A one-time transfer of \$140,000 from the General Purpose Parking Fund to continue the coordination and development of the Diridon Station Plan, as approved by the City Council on June 17, 2014.
- A one-time transfer of \$129,000 from various special and capital funds for the Human Resources/Payroll/Budget Systems upgrade to cover a portion of the additional \$500,000 added to the project in the 2016-2017 Adopted Budget to provide additional project contingency to help ensure the project remains on schedule and meets anticipated “go-live” dates.
- A decrease of \$40,500 in the transfer from the Workforce Development Fund to reflect lower work2Future lease payments for the Shirakawa Community Center to reflect the shared use as the Vietnamese-American Community Center and the Work2Future site.
- A decrease of \$36,000, offset by a \$36,000 reduction to the Fire Department's overtime budget, to better align the anticipated overtime needs to continue to staff fire resources at the Index D level at the Airport.

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Changes from Forecast to Adopted Budget

Property Tax

- An increase of \$1.1 million reflects higher estimated collections in 2015-2016, providing a higher base starting point for 2016-2017 anticipated growth. This includes increases to the Secured Property Tax estimate (\$534,000 – from \$246.3 million to \$246.8 million; maintains 6% growth assumption over revised base) and SB 813 Property Tax (\$578,000 – from \$4.4 million to \$5.0 million) estimates.

Licenses and Permits

- An increase of \$533,000 in revenue to reflect revised calculations for the Medical Marijuana fees.
- An increase of \$185,000 reflects adjustments to the three-tier program for Multiple Housing Occupancy Permits to align with slightly increased costs associated with the addition of mobile devices for Inspectors.
- An increase of \$130,000 to adjust various Police Department permits to maintain cost recovery levels.
- An increase of \$57,000 in Fire non-development permits to maintain 100% cost recovery level.
- An increase of \$30,000 to adjust various Code Fees to bring them to 100% cost recovery.
- An increase of \$4,000 to adjust the Transportation Department Taxi Stand fees to maintain cost recovery levels.

Revenue from the State of California

- An increase of \$709,000 reflects the rebudget of grants from 2015-2016 to 2016-2017 (\$361,000) as well as the recognition of new grant funding for 2016-2017 (\$349,000).
 - Rebudgeted funds consist of the following: Internet Crimes Against Children State Grant 2015-2016 (\$142,000); Selective Traffic Enforcement Program 2015-2016 (\$122,000); and 2015 California Gang Reduction, and Intervention and Prevention (CALGRIP) Grant (\$97,000).
 - New grants and reimbursements include the following : California High Speed Rail (\$212,000) to continue the coordination and development of the Diridon Station Area Plan; Strategic Growth Council (\$72,000) to support urban village master planning and zoning revisions for East Santa Clara Street and Alum Rock Avenue; and Selective Traffic Enforcement Program 2015-2016 from the State of California Office of Traffic Safety (\$65,000) to fund Police Officer overtime to conduct targeted driving under the influence patrols and distracted driving enforcement.

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Changes from Forecast to Adopted Budget

Franchise Fees

- An increase of \$14,000 reflects an increase in the Commercial Solid Waste (CSW) fees by 0.12% based on the change in the Consumer Price Index (CPI). In October 2010, the City Council amended the CSW fee to charge franchises based on geographic collection districts rather than volume. The fee structure started with a base of \$5.0 million per year for each of the two geographic collection districts plus a supplemental fee of \$1.0 million for the right to conduct CSW services in both the North District and South District. The revised structure is subject to an annual increase based on the percentage change in the annual CPI rate during the prior two calendar years.

Transient Occupancy Tax

- A downward adjustment of \$869,000 to the revenue estimate (from \$17.8 million to \$17.0 million) reflects lower anticipated collections in 2015-2016, which results in a lower base starting point for 2016-2017 anticipated growth.

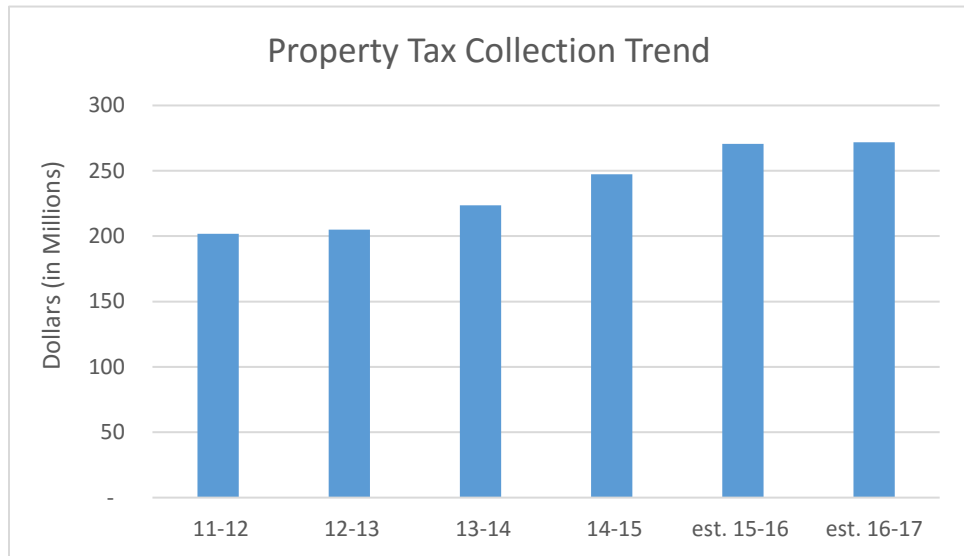
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| PROPERTY TAX | |
|---------------------------------|----------------|
| 2014-2015 Actual | \$ 247,258,146 |
| 2015-2016 Adopted | \$ 255,210,000 |
| 2016-2017 Forecast | \$ 270,625,000 |
| 2016-2017 Adopted | \$271,737,000 |
| % of General Fund | 22.1 % |
| % Change from 2015-2016 Adopted | 6.5 % |

Revenue Estimates

| Property Tax Category | Adopted Budget |
|---|-----------------------|
| Secured Property Tax | \$ 248,834,000 |
| Unsecured Property Tax | 14,238,000 |
| SB 813 Property Tax | 5,000,000 |
| Aircraft Property Tax | 2,635,000 |
| Homeowner's Property Tax Relief Exemption | 1,030,000 |
| Total | \$ 271,737,000 |

Property Tax receipts of \$261.9 million are projected for 2015-2016, which represents 5.9% growth from the prior year. The 2015-2016 projection reflects continued strong growth, as well as a 1.998% California Consumer Price Index (CCPI) assessed in the Secured Property Tax category.



In 2016-2017, Property Tax receipts are estimated at \$271.7 million, which reflects growth of 3.8% over the estimated 2015-2016 collections. However, excluding the Educational Revenue Augmentation Fund (ERAF) payments from 2015-2016 and 2016-2017, the adjusted growth in 2016-2017 is 5.7%. The 2016-2017 estimate reflects continued solid growth as well as a 1.53% CCPI increase that will be assumed in the Secured Property Tax category.

The County of Santa Clara provided information about anticipated ERAF payments. 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 will be returned to the

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PROPERTY TAX

Revenue Estimates

taxing entities that contributed to it. It is anticipated that a payment of \$6.6 million will be distributed to the City in 2015-2016, which is slightly above the ERAF payment received in 2014-2015 of \$6.0 million and approximately \$4.6 million higher than the amount assumed in the 2015-2016 Adopted Budget. This additional funding has been factored into the development of the 2015-2016 Ending Fund Balance/2016-2017 Beginning Fund Balance estimate. In 2016-2017, an ERAF payment of \$2.0 million is assumed as this revenue stream may vary from year to year and the higher levels received in the last two years may not be sustained.

Secured Property Tax

Secured Property Taxes account for over 90% of the revenues in this category. In 2015-2016, Secured Property Tax receipts are expected to total \$239.3 million, reflecting an increase of 6.7% from the 2014-2015 collection level. This reflects an increase in assessed value for 2015-2016, due to the California Consumer Price Index (CCPI) increase of 1.99%, an ERAF payment of \$6.6 million, increased valuation due to changes in ownership or new construction, and the full or partial restoration of property values that were temporarily reassessed downwards under Proposition 8 due to the declining market value. On a County-wide basis, the 2015-2016 roll growth was driven primarily by changes in ownership (42.7%), new construction (15.8%), change in the CCPI (15.79%), and Proposition 8 adjustments (9.43%).

In 2016-2017, Secured Property Tax receipts, which will be based on real estate activity through January 1, 2016, are expected to increase by 4.0% to \$248.8 million. As discussed above, an ERAF payment of \$2.0 million is incorporated into the 2016-2017 Secured Property Tax estimate. Excluding ERAF payments, year-over-year growth of 6.0% is assumed. This projected increase is related to two factors: the change in the CCPI and the net change in residential and commercial valuation. Under Proposition 13, assessed values of all real property adjust with the CCPI, with a 2% limit, unless there is a change in ownership, new construction, or a property has received a Proposition 8 adjustment. The CCPI adjustment for the 2016-2017 tax roll is 1.525%; below the prior year level of 1.998%.

A net increase in residential and commercial valuation is also anticipated from the combination of changes in ownership, new construction, and the continued partial or full restoration of property values that had previously been reassessed downward under Proposition 8 due to declining home values. The majority of properties that had been adjusted downwards during the "Great Recession" have been fully or partially restored. As a result, these adjustments are expected to be less of a contributing factor to the growth in this category than experienced in recent years. The increases in property sale prices will continue to be a positive factor driving growth in this category. In calendar year 2015, residential real estate experience gains as the December 2015 median sales price of \$825,000 for single-family homes was 10.0% above the December 2014 level of \$750,000.

GENERAL FUND REVENUE ESTIMATES

PROPERTY TAX

Revenue Estimates

Unsecured Property Tax

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

Other

It is estimated that an additional \$8.6 million will be received from the following: SB 813 Property Tax (\$5.0 million), Airplane Property Tax (\$2.6 million), and Homeowners Property Tax Relief (\$1.0 million).

GENERAL FUND REVENUE ESTIMATES

| |
|------------------|
| SALES TAX |
|------------------|

| | |
|---------------------------------|----------------|
| 2014-2015 Actual | \$ 180,406,910 |
| 2015-2016 Adopted | \$ 190,260,000 |
| 2016-2017 Forecast | \$ 194,695,553 |
| 2016-2017 Adopted | \$224,695,553 |
| % of General Fund | 18.3 % |
| % Change from 2015-2016 Adopted | 18.1 % |

* The 2016-2017 Forecast was increased \$500,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Distribution of Sales Tax

| Sales Tax Category | Adopted Budget |
|---------------------------|-----------------------|
| General Sales Tax | \$ 188,754,553 |
| Local Sales Tax | 30,000,000 |
| Proposition 172 Sales Tax | 5,941,000 |
| Total | \$ 224,695,553 |

The City receives 1.0% of the Sales Tax collected for items sold in San José as part of the regular distribution formula for sales tax. In June 2016, San José voters approved a local one-quarter cent Sales Tax to be enacted by the City of San José effective October 1, 2016 (limited to 15 years). In addition, the City receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected State-wide.

| Agency | Distribution Percentage |
|---|--------------------------------|
| State of California | 5.750% |
| City of San José | 1.000% |
| City of José Local Tax | 0.250% |
| Santa Clara County | 0.875% |
| Santa Clara Valley Transportation Authority | 0.625% |
| Public Safety Fund (Proposition 172) | 0.500% |
| Total Sales Tax Rate | 9.000% |

Revenue Estimates

Excluding one-time revenues associated with the “Triple Flip” wind down, Sales Tax receipts are estimated to generate \$189.1 million in 2015-2016, which is up 4.8% from the 2014-2015 collection level. In 2016-2017, Sales Tax receipts are projected at \$224.7 million, an 18.8% increase from the 2015-2016 estimated collection level. This increase

is primarily associated with the ¼ cent local sales tax that was approved by the voters in June 2016, to be enacted in October 2016.

GENERAL FUND REVENUE ESTIMATES

SALES TAX

Revenue Estimates

General Sales Tax

The General Sales Tax revenue estimate is built on estimated collections of \$184.1 million in 2015-2016 (excluding the one-time funding from the Triple Flip wind down), which reflects a 5.0% increase from the 2014-2015 collection level. Collections in 2015-2016 will be impacted by prior year accrual adjustments and the Triple Flip prior year payment from the State.

Sales Tax by Economic Sector

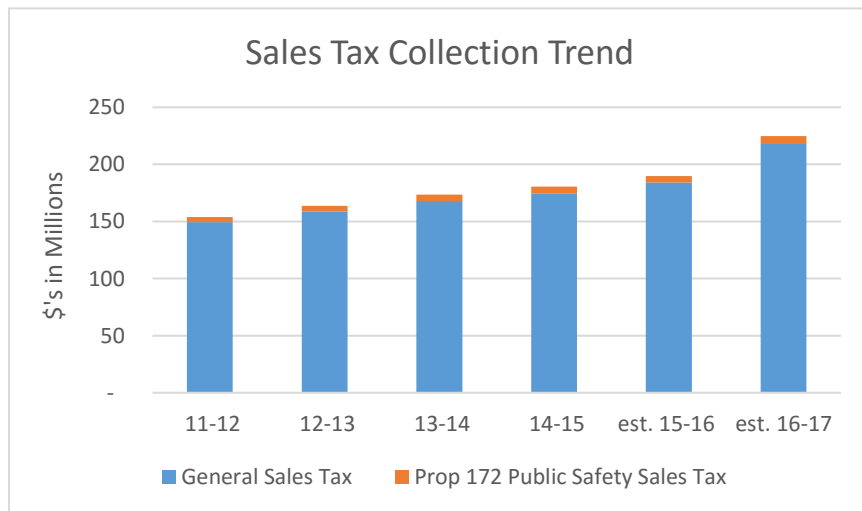
| Economic Sector | % of Total Revenue |
|----------------------|--------------------|
| General Retail | 25.4% |
| Business-to-Business | 24.5% |
| Transportation | 21.5% |
| Food Products | 16.5% |
| Construction | 11.3% |
| Miscellaneous | 0.8% |
| Total | 100.0% |

Source: MuniServices, April 2015 – March 2016

The first quarter 2015-2016 General Sales Tax revenues were up 2.9% while receipts in the second quarter which covers the holiday period, were up 7.9% from the same quarter in the prior year compared to the budgeted estimate of 4%. However, due to a business reporting erroneously to San José, approximately \$876,000 will be reversed, resulting in growth of 6.0% in the second quarter (5.0% growth is assumed ongoing for purposes of developing the 2016-2017 estimate). Growth of 4.0% is assumed for

the remaining two quarters. In 2016-2017, the General Sales Tax revenue estimate is \$188.8 million, reflecting an increase of 3.0% from the estimated 2015-2016 collection level. This reflects underlying

growth in taxable sales activity of 3.5% applied to an adjusted base in 2015-2016 that excludes one-time adjustments. As shown in the chart above, a number of economic sectors contributed to the total Sales Tax receipts though nearly 75% was generated from General Retail, Business-to-Business, and Transportation categories.



In 2015-2016, the wind down of the “Triple Flip” sales tax adjustments was completed. On August 5, 2015, the Department of Finance notified the California state Board of Equalization and the public that the State’s Triple Flip “unwinding” process will be initiated with the defeasance of the Economic Recovery Bonds. The final true-up payment associated with the Triple Flip wind down was made in August 2016 and accrued to 2015-2016. This true-up payment resulted in one-time funding of \$12 million. This additional one-time revenue was included in the 2015-2016 Ending Fund Balance/2016-2017 Beginning Fund Balance estimate and allocated as part of the 2016-2017 Adopted Budget. The figures described above exclude the one-time “Triple Flip” wind down payment.

GENERAL FUND REVENUE ESTIMATES

SALES TAX

Revenue Estimates

Local Sales Tax

In 2016-2017, it is anticipated that the voter-approved one-quarter cent sales tax will generate \$30.0 million given the October 2016 effective date and \$40.0 million annually beginning in 2017-2018. The additional revenue will fund essential 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.

Public Safety (Proposition 172) Sales Tax

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

GENERAL FUND REVENUE ESTIMATES

TRANSIENT OCCUPANCY TAX

| | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 14,734,573 |
| 2015-2016 Adopted | \$ 14,700,000 |
| 2016-2017 Forecast | \$ 17,821,000 |
| 2016-2017 Adopted | \$ 16,952,000 |
| % of General Fund | 1.4 % |
| % Change from 2015-2016 Adopted | 15.3 % |

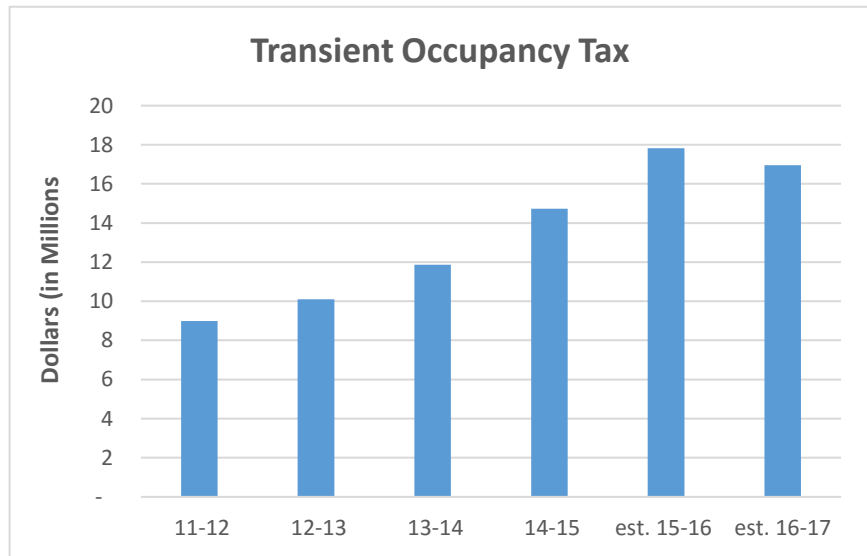
Distribution of Transient Occupancy Tax

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

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 Facilities Capital Maintenance Reserve.

Revenue Estimates

Transient Occupancy Tax (TOT) receipts in 2015-2016 are projected to reach \$16.3 million, reflecting an increase of 10.2% from the 2014-2015 collection level. Current year receipts mark the sixth year of growth and the fifth year of double-digit strong growth in this category.



Overall, the hotel industry continues to experience year-over-year growth in fiscal year 2015-2016 with

increases in average daily room rates (approximately 13%), and an average revenue-per-available room (approximately 12.3%).

In 2016-2017, growth of 4.0% from the 2015-2016 estimate to \$17.0 million is anticipated based on information received from the City’s consultant, Conventions, Sports and Leisure (CSL). Of this amount, \$5.0 million will be allocated to the Cultural Facilities Capital Maintenance Reserve.

GENERAL FUND REVENUE ESTIMATES

| FRANCHISE FEES | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 46,908,555 |
| 2015-2016 Adopted | \$ 47,582,232 |
| 2016-2017 Forecast | \$ 48,903,200 |
| 2016-2017 Adopted | \$48,916,811 |
| % of General Fund | 4.0 % |
| % Change from 2015-2016 Adopted | 2.8 % |

Revenue Estimates

| Franchise Category | Adopted Budget |
|----------------------------|----------------------|
| Electric | \$ 20,818,200 |
| Gas | 4,794,000 |
| Commercial Solid Waste | 11,413,611 |
| Cable Television | 10,608,000 |
| City Generated Tow | 900,000 |
| Great Oaks Water | 311,000 |
| Nitrogen Gas Pipeline Fees | 66,000 |
| Jet Fuel Pipeline Fees | 6,000 |
| Total | \$ 48,916,811 |

Overall, collections are projected at \$48.1 million in 2015-2016, an increase of 2.5% from prior year receipts of \$46.9 million. The increase in 2015-2016 is primarily due to higher collections in Electric and Cable Television services. In 2016-2017, Franchise Fees are expected to increase 1.7% to \$48.9 million due to growth in Gas (2.0%), Electric (2.0%), Cable (2.0%), Commercial Solid Waste (0.6%), and Great Oaks Water (15.2%) categories, including an increase of \$13,611 generated from the CPI adjustment to the Commercial Solid Waste fees approved in 2016-2017

Electricity, Gas, and Water Utility Services

Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based on the revenues of that company in the calendar year (revenues in 2015-2016 are based on calendar year 2015, and the 2015-2016 estimates reflect actual data from PG&E). Projections in this category are typically based upon an examination of electricity and gas rate changes, industry actions, and actual collection patterns in the utility tax categories.

In the Electric Franchise Fee category, collections in 2015-2016 are expected to reach \$20.4 million, reflecting growth of 3.0% compared to actual receipts in 2014-2015. In 2016-2017, growth of 2.0% from the 2015-2016 estimate is anticipated.

In the Gas Franchise Fee Category, the 2015-2016 estimated collections of \$4.7 million reflect a 0.7% increase from the \$4.67 million received in the prior year. In 2016-2017, Gas Franchise Fee collections are projected to increase by 2.0% from the 2015-2016 estimate.

GENERAL FUND REVENUE ESTIMATES

FRANCHISE FEES

Revenue Estimates

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

Water Franchise Fees are expected to total \$270,000 in 2015-2016, a 0.6% decline from the 2014-2015 collection level of \$272,000. This decline reflects the combined impact of significant water conservation efforts as a result of the current drought in California, partially offset by rate increases driven by increases in the wholesale price of water. In 2016-2017, estimated collections of \$311,000 reflect anticipated increases due to higher water costs, partially offset by declines in consumption in response to the drought.

Commercial Solid Waste

Commercial Solid Waste (CSW) Franchise Fee collections are estimated to reach budgeted levels of \$11.3 million in 2015-2016, a 1.5% increase from the prior year collections. Effective July 1, 2012, the CSW fee is charged to franchises based on geographic collection districts rather than volume. The revised fee structure started with a base 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. This structure is subject to an annual increase based on the percentage change in the annual CPI rate during the prior two calendar years. It should be noted that this increase is not automatic, a 1.46% increase was approved in 2014-2015 and 0.69% was approved in 2015-2016. Included in this document is a 0.12% increase, which will generate an additional \$14,000 and is incorporated into the revenue estimate, bringing the budgeted estimate to \$11.4 million in 2016-2017. This 0.12% increase in the franchise fees is based on a percentage change in the annual CPI rate during the prior two calendar years.

Cable Television

The 2015-2016 Cable Television Franchise Fee estimate is \$10.4 million, which is 4.0% above the 2014-2015 actual collection level of \$10.0 million. In 2016-2017, estimated collections of \$10.6 million reflect projected modest growth of 2.0%.

City-Generated Towing, Nitrogen and Jet Fuel Pipelines

In the City-Generated Towing category, projected revenues of \$900,000 in 2016-2017 are at anticipated 2015-2016 collections. The Nitrogen and Jet Fuel Pipeline Franchise Fees are anticipated to generate \$72,000 in both 2015-2016 and 2016-2017.

GENERAL FUND REVENUE ESTIMATES

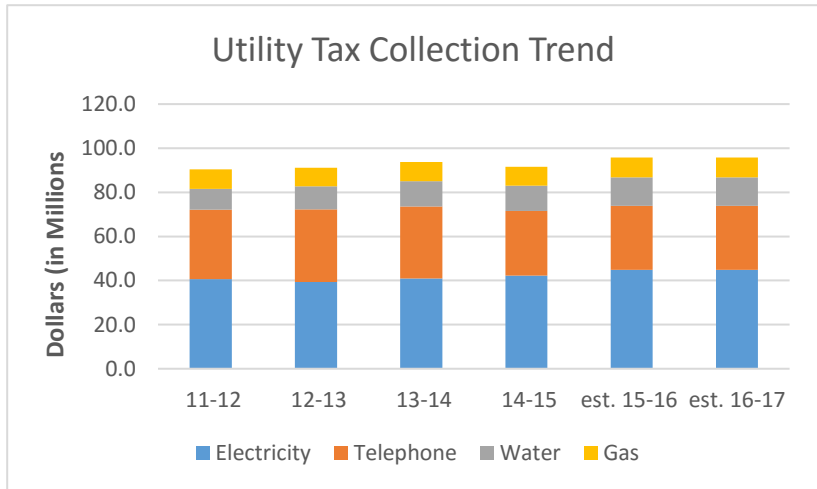
| UTILITY TAXES | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 91,547,670 |
| 2015-2016 Adopted | \$ 93,825,000 |
| 2016-2017 Forecast | \$ 95,749,500 |
| 2016-2017 Adopted | \$ 95,749,500 |
| % of General Fund | 7.8 % |
| % Change from 2015-2016 Adopted | 2.1 % |

Revenue Estimates

| Utility Tax Category | Adopted Budget |
|----------------------|----------------------|
| Electricity | \$ 44,818,000 |
| Gas | 8,925,000 |
| Water | 12,960,000 |
| Telephone | 29,046,500 |
| Total | \$ 95,749,500 |

Utility Taxes are imposed on electricity, gas, water, and telephone usage. Collections in 2015-2016 are anticipated to total \$93.8 million, representing an increase of 2.4% from the 2014-2015 collection level.

In 2016-2017, Utility Tax collections are projected to increase 2.1% to \$95.7 million.



The Electricity Utility Tax is anticipated to generate \$43.9 million in 2015-2016, a 4.0% increase from prior year levels. In 2016-2017, revenues are estimated to increase 2.0% to \$44.8 million, which annualizes 2015-2016 increases (January 2016 average system-wide 6.2% and March 2016 average system-wide 1.5% rate increases) and allows for some decline in consumption due to weather conditions and changes in sources of energy.

Gas Utility Tax

Gas Utility Taxes are anticipated to generate \$8.8 million in 2015-2016, a 3.2% increase from 2014-2015 levels, based on current collection trends. In 2016-2017, revenues are projected to increase by approximately 2.0% to \$8.9 million once the 2015-2016 rate changes and activity levels are annualized. Actual collections continue to be subject to significant fluctuations from the impact of weather conditions and/or rate changes.

GENERAL FUND REVENUE ESTIMATES

UTILITY TAXES

Revenue Estimates

Water Utility Tax

Water Utility Tax receipts of \$12.0 million are anticipated to be received in 2015-2016, a 4.0% increase from prior year collection levels. In 2016-2017, receipts are projected to increase 8.0% to \$13.0 million based on the continued rising wholesale price of water with an estimated increase in price in April 2016, July 2016, and January 2017 totaling approximately 16.0% with continued dampened consumption levels.

Telephone Utility Tax

In the Telephone Utility Tax category, revenues are collected on landlines, wireless, and VoIP. Based on current tracking, receipts in 2015-2016 are anticipated to reach \$29.1 million, an approximately 0.7% decline from 2014-2015 (\$29.3 million) due to lower receipts in cellular (-8.0%), partially offset by higher anticipated receipts in landline (\$700,000) and pre-paid wireless services (\$650,000).

Beginning January 1, 2016, AB 1717 (otherwise known as the Local Prepaid Mobile Telephony Services Collection Act) requires California retailers to collect the local utility users tax on prepaid wireless services at the same time it collects the sales tax on its other retail products. Under this new law, all local jurisdictions are required to contract with the Board of Equalization in order to receive their portion of local taxes imposed on prepaid wireless services sold by retailers. In 2016-2017, it is estimated that that new tax will generate approximately \$1.2 million.

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

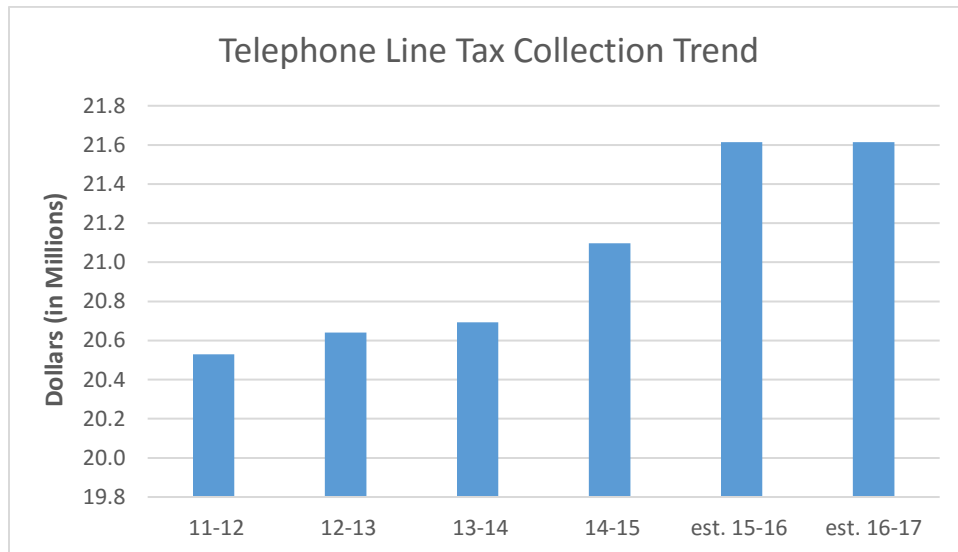
GENERAL FUND REVENUE ESTIMATES

| |
|---------------------------|
| TELEPHONE LINE TAX |
|---------------------------|

| | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 21,097,282 |
| 2015-2016 Adopted | \$ 21,000,000 |
| 2016-2017 Forecast | \$ 21,614,000 |
| 2016-2017 Adopted | \$ 21,614,000 |
| % of General Fund | 1.8 % |
| % Change from 2015-2016 Adopted | 2.9 % |

Revenue Estimates

Based on the current collection trend for Telephone Line Tax, receipts in 2015-2016 are estimated to total \$21.4 million, a 1.4% increase from prior year levels. In 2016-2017, receipts are anticipated to increase to \$21.6 million.



GENERAL FUND REVENUE ESTIMATES

BUSINESS TAXES

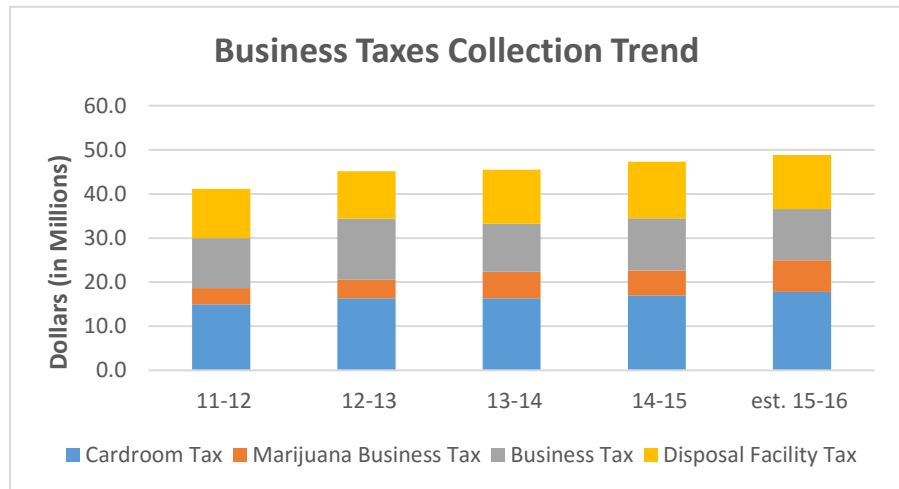
| | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 47,344,824 |
| 2015-2016 Adopted | \$ 44,425,000 |
| 2016-2017 Forecast | \$ 48,800,000 |
| 2016-2017 Adopted | \$ 48,800,000 |
| % of General Fund | 4.0 % |
| % Change from 2015-2016 Adopted | 9.8 % |

* The 2016-2017 Forecast was increased \$350,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Revenue Estimates

| Business Taxes Category | Adopted Budget |
|--------------------------|----------------------|
| Cardroom Taxes | \$ 17,800,000 |
| Marijuana Business Taxes | 7,150,000 |
| General Business Taxes | 11,650,000 |
| Disposal Facility Taxes | 12,200,000 |
| Total | \$ 48,800,000 |

In 2015-2016, Business Taxes are estimated to reach \$50.8 million, a 7.3% increase from prior year levels. In 2016-2017, revenues are estimated to decrease 3.9% to \$48.8 million due to decreases in Medical Marijuana Business Tax compliance revenue and Disposal Facility Taxes.



Cardroom Tax

Based on current performance, collections in the Cardroom Tax category are estimated at \$17.8 million in 2015-2016, a 4.6% increase from prior year levels (\$17.0 million). Receipts are anticipated to remain at 2015-2016 levels in 2016-2017 with estimated collections of \$17.8 million.

Marijuana Tax

In 2015-2016, Marijuana Tax revenues are expected to reach \$7.2 million, an increase of 27.8% from the prior year level of \$5.6 million. Receipts are anticipated to remain at 2015-2016 levels in 2016-2017 with estimated collections of \$7.2 million (includes Marijuana Compliance revenues of only \$150,000).

GENERAL FUND REVENUE ESTIMATES

BUSINESS TAXES

Revenue Estimates

Business Tax

In 2015-2016, General Business Tax revenues are expected to reach \$11.5 million, a decrease of 3.0% from the prior year level of \$11.9 million and takes into consideration the remaining billing cycles, account closeouts and clean-ups anticipated in 2015-2016. In 2016-2017, revenues are anticipated to increase 1.3% to \$11.7 million.

Disposal Facility Tax

Disposal Facility Taxes (DFT) are business taxes based on the tons of solid waste disposed at landfills within the City. This revenue stream varies due to factors that affect the amount of waste generated and how it is disposed including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. In past years, revenues in this category declined due, in large part, to increased waste diversion and the overall slowdown in the economy. However, in 2014-2015, collections of \$12.9 million grew 5.3% from prior year collection levels of \$12.2 million. This increase primarily reflected increased activity from neighboring agencies dumping in San José landfills. In 2015-2016, revenues are projected to reach \$12.4 million, a decrease of 3.7% from the prior year; and in 2016-2017, revenues are projected to fall 1.6% below estimated 2015-2016 levels to \$12.2 million. This reflects the former trend of slight annual declines.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

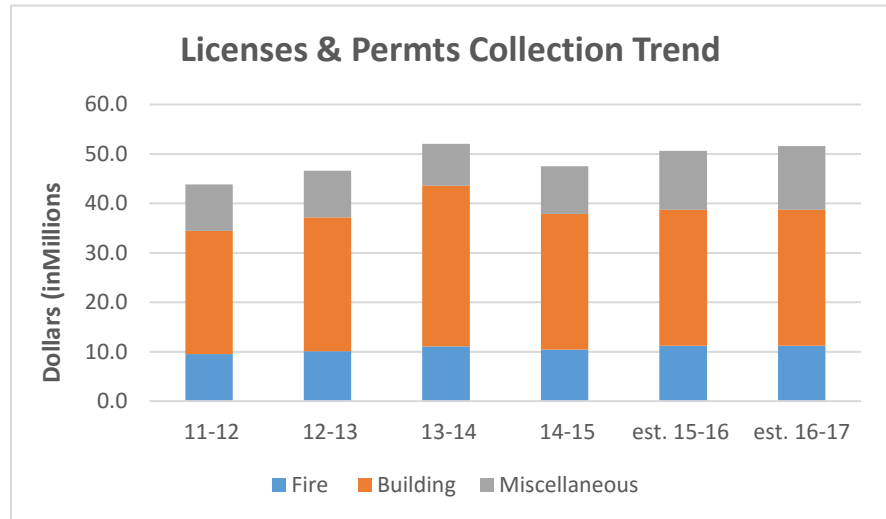
| | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 47,508,875 |
| 2015-2016 Adopted | \$ 48,721,223 |
| 2016-2017 Forecast | \$ 50,632,528 |
| 2016-2017 Adopted | \$ 51,572,553 |
| % of General Fund | 4.2 % |
| % Change from 2015-2016 Adopted | 5.9 % |

* The 2016-2017 Forecast was decreased \$185,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Revenue Estimates

| Licenses and Permits Category | Adopted Budget |
|-------------------------------|----------------------|
| Building | \$ 27,500,000 |
| Fire Permits | 11,211,000 |
| Other Licenses and Permits | 12,861,553 |
| Total | \$ 51,572,553 |

The Licenses and Permits category contains fees and charges collected by various departments. The most significant revenue sources are development-related fees. Revenue collection levels are projected based on City Council-approved cost-recovery policies with the goal of a net-zero impact on the General Fund.



Building Permits

In 2015-2016, Building Permits revenue is projected at \$27.5 million. This revenue estimate assumes the continuation of strong development performance, though below the recent peak activity levels seen in 2013-2014. In 2016-2017, a sustained level of activity is anticipated with Building Permits revenue estimated at \$27.5 million. The Building Fee Program costs are expected to exceed this estimated revenue level in 2016-2017. The Building Development Fee Program Reserve, however, is sufficient to support the base program costs as well as the program additions in 2016-2017 without a general fee increase.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

Revenue Estimates

Building Permits (Cont'd.)

In the 2017-2021 February Forecast, it was assumed that the use of \$6.9 million of the Building Development Fee Program Reserve would be necessary to balance this fee program in 2016-2017. In addition, a number of budget actions totaling \$2.0 million were approved, resulting in the addition of 7.5 positions and non-personal/equipment expenditures in order to improve target cycle times and customer service levels and begin implementation of the Integrated Permit System. In total, \$9.0 million of the Building Development Fee Program will be used to balance this fee program and remain 100% cost recovery in 2016-2017. After accounting for these adjustments, a remaining Building Development Fee Program Reserve of \$15.4 million at the beginning of 2016-2017 is estimated, primarily for works-in-progress projects.

Additional detail on these budget actions is provided in the Planning, Building and Code Enforcement, Finance, and Information Technology Departments under the *City Departments* section of this document. A more detailed description of the various fees is provided in the 2016-2017 Fees and Charges document that is released under separate cover.

Fire Permits

In 2016-2017, the Fire Permits revenue estimate of \$11.2 million is slightly above the estimated 2015-2016 collection level of \$11.1 million. This fee program includes both the Development and Non-Development Fee areas. To maintain cost recovery in these areas and ensure that service delivery needs are met for 2016-2017, a number of budget actions are included in this document.

In the Fire Development Fee Program area, the 2016-2017 revenue estimate of \$7.0 million is 0.8% above the 2015-2016 estimated collection level of \$6.9 million. The 2016-2017 revenue estimate assumes steady development performance. The Fire Development Fee Program costs are expected to exceed estimated revenue level in 2016-2017. The Fire Development Fee Program Reserve, however, is sufficient to support the base program costs as well as the program additions in 2016-2017 without a general fee increase. In the 2017-2021 February Forecast, it was assumed that the use of \$610,000 of the Fire Development Fee Program Reserve would be necessary to balance this fee program in 2016-2017. In the Adopted Budget, additional funding of \$421,000 was approved, including shared resources, to improve current cycle time performance in plan check and inspection activities and raise performance levels to meet customer needs as well as begin implementation of the new Integrated Permit System. In total \$1.2 million of the Fire Development Fee Program will be used to balance this fee program and remain 100% cost recovery in 2016-2017. After accounting for these adjustments, a remaining Fire Development Fee Program Reserve of \$5.2 million at the beginning of 2016-2017 is estimated, primarily for works-in progress projects.

In the Fire Non-Development Fee area, the 2016-2017 revenue estimate of \$4.3 million aligns with the current 2015-2016 estimate. Overtime funding was added in 2016-2017 to help improve the percentage of occupancies (state mandated and assemblies) receiving inspections.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

Revenue Estimates

Fire Permits (Cont'd.)

Additional detail on these budget actions is provided in the Fire Department under the *City Departments* section of this document. A more detailed description of the various fees is provided in the 2016-2017 Fees and Charges document that is released under separate cover.

Miscellaneous Other Licenses and Permits

The 2016-2017 Adopted Budget includes \$12.9 million for a variety of other Licenses and Permits; a net increase of \$884,000 from the 2016-2017 Revised Forecast level of \$12.0 million. This increase primarily reflects an additional \$533,000 for Medical Marijuana fees to reflect updated costs associated with this program, including the cost of a temporary Planner III position to work on preparing and reviewing environmental analyses for Municipal code amendments associated with expanding medical marijuana operations in the City and consultant services for the preparation of the necessary environmental documents.

Additional adjustments resulting in an increase of \$351,000 reflect fee adjustments to maintain cost-recovery and anticipated changes in activity levels. These adjustments include:

- An increase of \$186,000 for the Multiple Housing Occupancy Permits.
- An increase of \$130,000 to adjust various Police Department permits to reflect various fee revisions and maintain cost recovery levels;
- An increase of \$31,000 to adjust various Planning, Building, and Code Enforcement fees to reflect various fee revisions and maintain cost recovery levels; and
- An increase of \$4,000 to adjust the Transportation Department Taxi Stand fees to maintain cost recovery levels.

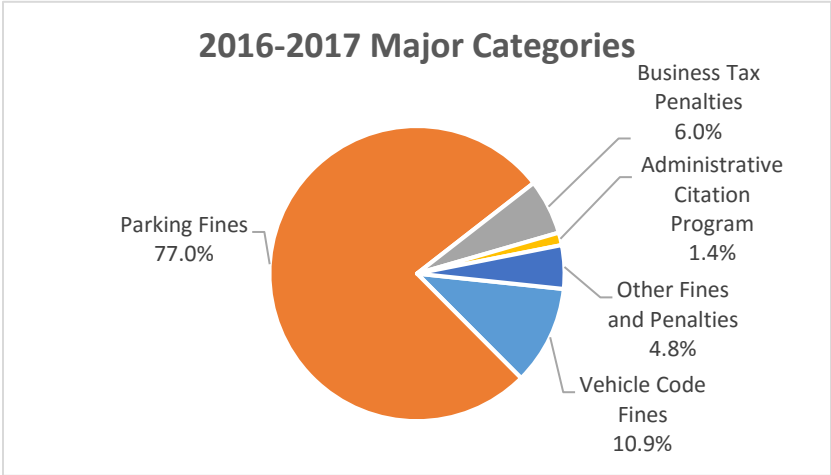
GENERAL FUND REVENUE ESTIMATES

| | |
|--|--|
| FINES, FORFEITURES, AND PENALTIES | |
|--|--|

| | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 14,491,423 |
| 2015-2016 Adopted | \$ 15,356,042 |
| 2016-2017 Forecast | \$ 14,910,600 |
| 2016-2017 Adopted | \$ 14,910,600 |
| % of General Fund | 1.2 % |
| % Change from 2015-2016 Adopted | (2.9%) |

Revenue Estimates

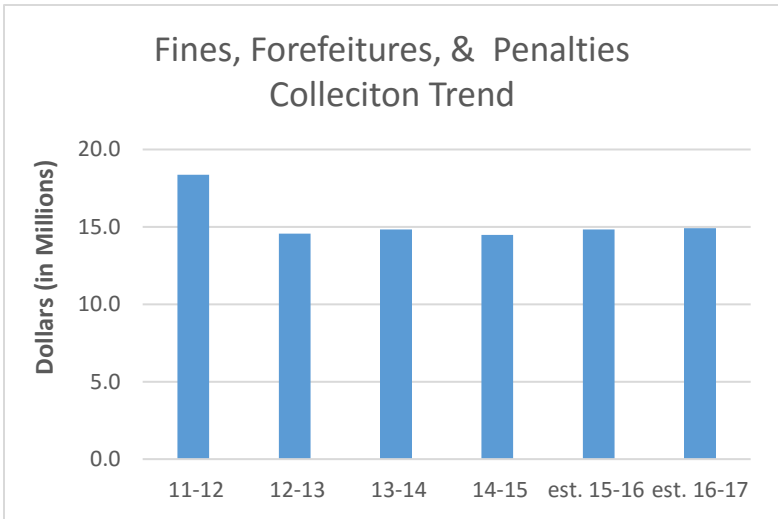
In 2016-2017, overall collections of \$14.9 million are projected in the Fines, Forfeitures, and Penalties category, which is slightly below the 2015-2016 estimate. Following is a discussion of major components of this category.



Parking Fines

Parking Fines are expected to generate approximately \$11.0 million in 2015-2016, 7.8% above 2014-2015 actuals collections of \$10.2 million.

In 2016-2017, Parking Fines revenues are expected to increase slightly to \$11.1 million. Issuance of citations for non-compliance with safety-related and street sweeping parking violations, such as parking in a bike path or blocking disabled sidewalk access, or parking in a posted No Parking zone for street sweeping activities, is one tool the Transportation Department uses to heighten awareness around roadway safety, with the goal of changing driver behavior.



In addition to parking fines, collections of \$350,000 are anticipated in 2016-2017 from the City's participation in a program under which the State of California Franchise Tax Board collects past-due parking fines on behalf of the City. This estimate is consistent with projected 2015-2016 collections and slightly below actual collections of \$368,000 in 2014-2015.

GENERAL FUND REVENUE ESTIMATES

FINES, FORFEITURES, AND PENALTIES

Revenue Estimates

Vehicle Code and Municipal Court Fines

In 2016-2017, Vehicle Code Fines are estimated at \$1.2 million and the Municipal Court Fines are expected to reach \$380,000, consistent with current tracking for these categories.

Business Tax Penalties

Business Tax penalties are projected at \$900,000 for 2016-2017, which is slightly below the 2015-2016 estimate of \$950,000 as this category can fluctuate from year to year.

Administrative Citation Program

The 2016-2017 Administrative Citation Program is projected to generate \$205,000 in total collections, including \$175,000 in fines and an additional \$30,000 in penalties. This collection level is consistent with the 2015-2016 year-end estimates.

Other Fines and Penalties

Other Fines and Penalties of \$711,000 are estimated to be received in 2016-2017 and reflect a variety of sources, including but not limited to: \$250,000 for Code Enforcement administrative remedies, \$125,000 multiple housing permit penalties, \$120,000 associated with Fire safety penalties, \$100,000 in Blight Fines, \$40,000 in False Alarm Fines, and \$76,000 in other fines and penalties.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM USE OF MONEY AND PROPERTY

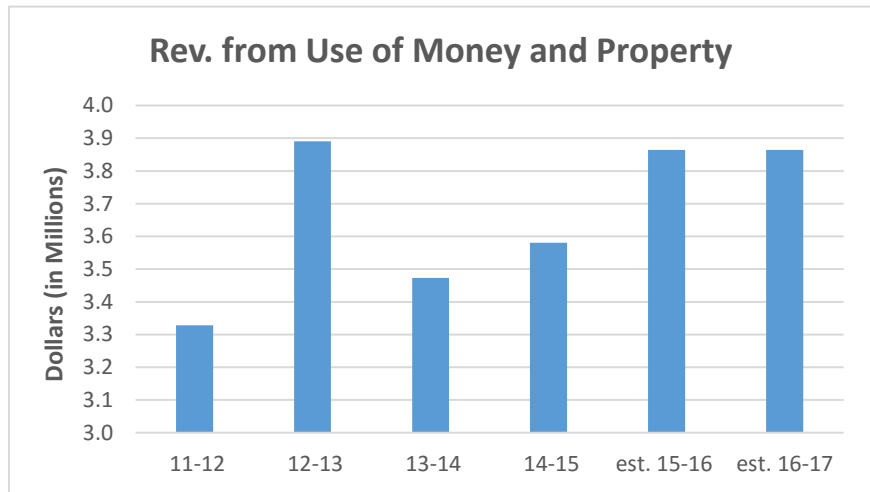
| | |
|---------------------------------|--------------|
| 2014-2015 Actual | \$ 3,580,694 |
| 2015-2016 Adopted | \$ 3,414,999 |
| 2016-2017 Forecast | \$ 3,863,935 |
| 2016-2017 Adopted | \$ 3,863,935 |
| % of General Fund | 0.3 % |
| % Change from 2015-2016 Adopted | 13.1 % |

Revenue Estimates

In 2016-2017, overall collections of \$3.9 million are projected in the Use of Money and Property category.

Rental of City-Owned Property

In 2016-2017 it is anticipated that approximately \$2.3 million will be generated from the rental of City-



owned property compared to estimated collections of \$2.6 million in 2015-2016. This decline reflects the expiration of two telecommunication leases in 2016-2017.

General Fund Interest Earnings

The anticipated collection levels in 2015-2016 and 2016-2017 for interest earnings is \$1.0 million, which is 14.8% above 2014-2015 actuals of \$871,000.

Miscellaneous Collections

An additional \$540,000 in miscellaneous sources is estimated to be generated in 2016-2017 primarily from Subrogation Recovery (\$300,000), Property Tax and Conveyance Tax Interest (\$100,000), the rental of the 4th Street banquet facility (\$50,000), and Fairmont Catering (\$50,000).

GENERAL FUND REVENUE ESTIMATES

| |
|------------------------------------|
| REVENUE FROM LOCAL AGENCIES |
|------------------------------------|

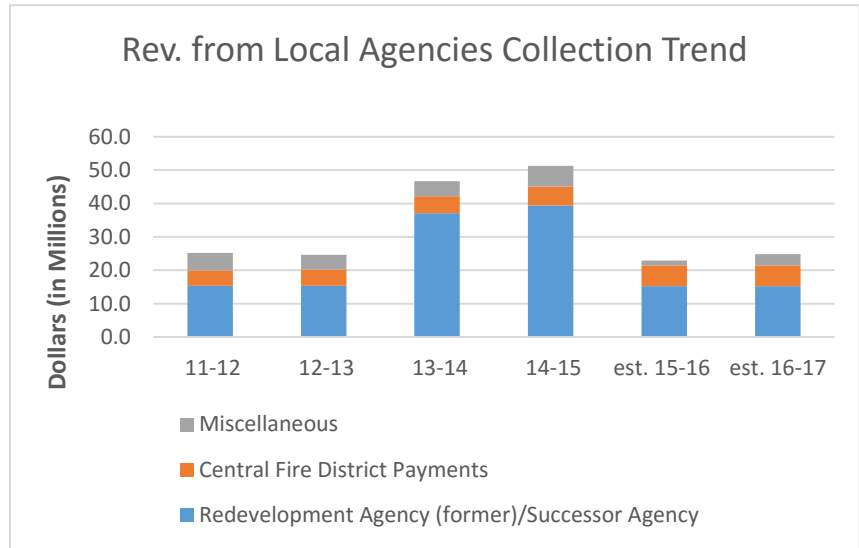
| | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 39,858,774 |
| 2015-2016 Adopted | \$ 23,909,616 |
| 2016-2017 Forecast | \$ 22,875,000 |
| 2016-2017 Adopted | \$ 24,811,281 |
| % of General Fund | 2.0 % |
| % Change from 2015-2016 Adopted | 3.8 % |

Revenue Estimates

In 2016-2017, revenue of \$24.8 million is projected from other local agencies, such as the Successor Agency to the Redevelopment Agency and Central Fire District, to reimburse the City for services provided.

Successor Agency to the Redevelopment Agency

In 2016-2017, a reimbursement from the Successor Agency to the Redevelopment Agency of \$15.3 million is budgeted to reimburse the General Fund for the Convention Center Lease payments. A corresponding expenditure is assumed in the City-Wide Expenses category for this debt service payment. This is \$9.8 million above the 2015-2016 estimate of \$5.48 million. When the 2015-2016 Adopted Budget was developed, it was assumed that SARA would reimburse the City for the Convention Center Debt Service payment that is budgeted in the General Fund of \$15.28 million. However, as part of the 2014-2015 Annual Report actions approved by the City Council in October 2015, the reimbursement was reduced by \$9.8 million to \$5.48 million as a result of Senate Bill 107 that disallowed the reimbursement mechanism used to pay this obligation. The General Fund has been advancing funds to SARA since 2012-2013 to pay debt service on certain City-backed debt, including the Convention Center payment. A reimbursement agreement was established between the City and SARA to reimburse the General Fund within the same fiscal year the advance was made for fiscal years 2012-2013 through 2014-2015, using redevelopment funds for the following period. Due to the passage of Senate Bill 107 on September 22, 2015, which amended redevelopment dissolution law, the mechanism allowing SARA to reimburse the City on an intra-year basis was disallowed. As such the City did not receive reimbursement for the 2015-2016 loan from the General Fund of approximately \$9.8 million in August 2015 to cover the Convention Center debt payment. The loan will not be repaid until there is sufficient property tax revenue to pay all other enforceable obligations, since obligations to the City are subordinate to all other enforceable obligations, which is expected in



GENERAL FUND REVENUE ESTIMATES

REVENUE FROM LOCAL AGENCIES

Revenue Estimates

Successor Agency to the Redevelopment Agency

10 to 15 years. Using the current level of annual distributions from the Redevelopment Property Tax Trust Fund (RPTTF) and the continued ability to reserve RPTTF each year for debt service, it is anticipated SARA will be able to pay all of its debt service going forward.

This obligation however, continues to be evaluated as part of the winding down of the Successor Agency and the method, timing, and ability to reimburse the payment continues to be under review.

Central Fire District

The City receives reimbursement from the Central Fire District for the County areas covered by the San José Fire Department. These payments are based on the property tax assessments for fire services collected in those areas, which are passed on to the City. Based on an estimate provided by Central Fire District staff, the 2015-2016 payment is expected to total approximately \$5.8 million. This reflects an increase of 2.2% from 2014-2015 levels. In 2016-2017, collections of \$6.2 million are anticipated.

Other Miscellaneous Payments

In 2016-2017, other projected payments from local agencies total \$3.4 million, the largest of which are reimbursements for services provided by the Senior Nutrition Program (\$1.5 million), Animal Care and Services Program (\$930,000), payments associated with the annexation of the Cambrian area to the City of Campbell (\$199,000), reimbursement from the Santa Clara Valley Water District to support 2.0 Park Ranger positions (\$175,000), County Social Services (\$127,000), San Jose Watershed Community Stewardship and Engagement Project (\$127,000), and other revenue totaling \$298,000.

The ongoing payment from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) was eliminated from the budget beginning in 2014-2015 and the Adopted Budget continues to assume no revenue collections in 2016-2017. Beginning in 2013-2014, the County began withholding payments for the first responder advanced life support program (Paramedic Program) because the City had not met the response time performance standards set forth in the agreement with the County. In 2014, the City and County continued to negotiate regarding this issue and executed a Second Agreement to the 911 Emergency Medical Services (EMS) Provider Agreement in December 2014 that expired December 2015. Under this agreement, additional Annex B, Category A funds totaling \$2.0 million were received in 2014-2015 to account for back payments from April 2013 through 2014-2015 and approximately \$450,000 is projected to be received in 2015-2016. The 2015-2016 figure does not include any revenue from the period from January through June 2016 as no agreement was reached for that period. For 2016-2017 and beyond, the City and County will continue discussions on a new 911 EMS Provider Agreement as the primary agreement expires June 30, 2016. If an agreement is reached, corresponding reimbursements revenue for next year will be incorporated in the budget, as appropriate. It should be noted that the direct incremental cost to the City to provide the paramedic program totals over \$5.0 million annually.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE STATE OF CALIFORNIA

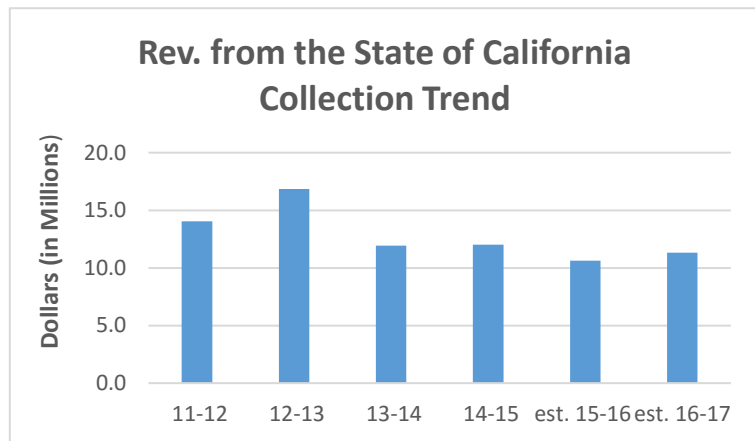
| | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 12,024,115 |
| 2015-2016 Adopted | \$ 11,370,763 |
| 2016-2017 Forecast* | \$ 10,619,429 |
| 2016-2017 Adopted | \$11,328,516 |
| % of General Fund | 0.9 % |
| % Change from 2015-2016 Adopted | (0.4 %) |

* The 2016-2017 Forecast was increased \$178,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section

Revenue Estimates

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

Collections in this category are estimated to reach \$12.4 million in 2015-2016 and decrease to \$11.3 million in 2016-2017. This decrease reflects the elimination of one-time grants and reimbursements.



Tobacco Settlement Revenue

Beginning in 2010-2011, Tobacco Settlement revenue from the State is deposited in the General Fund. The 2015-2016 Tobacco Settlement payment is projected to total \$8.8 million, which is below the \$9.4 million received in 2014-2015. In 2016-2017, collections of \$8.9 are anticipated.

State Grants/Reimbursements

On an annual basis, the City receives a number of grants and reimbursements. The following State grants and reimbursements are expected in 2016-2017: Abandoned Vehicles Abatement (\$675,000); Auto Theft reimbursement (\$300,000); California Gang Reduction, Intervention and Prevention (CALGRIP) Grant (\$244,000); California High Speed Rail Authority (\$211,000) to support the Diridon Station Plan Area; Selective Traffic Enforcement Program 2015-2016 (\$187,000); Internet Crimes Against Children State Grant (\$142,000); Highway Maintenance Charges reimbursement (\$105,000); Strategic Growth Council Grant (\$100,000); and Local Enforcement Agency Grant for Planning, Building and Code Enforcement Department (\$30,000).

GENERAL FUND REVENUE ESTIMATES

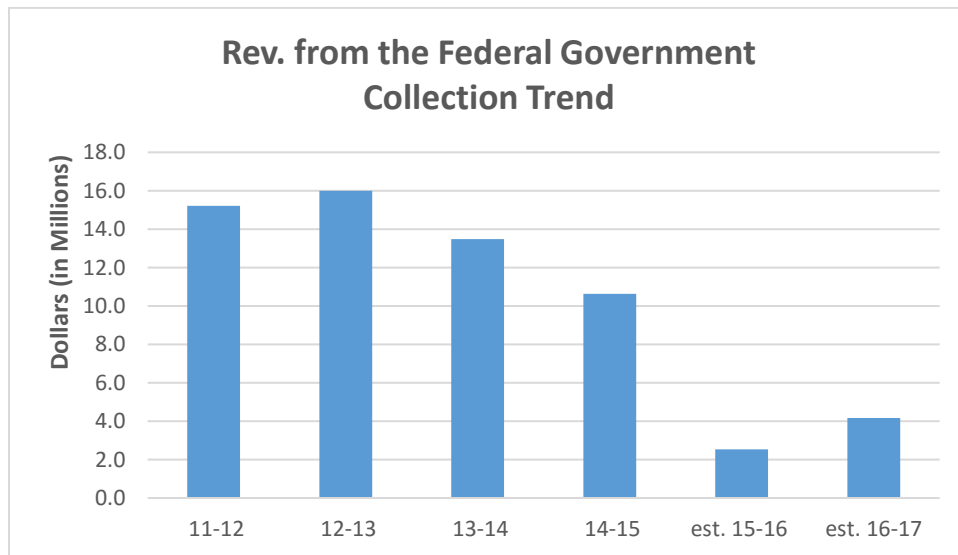
REVENUE FROM THE FEDERAL GOVERNMENT

| | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 10,626,611 |
| 2015-2016 Adopted | \$ 9,083,802 |
| 2016-2017 Forecast* | \$ 2,526,566 |
| 2016-2017 Adopted | \$4,161,294 |
| % of General Fund | 0.3 % |
| % Change from 2015-2016 Adopted | (54.2 %) |

* The 2016-2017 Forecast was increased \$88,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section

Revenue Estimates

The revenue in this category is received from various grant programs. The following grants are anticipated in 2016-2017: Fire Staffing for Adequate Fire and Emergency Response grant (SAFER) (\$1.8 million); Metropolitan Transportation Commission Planning Grant (\$807,000); 2013 Encourage Arrest Policies and Enforcement of Protection Order Program Grant (\$476,000); OJJDP Community – Based Violence Prevention Demonstration Program Grant (\$251,000); Northern California Regional Intelligence Center SUASI – Police (\$225,000); Urban Area Security Initiative – Fire (\$195,000); Urban Area Security Initiative – Police (\$173,000); Internet Crimes Against Children Federal Grant (\$157,000); Summer Youth Nutrition Program (\$56,000); and FEMA Training Reimbursement (\$35,000).



GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

| | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 41,704,532 |
| 2015-2016 Adopted | \$ 40,923,558 |
| 2016-2017 Forecast* | \$ 39,782,190 |
| 2016-2017 Adopted | \$ 41,731,974 |
| % of General Fund | 3.4 % |
| % Change from 2015-2016 Adopted | 2.0 % |

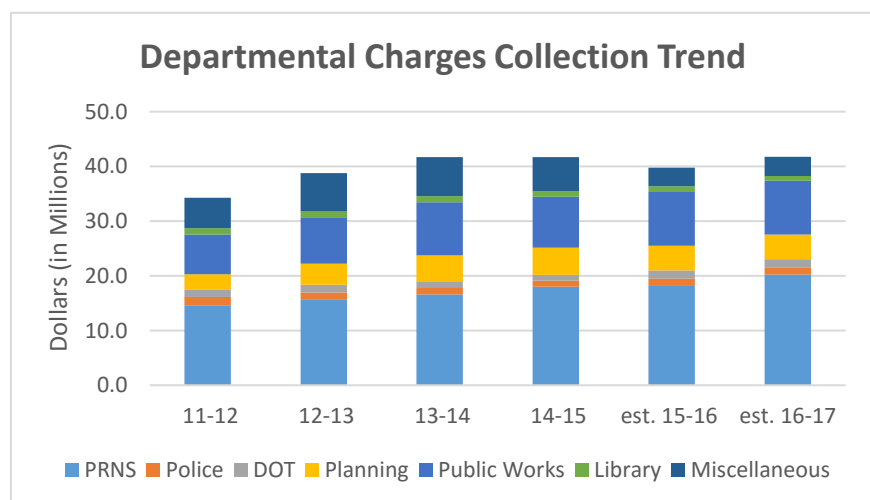
* The 2016-2017 Forecast was increased \$454,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Revenue Estimates

| Departmental Charges Category | 2016-2017 Adopted Budget |
|---|--------------------------|
| Parks, Recreation and Neighborhoods Services (PRNS) | \$ 20,208,351 |
| Public Works Department | 9,815,000 |
| Planning, Building and Code Enforcement | 4,500,000 |
| Department of Transportation (DOT) | 1,586,938 |
| Police Department | 1,264,034 |
| Library | 889,044 |
| Miscellaneous | 3,468,607 |
| Total | \$ 41,731,974 |

Contained in this revenue category are the various fees and charges levied to recover costs of services provided by several City departments. In the 2016-2017 Adopted Budget, Departmental Charges of \$41.7 million are 0.4% below 2015-2016 estimated levels of \$41.9 million.

The Adopted Budget includes an increase of \$1.9 million from the Revised Forecast with adjustments to various individual categories. These adjustments are brought forward to recognize revenues from new fees, maintain cost recovery levels of existing programs, and account for anticipated activity changes in 2016-2017.



GENERAL FUND REVENUE ESTIMATES

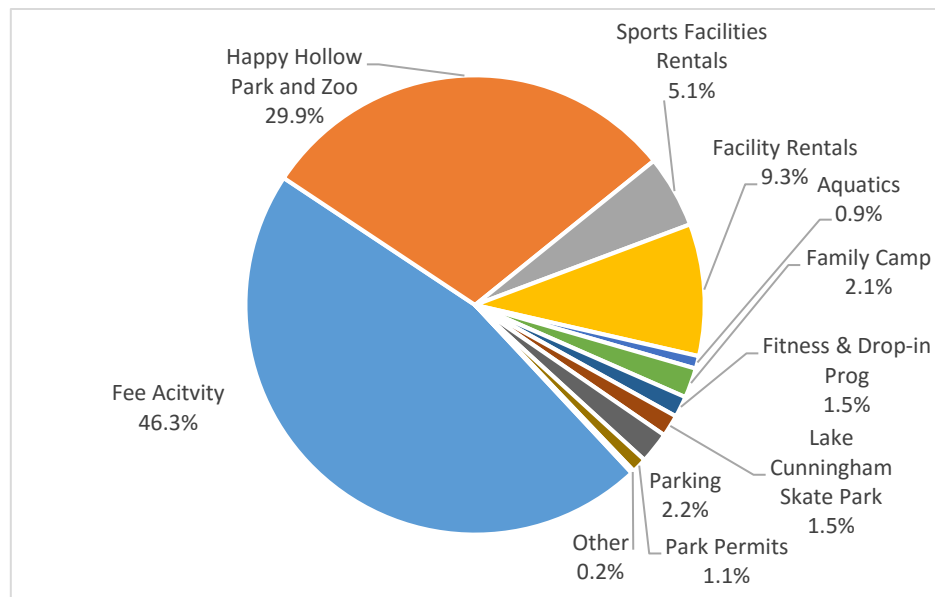
DEPARTMENTAL CHARGES

Revenue Estimates

This section highlights the major fee programs in this category. A more detailed description of the changes to various fee programs is available in the 2016-2017 Fees and Charges document that is released under separate cover.

Parks, Recreation and Neighborhood Services Fees

Parks, Recreation and Neighborhood Services Department (PRNS) fee collections are estimated at \$20.2 million in 2016-2017 based on projected activity levels and fees. The 2016-2017 Adopted Operating Budget includes a few upward revenue adjustments totaling \$1.9 million reflecting anticipated activity levels in the following areas: fee activity



revenue (\$1.6 million); increased rentals revenue at the 54 community centers (\$207,000); Happy Hollow Park and Zoo Admissions (\$92,000); increased rental revenues (e.g. booths) from Viva Calle activity (\$40,000); increased Sports Facilities Rentals/Reservations (\$29,000); and a decrease of \$30,000 in parking revenues.

Public Works Fees

In 2015-2016 and 2016-2017, Public Works fee revenues are projected to total \$9.8 million. This collection level, along with the use of a portion of the Public Works Development Fee Program Reserve, is sufficient to support the program additions in 2016-2017. No fee increases are included in this budget.

A number of expenditure actions totaling \$295,000 are included in the Adopted Budget, including the addition of 1.0 Senior Construction Inspector position to address the increasing demand for services in the Development Fee Program, shared resources in order to improve target cycle times and customer service levels, as well as those costs associated with the implementation of the new Integrated Permit System. The 2016-2017 estimated collection level, however, is below the projected cost to deliver this program. In order to balance this program and remain at 100% cost recovery, the use of the Public Works Development Fee Program Reserve is included as part of this budget. This includes \$1.4 million that was incorporated into the Forecast and an additional \$338,000 to provide

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

Revenue Estimates

Public Works Fees (Cont'd.)

funding for budget actions in 2016-2017. These actions will result in an estimated remaining Public Works Development Fee Program Reserve of \$3.7 million at the beginning of 2016-2017, primarily for works-in-progress projects.

Additional detail on these budget actions is provided in the Public Works, Planning, Building and Code Enforcement, and Information Technology Departments under the *City Departments* section of this document. A more detailed description of the various fees is provided in the 2016-2017 Fees and Charges document that is released under separate cover.

Planning Fees

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

In 2015-2016 and 2016-2017, Planning Fees are anticipated to generate approximately \$4.5 million. The 2016-2017 revenue estimate assumes the continuation of strong development performance. This collection level, along with the use of a portion of the Planning Development Fee Program Reserve, is sufficient to support program additions in 2016-2017 without any fee increases. Expenditure additions in this budget include 4.0 positions and funding of \$30,000 to upgrade computers and monitors and purchase Adobe Acrobat Professional and Microsoft Project. This program will also support shared resources expenditures including those associated with the implementation of the new Integrated Permit System.

The 2016-2017 estimated collection level is below the projected cost to deliver this program. In order to balance this program and remain at 100% cost recovery, the use of the Planning Development Fee Program Reserve is included as part of this budget. This includes \$939,000 that was incorporated into the Forecast and an additional \$998,000 to provide funding for budget actions in 2016-2017. These actions will result in an estimated remaining Planning Development Fee Program Reserve of \$1.9 million at the beginning of 2016-2017.

Additional detail on these budget actions is provided in the Planning, Building and Code Enforcement and Information Technology Departments under the *City Departments* section of this document. A more detailed description of the various fees is provided in the 2016-2017 Fees and Charges document that is released under separate cover.

Transportation Fees

The revenue estimate for Transportation Fees totals \$1.59 million in 2016-2017, which is 3.2% above the 2015-2016 estimate of \$1.54 million. Fee adjustments resulting in a net increase of \$77,000 to various Transportation fees and charges are included based on an analysis of the cost to deliver various services.

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

Revenue Estimates

Police Fees

The 2016-2017 revenue estimate for Police Fees totals \$1.26 million, slightly below the 2015-2016 anticipated collection levels of \$1.33 million. Fee adjustments resulting in a net increase of \$45,000 to various Police fees and charges are included based on an analysis of the cost to deliver various services.

Library Fees and Fines

Library Department fees and fines for 2016-2017 are estimated at \$889,000, 13.2% below the 2015-2016 estimate of \$1.0 million. This is primarily due to the reductions in various library fines, such as: Overdue Materials Fine from \$0.50 per day/\$20 maximum per item to \$0.25 per day/\$5 maximum per item (\$-108,000); elimination of the Held Materials Fine of \$3 (-\$20,000); and reduction of the handling fee from \$20 to \$10 for Damaged Materials and Lost Materials and Equipment (-\$7,000).

Miscellaneous Departmental Fees

Collections of \$3.5 million are anticipated in 2016-2017 from a variety of fees and charges, which is 32.1% below the 2015-2016 estimate of \$5.1 million.

The majority of the revenue in this category is generated from the Solid Waste Enforcement Fee (SWEF) Program with a 2016-2017 revenue estimate of \$2.1 million which is well below the 2015-2016 Adopted Budget revenue estimate of \$4.2 million based on a realignment of this program's costs and revenues. From the February Forecast, this revenue estimate has been increased by \$270,000 as part of the Revised Forecast Base and by an increase of \$8,000 associated with Adopted Budget actions. With these adjustments, the fee will be reduced from \$1.08 per ton to \$0.53 per ton. This program is projected to be 100% cost recovery in 2016-2017. Other Miscellaneous Departmental Fees total \$1.4 million and will be increased by \$27,000 in 2016-2017, primarily reflecting an upward adjustment of \$24,000 to the Abandoned Cart Fee revenue estimate.

GENERAL FUND REVENUE ESTIMATES

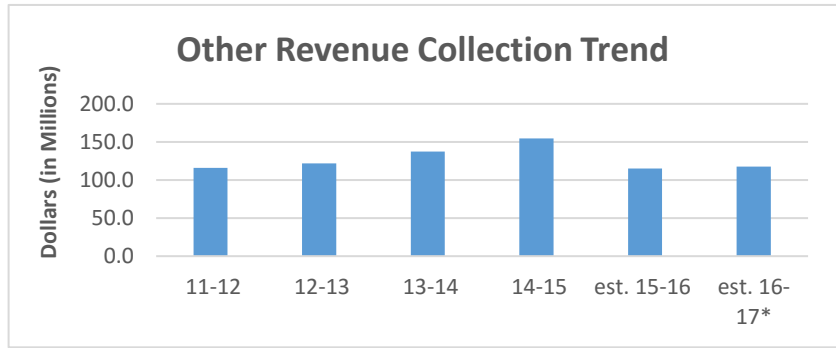
| |
|----------------------|
| OTHER REVENUE |
|----------------------|

| | |
|---------------------------------|----------------|
| 2014-2015 Actual* | \$ 154,598,297 |
| 2015-2016 Adopted | \$ 26,259,638 |
| 2016-2017 Forecast** | \$ 15,128,362 |
| 2016-2017 Adopted | \$ 17,752,381 |
| % of General Fund | 1.4 % |
| % Change from 2015-2016 Adopted | (32.4 %) |

* The 2014-2015 Actual includes revenues associated with the issuance of a \$100 million TRANs based on cash flow needs.
 ** The 2016-2017 Forecast was increased \$300,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section

Revenue Estimates

The Other Revenue category includes litigation settlements, SAP Center at San José revenues, Investment Program Reimbursement, Public, Education, and Government (PEG) Access Facilities; Sale of Surplus Property, Sidewalk Repair and Tree Maintenance



*Assumes \$100.0 million for the TRANs revenue that is anticipated in 2016-2017.

Activities, and Miscellaneous Other Revenue. In 2016-2017, the revenue estimate of \$17.8 million assumes the continuation of current year activity levels with revisions, where appropriate, for 2016-2017 costs or agreements and the elimination of one-time funding sources. This figure excludes revenues associated with the issuance of the Tax Revenue Anticipation Notes (TRANs) that will be brought forward in 2016-2017 with an offsetting expenditure based on estimated cash flow needs for comparison purposes; however the above chart assumes \$100.0 million in TRANs will be issued in 2016-2017, as has been the case for the last couple of years, to provide a more accurate trend analysis.

Litigation Settlements

In 2015-2016, Litigation Settlements revenue of \$265,000 is estimated based on actual activity, this is a 63.6% decline compared to the \$725,000 received in 2014-2015. For 2016-2017, Litigation Settlements revenue of \$275,000 is included in the Adopted Budget.

SAP Center at San José Revenues

The City receives payments from Arena Management associated with the use of SAP Center at San José. In 2016-2017, \$5.1 million is estimated from the Arena Fixed Fee.

Investment Program Reimbursement

The 2016-2017 revenue estimate for this category is \$1.3 million based on the estimated costs of the Investment Program in the Finance Department that will be reimbursed from investment earnings.

GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE

Revenue Estimates

Public, Education, and Government (PEG) Access Facilities

In 2016-2017, payments from Comcast and AT&T required under the Franchise Agreement are estimated at \$2.1 million. As defined in the Franchise Agreement, these funds will be used to support the Public, Education, and Government (PEG) Access Facilities. There is an associated City-Wide Expenses allocation for this purpose.

Sale of Surplus Property

In 2016-2017, the proceeds from the Sale of Surplus Property category is estimated at \$1.0 million based on the assets anticipated to be sold.

Sidewalk Repair and Tree Maintenance Activities

When the City performs sidewalk repair services for non-owner occupied residences, the property owners reimburse the City for those costs. The 2016-2017 revenue estimate for this category is \$1.8 million. There is a corresponding City-Wide Expenses allocation to fund the contractual sidewalk repairs, as described in the *City-Wide Expenses* section of this document.

Property owners are also assessed for the costs of tree services provided by the City. If the City performs emergency tree services, such as removing a tree that has fallen in the street during a storm, the property owner is assessed a fee to cover the cost of this service. This fee is expected to generate \$300,000 in 2016-2017 and there is a corresponding City-Wide Expenses allocation to provide this service.

Miscellaneous Other Revenue

Various other revenue sources are included in this revenue category including: Silicon Valley Energy Watch Grant (\$1.3 million), SB90 reimbursements from the State of California (\$750,000, an increase of \$250,000 in the Base after the release of the Forecast based on current and prior year actuals), P-Card Incentive Payments (\$200,000, an increase of \$50,000 in the Base after the release of the Forecast), City Hall parking revenues (\$100,000), wrecked vehicle sales (\$97,000), and Secondary Employer Insurance reimbursement from Police Officers (\$84,000).

Included in the 2016-2017 Adopted Budget are the following additional adjustments:

- The rebudget of the following grants from 2015-2016 to 2016-2017: Energy and Utility Conservation Measures Program (\$2.5 million); St. James Park and Plaza de Cesar Chavez Activation (\$78,000); and San José Public Library Works (\$10,000).
- An increase of \$20,000 to account for a library grant to deliver San José Public Library Bridge Services to provide access to library resources at FIRST 5 Family Resource Centers.
- An increase of \$18,000 for the estimated reimbursement from the Christmas in the Park Foundation. Part-time City staff hours are needed to transport props to and from the City warehouse. Incurred costs are fully reimbursed by the Christmas in the Park Foundation.
- A decrease of \$1,900 for new subdivision traffic control signs and pavement markings revenues to reflect fee adjustments to maintain cost recovery levels.

GENERAL FUND REVENUE ESTIMATES

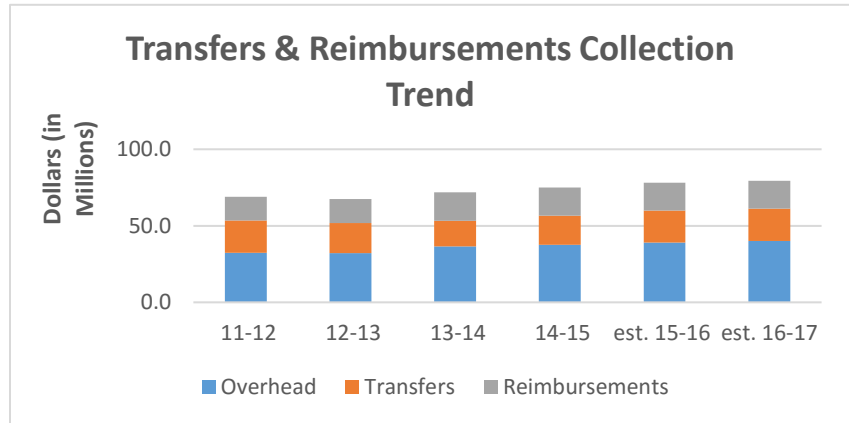
| |
|-------------------------------------|
| TRANSFERS AND REIMBURSEMENTS |
|-------------------------------------|

| | |
|---------------------------------|---------------|
| 2014-2015 Actual | \$ 74,985,995 |
| 2015-2016 Adopted | \$ 75,763,879 |
| 2016-2017 Forecast* | \$ 78,164,169 |
| 2016-2017 Adopted | \$ 79,337,731 |
| % of General Fund | 6.5 % |
| % Change from 2015-2016 Adopted | 4.7 % |

* The 2016-2017 Forecast was decreased \$912,000 from the February Forecast due to updated information; additional details can be found in the Overview of this section.

Revenue Estimates

The Transfers and Reimbursements revenue category is used to account for funds received by the General Fund from other City funds through a combination of means, including overhead charges, reimbursements for services rendered, or simple transfers. In total, Transfers and Reimbursements are anticipated to generate



approximately \$79.3 million in 2016-2017. This amount is above the current 2015-2016 estimate of \$76.2 million due to increased overhead reimbursements and budgeted transfers. The following is a discussion of the three major subcategories, including detail regarding the net increase of \$1.2 million approved for 2016-2017.

Overhead Reimbursements

The Overhead Reimbursements category includes overhead reimbursements from both operating and capital funds. In 2016-2017, a total of \$40.1 million in reimbursements are projected based on 2016-2017 overhead rates prepared by the Finance Department applied against the projected 2016-2017 applicable salaries. This figure reflects the following: a decrease of \$912,000 incorporated into the Revised Forecast based on final overhead rates and updated allocations of staff across funds; and an increase of \$982,000 incorporated into the 2016-2017 Adopted Budget generated from various budget actions that changed the staffing levels funded by capital and special funds. Descriptions of the budget actions that generate these overhead reimbursement changes can be found in the *City Departments* Section of this document. Following is a summary of the overhead reimbursement changes from the Revised Forecast by fund.

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

Revenue Estimates

Overhead Reimbursements (Cont'd.)

| Fund | Overhead Adjustment |
|---|------------------------|
| Capital Funds (various) | \$ 349,319 |
| Water Utility Fund (515) | 192,322 |
| Sewer Service and Use Charge Fund (541) | 144,755 |
| San José/Santa Clara Treatment Plant Operating Fund (513) | 102,617 |
| Low and Moderate Income Housing Asset Fund (346) | 59,856 |
| Maintenance District Funds (various) | 39,263 |
| Multi-Source Housing Fund (448) | 39,070 |
| General Purpose Parking Fund (533) | 34,536 |
| Benefit Fund (160) | 32,791 |
| Integrated Waste Management Fund (423) | 26,560 |
| Public Works Program Support Fund (150) | 944 |
| Vehicle Maintenance and Operations Fund (552) | (2,646) |
| Community Development Block Grant Fund (441) | (10,891) |
| Storm Sewer Operating Fund (446) | (13,108) |
| Home Investment Partnership Program | (13,822) |
| Total Adjustments | \$ 981,566 |

Transfers

The Transfers category is projected at \$21.0 million in 2016-2017. The largest component of this category (\$11.9 million) is a transfer from the Airport Maintenance and Operating Fund to reimburse the General Fund for police and aircraft rescue and firefighting services provided by the Police and Fire Departments. These reimbursements have been built to cover the 2016-2017 direct costs as well as the indirect costs. For the Fire Rescue reimbursement, the indirect costs have been discounted to help with cost competitiveness of this service. From the 2016-2017 Forecast to the Adopted Budget, the Airport reimbursement for fire services was decreased by \$36,000, offset by a \$36,000 reduction to the Fire Department's overtime budget, to better align the anticipated overtime needs to continue to staff fire resources at the Index D level at the Airport. Additional large transfers programmed for 2016-2017 include the following: Construction and Conveyance Tax Fund transfer (\$3.5 million) associated with park maintenance costs and methane monitoring; Construction Excise Tax Fund transfer (\$1.8 million); General Purpose Parking Fund (\$707,000); Workforce Development Act Fund for the reuse of City facilities (\$508,000); Convention and Cultural Facilities Affairs Fund (\$371,000); interest earnings from various funds (\$539,000), the largest of which is the Construction and Conveyance Tax Fund (\$500,000).

In addition, the 2016-2017 Adopted Budget incorporates a one-time transfer of \$129,000 from various special and capital funds for the Human Resources/Payroll/Budget Systems upgrade to provide additional project contingency to help ensure that the project remains on schedule and meets anticipated "go-live" dates. A one-time transfer from the General Purpose Parking Fund (\$140,000) is also included to continue the coordination and development of the Diridon Station Area Plan, as approved by the City Council on June 17, 2014. The transfer from the Workforce Development Fund was reduced by \$40,500 (from \$548,000 to \$508,000) to reflect lower work2Future lease payments for the Shirakawa Community Center to reflect the shared use as the Vietnamese-American Community Center and the Work2Future

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

Revenue Estimates

Reimbursements for Services

Reimbursements for services represent the cost to the General Fund for staff and supplies provided on behalf of other City funds. For 2016-2017, the revenue estimate for this category is \$18.2 million.

The largest single source of revenue in this category is reimbursements from the Gas Tax Funds for the cost of City street-related expenses. Based on year-to-date performance, the Gas Tax receipts in 2015-2016 are projected to reach \$16.9 million, which is below the prior year level collection level of \$17.8 million. Collections are expected to increase to \$17.5 million in 2016-2017. Several factors impact collections, including volatile gas prices, current economic conditions, and a move to more energy efficient automobiles. In addition, a portion of the Gas Tax revenue is allocated to cover various State-wide expenses, which affects net receipts as well.

The Reimbursements for Services category also includes reimbursement for actual City costs associated with administering the Deferred Compensation Program (\$507,000) and the Maintenance Assessment District Funds (\$160,000).

GENERAL FUND REVENUE ESTIMATES

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| BEGINNING FUND BALANCE |
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|---|-----------------------|
| Rebudget: Contingency Reserve | \$ 34,500,000 |
| Rebudgets: Earmarked Reserves/Expenditures | \$141,751,743 |
| Unexpended Earmarked Reserves* | \$27,731,096 |
| 2015-2016 Expenditure Savings/Additional Revenue* | \$ 18,475,400 |
| 2015-2016 Ending Fund Balance Reserve* | \$25,500,000 |
| Liquidation of Prior Year Encumbrances* | \$ 1,000,000 |
| Fund Balance Subtotal: | \$ 248,958,239 |
| Reserve for Encumbrances | \$44,394,930 |
| Fund Balance Total: | \$ 293,353,169 |
| % of General Fund** | 20.4 % |

* Used for 2016-2017 Adopted Budget balancing purposes.

** Excludes Reserve for Encumbrances.

Estimates for both the unrestricted and restricted (reserve for encumbrances) portions of the 2015-2016 Ending Fund Balance/2016-2017 Beginning Fund Balance, totaling \$293.4 million, are included as part of the 2016-2017 Adopted Budget. The estimate for the encumbrance reserve is set at the 2014-2015 actual level (\$44.4 million). The Adopted Budget included a matching expenditure amount intended to reflect the corresponding encumbrances that are estimated for 2016-2017.

The estimate for unrestricted fund balance is set at \$249.0 million, representing a \$183.1 million increase from the revised 2016-2017 Forecast level of \$65.8 million. When the initial Forecast was developed, the fund balance projection totaled \$65.8 million and included the following: an unexpended (rebudgeted) Contingency Reserve estimate of \$34.5 million; a combination of excess revenues, expenditure savings, and the liquidation of prior year carryover encumbrances totaling \$20.0 million; and additional funding of approximately \$11.3 million from various reserves to support specific costs programmed in 2016-2017 (\$6.9 million from the Building Development Fee Program Reserve, \$1.4 million from the Public Works Development Fee Program Reserve, \$939,000 from the Planning Development Fee Program Reserve, and \$610,000 from the Fire Development Fee Program Reserve were included in the fund balance estimate to cover costs associated with these fee programs in 2016-2017); and \$1.5 million from the Salaries and Benefits Reserve to pay for the second year salary increases approved for members represented by the International Association of Fire Fighters, Local 230).

The \$183.1 million increase in the fund balance projection from the Revised Forecast Base (remained at \$65.8 million from the Forecast), primarily reflects the rebudget of \$141.8 million for reserve and expenditure related line items. The higher fund balance also includes the additional use of various unexpended earmarked reserves of \$16.4 million (above the \$11.3 million assumed in the forecast). In addition, the fund balance projection includes an increase of \$25.0 million (above the \$20.0 million assumed in the forecast) generated from excess revenues, expenditure savings, and the liquidation of prior year carry over encumbrances. The majority of the projected excess revenues and expenditure savings was set aside in the 2015-2016 Ending Fund Balance Reserve, which totaled \$25.5 million as shown in the chart above.

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

Following is a discussion of the fund balance components:

- The Beginning Fund Balance estimate assumed the carryover of the 2015-2016 Contingency Reserve of \$34.5 million, with the assumption that this amount would not be used in 2015-2016 and would be available in 2016-2017. This reserve level complied with the City Council policy to maintain a minimum of 3% Contingency Reserve during the development of the 2016-2017 General Fund Forecast. In the 2016-2017 Adopted Budget, the Contingency Reserve was increased by \$1.0 million to \$35.5 million in order to remain in compliance with the City Council policy for the 2016-2017 Adopted Operating Budget. The Contingency Reserve is approximately enough to cover General Fund payroll costs for less than two and one-half weeks in an emergency.
- Rebudgeted Earmarked Reserves and expenditures totaled \$141.8 million. Details of the Earmarked Reserves of \$77.6 million that are rebudgeted from 2015-2016 to 2016-2017 can be found in the *City-Wide Expenses, Capital, Transfers, and Reserves* section of this document. Major Earmarked Reserve rebudgets include: Building Development Fee Program Reserve (\$15.4 million); Workers' Compensation General Liability Catastrophic Reserve (\$15.0 million); Budget Stabilization Reserve (\$10.0 million); Retire Healthcare Solutions Reserve (\$6.1 million); Sick Leave Payments Upon Retirement Reserve (\$6.0 million); Fire Development Fee Program Reserve (\$5.2 million); Salaries and Benefits Reserve (\$5.0 million); Public Works Development Fee Program Reserve (\$3.7 million); Silicon Valley Regional Communications System Reserve (\$3.0 million); Planning Development Fee Program Reserve (\$1.9 million); Police Department Staffing Operations Reserve (\$1.9 million); Cultural Facilities Capital Maintenance Reserve (\$1.3 million); SAFER 2014 Reserve (\$1.1 million); General Plan Update Reserve (\$512,000); Police Property Facility Relocation Reserve (\$500,000); Artificial Turf Capital Replacement Reserve (\$390,000); Fiscal Reform Plan Implementation Reserve (\$336,000); and Development Fee Program Technology Reserve (\$295,000). Expenditure rebudgets totaled \$64.2 million, the majority of which represent City-Wide Expenses that were not completed in 2015-2016 for which funding was carried over to 2016-2017.
- The use of various Unexpended Earmarked Reserves of \$27.7 million include: Development Fee Program Reserves (\$13.9 million); 2016-2017 Police Department Overtime Reserve (\$5.0 million); Cultural Facilities Capital Maintenance Reserve (\$3.7 million); Police Department Staffing/Operations Reserve (\$1.6 million); Salaries and Benefits Reserve (\$1.5 million); Employee Competitiveness Market Reserve (\$1.25 million); Staffing for Adequate Fire and Emergency Response (SAFER) Reserve (\$676,000); 2016-2017 Long Range Planning Project Staffing Reserve (\$110,000); and Retiree Healthcare Solutions Reserve (\$50,000).
- The 2015-2016 Ending Fund Balance Reserve (\$25.5 million) and the Expenditure Savings/Additional Revenue (\$18.5 million) represent the total excess revenues and expenditure savings of \$44.0 million expected to be generated at the end of 2015-2016 for use in 2016-2017.

The Liquidation of Prior Year Encumbrances was estimated at \$1.0 million in 2015-2016 to be available for use in 2016-2017. This is consistent with the level assumed in the Forecast.